SIR Corp.
Amended Fiscal 2020 Year-End Results

SIR Corp. has amended and restated its Consolidated Financial Statements for the 53-week period ended August 30, 2020. The revised Consolidated Financial Statements amended and restated the Consolidated Financial Statements that were originally filed on November 30, 2020. All amounts noted below are in thousands of Canadian dollars.

The revised Consolidated Financial Statements supersede the previous Consolidated Financial Statements for the same period.

The revised Consolidated Financial Statements reflect the correction of an error in a table in the Notes to the Consolidated Financial Statements. No other revisions have been made.

The total estimated contractual payments required for the financial liabilities, as summarized in the Liquidity Risk section of Note 6 Financial Instruments, was incorrect due to a mathematical error. The total previously reported as $123,029 at August 30, 2020 has been revised to the correct amount of $106,513.

SIR Corp.

Consolidated Financial Statements
August 30, 2020 and August 25, 2019
(in thousands of Canadian dollars)

Independent auditor's report

To the Directors of SIR Corp.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of SIR Corp. and its subsidiaries (together, the Company) as at August 30, 2020 and August 25, 2019, and its financial performance and its cash flows for the 53-week period ended August 30, 2020 and the 52-week period ended August 25, 2019 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited
The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at August 30, 2020 and August 25, 2019;
- the consolidated statements of operations and comprehensive income for the 53-week period ended August 30, 2020 and the 52-week period ended August 25, 2019;
- the consolidated statements of changes in shareholders' deficiency for the 53-week period ended August 30, 2020 and the 52-week period ended August 25, 2019;
- the consolidated statements of cash flows for the 53-week period ended August 30, 2020 and the 52-week period ended August 25, 2019; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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Material uncertainty related to going concern

We draw attention to note 1 to the consolidated financial statements, which describes events or conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants, Licensed Public Accountants

Oakville, Ontario
November 30, 2020

SIR Corp.

Consolidated Statements of Financial Position

(in thousands of Canadian dollars)

	August 30, 2020 $ (Note 1)	August 25, 2019 $
Assets		
Current assets		
Cash	1,617	3,614
Trade and other receivables (notes 7, 13(c) and 17)	13,464	8,564
Inventories	2,486	3,022
Prepaid expenses, deposits and other assets (note 17)	883	1,430
Current portion of loans and advances (notes 8 and 17)	386	477
	18,836	17,107
Non-current assets		
Loans and advances (notes 8, 17 and 22)	-	295
Right-of-use assets – net (note 4)	97,704	-
Property and equipment (notes 4, 9 and 17)	36,099	49,331
Goodwill and intangible assets (note 10)	4,954	5,002
	157,593	71,735
Liabilities		
Current liabilities		
Bank indebtedness (note 12)	3,711	3,037
Trade and other payables (notes 11, 13(a) and 17)	24,300	30,955
Current portion of long-term debt (notes 4 and 12)	34,290	3,194
Current portion of lease obligation (note 4)	21,669	-
Current portion of loan payable to SIR Royalty Income Fund (note 13(a))	35,942	
Current portion of provisions and other long-term liabilities (notes 4 and 14)	5,689	4,203
Current portion of Ordinary LP Units and Class A LP Units of the Partnership (note 13(b))	-	11,358
	125,601	52,747
Non-current liabilities		
Long-term debt (notes 4 and 12)	-	22,297
Long-term portion of lease obligation (note 4)	91,858	-
Loan payable to SIR Royalty Income Fund (note 13(a))	-	35,889
Provisions and other long-term liabilities (notes 4 and 14)	1,459	8,395
Ordinary LP Units and Class A LP Units of the Partnership (note 13(b))	-	94,397
	218,918	213,725
Shareholders' Deficiency		
Capital stock (note 15)	20,453	20,453
Contributed surplus	108	-
Deficit (note 4)	(81,886)	(162,443)
	(61,325)	(141,990)
	157,593	71,735

Going concern (note 1)
Subsequent events (note 24)

Approved by the Board of Directors

Director: (Signed) Grey Sisson

Director: (Signed) Peter Fowler

The accompanying notes are an integral part of these consolidated financial statements.

SIR Corp.

Consolidated Statements of Operations and Comprehensive Income

(in thousands of Canadian dollars)

	53-week period ended August 30, 2020 $	52-week period ended August 25, 2019 $
Corporate restaurant operations		
Food and beverage revenue (note 4)	185,808	299,305
Gift card revenue (note 4)	248	387
	186,056	299,692
Costs of corporate restaurant operations (notes 17 and 18)	186,090	276,130
Earnings (loss) from corporate restaurant operations	(34)	23,562
Corporate costs (notes 17 and 18)	10,897	14,027
Earnings (loss) before interest and income taxes	(10,931)	9,535
Interest expense	1,849	1,768
Interest on loan payable to SIR Royalty Income Fund (note 13(a))	3,085	3,039
Interest (income) and other expenses (income) - net (note 22)	(547)	266
Interest on lease obligation (note 4)	6,139	-
Change in amortized cost of Ordinary LP Units and Class A LP Units of the Partnership (note 13(b))	(99,181)	(20,287)
Earnings before income taxes	77,724	24,749
Provision for (recovery of) income taxes (note 21)	(422)	1
Net earnings and comprehensive income for the period	78,146	24,748

The accompanying notes are an integral part of these consolidated financial statements.

SIR Corp.
Consolidated Statements of Changes in Shareholders' Deficiency

(in thousands of Canadian dollars)

	53-week period ended August 30, 2020			
	Capital stock $	Contributed surplus $	Deficit $	Total $
Balance - Beginning of period as at August 25, 2019 as reported	20,453	-	(162,443)	(141,990)
Change in accounting policy – adoption of IFRS 16 (note 4)	-	-	2,411	2,411
Total deficit as at August 27, 2018	20,453	-	(160,032)	(139,579)
Stock-based compensation (note 16)	-	108	-	108
Net earnings for the period	-	-	78,146	78,146
Balance - End of period	20,453	108	(81,886)	(61,325)

	52-week period ended August 25, 2019			
	Capital stock $	Contributed surplus $	Deficit $	Total $
Balance - Beginning of period as at August 26, 2018 as reported	20,484	109	(186,807)	(166,214)
Change in accounting policy – adoption of IFRS 15 (note 4)	-	-	688	688
Restated total deficit as at August 26, 2018	20,484	109	(186,119)	(165,526)
Change in accounting policy – adoption of IFRS 9 (note 4)	-	-	(21)	(21)
Total deficit as at August 27, 2018	20,484	109	(186,140)	(165,547)
Exercise of stock options	35	-	-	35
Purchase of capital stock (note 16)	(66)	(109)	(51)	(226)
Dividends declared (note 15)	-	-	(1,000)	(1,000)
Net earnings for the period	-	-	24,748	24,748
Balance - End of period	20,453	-	(162,443)	(141,990)

The accompanying notes are an integral part of these consolidated financial statements.

SIR Corp.

Consolidated Statements of Cash Flows

August 30, 2020 and August 25, 2019

	53-week period ended August 30, 2020 $	52-week period ended August 25, 2019 $
Cash provided by (used in)		
Operating activities		
Net earnings for the period	78,146	24,748
Items not affecting cash		
Change in amortized cost of Ordinary LP Units and Class A LP Units of the Partnership (note 13(b))	(99,181)	(20,287)
Depreciation and amortization	24,747	10,517
Stock-based compensation	108	-
Income tax expense (recovery) (note 21)	(422)	1
Provision for impairment of loans and advances (note 8)	340	181
Goodwill impairment (note 10)	-	268
Impairment of non-financial assets (note 9)	9,296	2,380
Interest expense on long-term debt and SIR Loan	4,934	4,807
Interest on lease obligations	6,139	-
Non-cash interest income	(91)	(141)
Amortization of leasehold inducements	-	(559)
Loss on disposal of property and equipment	281	102
Other (note 20)	(399)	(817)
Supplier and other rebates received	1,512	481
Distributions paid to Ordinary LP and Class A LP unitholders (note 13(b))	(6,574)	(11,822)
Income taxes (paid) recovered	422	(1)
Net change in working capital items (note 20)	(11,211)	(2,937)
Cash provided by operating activities	8,047	6,921
Investing activities		
Purchase of property and equipment and other assets	(3,743)	(10,610)
Advance to shareholder (notes 8 and 17)	-	(176)
Payment received on shareholder loan (notes 8 and 17)	13	21
Collection of loans and advances (note 8)	125	535
Cash used in investing activities	(3,605)	(10,230)
Financing activities		
Net increase in bank indebtedness	674	2,272
Proceeds from issuance of long-term debt	21,500	20,000
Principal repayment of long-term debt	(11,361)	(14,073)
Proceeds from issuance of lease financing	-	253
Payment of lease obligations	(13,533)	(519)
Interest paid (note 12)	(3,669)	(4,602)
Financing fees paid	(50)	-
Dividends paid	-	(1,000)
Exercise of stock options (notes 15 and 16)	-	35
Repurchase of capital stock (note 15)	-	(226)
Cash (used in) provided by financing activities	(6,439)	2,140
Decrease in cash during the period	(1,997)	(1,169)
Cash - Beginning of period	3,614	4,783
Cash - End of period	1,617	3,614

1 Going concern assumption

In the preparation of financial statements, SIR Corp. (the Company)'s management is required to identify when events or conditions indicate that significant doubt may exist about the Company's ability to continue as a going concern. Significant doubt about the Company's ability to continue as a going concern would exist when relevant conditions and events indicate that the Company will not be able to meet its obligations as they become due for a period of at least, but not limited to, twelve months from the end of the reporting period. When the Company identifies conditions or events that raise potential for significant doubt about its ability to continue as a going concern, the Company considers whether its plans that are intended to mitigate those relevant conditions or events will alleviate the potential significant doubt.

The COVID-19 outbreak in Canada has had a negative impact on global economic activity and has had a significant impact on consumer spending in Canada, including restaurant sales. This has resulted in a severe drop in in-restaurant dining and, effective March 16, 2020, the Company closed all of its dining rooms and bars. The Company continued to offer take-out and delivery services at certain of its Jack Astor's and Scaddabush locations, re-opening patios and dining rooms as allowed by provincial regulations in June 2020.

Due to an increase in COVID-19 cases in Ontario and Quebec, provincial governments announced new closures and restrictions for restaurants and bars in regions of the provinces with the highest rates of new cases. These new closures began September 28, 2020 in Quebec and October 10, 2020 in Ontario, impacting over half of the Company's locations. Refer to note 24 for more details about subsequent events.

As described in note 12, the Company has a credit agreement (Credit Agreement) with a Schedule 1 Canadian chartered bank (the Lender) which provides for a maximum principal amount of $41,291,000, consisting of a $20,000,000 revolving term credit facility (Credit Facility 1), and a $21,291,000 revolving term loan (Credit Facility 2). The Company and the Lender also have a purchase card agreement providing credit of up to an additional $1,500,000. Credit Facility 1 and Credit Facility 2 both mature within the next 12 months on July 6, 2021 (the "Maturity Date"). The Company also has a number of leases comprised of restaurant properties, head office, and warehouse space. In light of restaurant closures as a result of legislated closures due to COVID-19, the Company continues to work with its landlords to ensure it meets its obligations under its lease agreements. As at August 30, 2020, the Company was not current with certain lease payments at its restaurant properties, office, and warehouse space. Certain of the Company's landlords have provided relief in the form of deferred and abated rent payments.

Given the uncertainty surrounding the COVID-19 outbreak and the increasing government mandated shutdowns, the Company's ability to continue as a going concern for the next 12 to 18 months involves significant judgement. Management is currently addressing its financial requirements and the details of certain financial and non-financial covenants within the Credit Agreement with the Lender. There can be no assurance that borrowings will be available to the Company, or available on acceptable terms, in an amount sufficient to fund the Company's needs.

The Company's ability to meet its obligations for the next 12 to 18 months also depends on, among other factors:

- the speed at which the Company is able to return to full operating capacity in the near future,
- Canadian economic conditions after bars and restaurants are able to re-open,

- the ability to obtain necessary financing through a renewal of its Credit Agreement,
- the collectability of credit under the current Credit Agreement or other financing sources,
- government assistance, including the Canada Emergency Wage Subsidy,
- business interruption insurance coverage, and the Company's ability to negotiate longer term extended credit terms from its suppliers, including negotiating deferrals of rent obligations over the terms of its leases, and
- the type and impact of continued government mandated pandemic-related operating regulations.

Reduced services and restaurant closures will continue to result in material declines to sales at SIR restaurants. These circumstances indicate the existence of a material uncertainty that may cast doubt on the Company's ability to continue as a going concern. These consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that may be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

2 Nature of operations and fiscal year

Nature of operations

The Company is a private company amalgamated under the Business Corporations Act of Ontario. As at August 30, 2020, the Company owned a total of 59 (August 25, 2019 - 60) Concept and Signature restaurants in Canada (in Ontario, Quebec, Alberta, Nova Scotia and Newfoundland) (the SIR Restaurants). The Concept restaurants are Jack Astor's Bar and Grill® (Jack Astor's®), Canyon Creek Chop House® (Canyon Creek®) and Scaddabush Italian Kitchen & Bar® (Scaddabush) and the Signature restaurants are Reds® Wine Tavern, Reds® Midtown Tavern, Reds® Square One, and Loose Moose Tap & Grill®. The Company also owns two Dukes Refresher® & Bar locations in downtown Toronto, and one seasonal restaurant, Abbey's Bakehouse®, which are considered Signature restaurants, and are not currently part of Royalty Pooled Restaurants (note 13(b)).

On October 1, 2004, SIR Royalty Income Fund (the Fund) filed a final prospectus for a public offering of units of the Fund. The net proceeds of the offering of $51,167,000 were used by the Fund to acquire certain bank debt of the Company (the SIR Loan) (note 13(a)) and, indirectly, through SIR Holdings Trust (the Trust), all of the Ordinary LP Units of SIR Royalty Limited Partnership (the Partnership) (note 13(b)). On October 12, 2004, the Partnership acquired from the Company the Canadian trademarks used in connection with the operation of the majority of the Company's restaurants in Canada.

The address of the Company's registered office is 5360 South Service Road, Suite 200, Burlington, Ontario. The consolidated financial statements were approved for issuance by the Board of Directors on November 27, 2020.

Fiscal year

The Company's fiscal year is made up of 52 or 53-week periods ending on the last Sunday in August. The fiscal quarters for the Company consist of sequential accounting periods of 12, 12, 12 and 16 or 17 weeks, respectively. The fiscal years for 2020 and 2019 consist of 53 weeks and 52 weeks, respectively.

3 Basis of presentation

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

4 Summary of significant accounting policies

The significant accounting policies used in the preparation of these consolidated financial statements are as follows.

Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention with the exception certain assets and liabilities as outlined in Financial Instruments (note 6).

Consolidation

The Company's consolidated financial statements include the accounts of the Company and its subsidiaries. The subsidiaries include one structured entity, being the Partnership, and the following wholly owned subsidiaries: Jack Astor's (Dorval) Realty Inc., Jack Astor's (Greenfield) Realty Inc., Jack Astor's (Boisbriand) Realty Inc., Jack Astor's (Laval) Realty Inc., Jack Astor's MacLeod Trail Ltd., Armadillo Burlington Limited Partnership, SIR West Inc., 1031246 Ontario Limited, and 961471 Ontario Limited.

Effective August 25, 2019, the Company dissolved the following previously wholly owned subsidiaries: Alice Fazooli's (City Centre) Limited Partnership, Jack Astor's (Cary & Las Colinas) Limited, 1914860 Ontario Limited, and 1149691 Ontario Limited.

All intercompany accounts and transactions have been eliminated.

The Company consolidates an investee when it is exposed to or has rights to variable returns from its involvement with the investee and has the ability to affect these returns through its power over the investee. Subsidiaries are fully consolidated from the date on which control is obtained by the Company and are deconsolidated from the date control ceases.

Revenue recognition

Revenue is derived from the sale of goods and is recognized at a point in time when the performance obligation is fulfilled. For sales to consumers, the performance obligation is deemed fulfilled when food and beverage is purchased. Revenue from restaurant operations is recognized when services are rendered. Revenue is recorded net of discounts and delivery fees.

Gift card revenue represents the estimated revenue that is earned on gift card sales where the gift card will never be redeemed. This breakage amount is estimated based on historical actuals as a percentage of sales. Deferred revenue represents amounts paid by customers in advance of the purchase of products which typically takes the form of pre-loaded gift cards. The amounts received are recorded as a liability within the current portion of provisions and other long-term liabilities on the consolidated statements of financial position. Once a gift card is redeemed to make a purchase, the liability is relieved, and revenue is recognized as part of food and beverage revenue.

Costs of corporate restaurant operations

Costs of corporate restaurant operations include all costs directly attributable to the operations of the restaurants, including food and beverage costs, labour, rent, depreciation and amortization, impairment losses, and other direct costs of restaurant operations, including an allocation of costs for information technology, finance and other corporate costs.

Corporate costs

Corporate costs include salaries and benefits, selling and marketing expenses, professional and other fees and other general and administrative expenses.

Cash

Cash include cash on hand, deposits with banks and other short-term, highly liquid investments with original maturities of three months or less.

Inventories

Inventories, which consist of food, beverage and merchandise, are valued at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method. Net realizable value is the estimated selling price less applicable selling expenses. If the carrying value exceeds the net realizable amount, a writedown is recognized. The writedown may be reversed in a subsequent period if the circumstances which caused it no longer exist.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. Repairs and maintenance costs are charged to the consolidated statements of operations and comprehensive income during the period in which they are incurred.

The major categories of property and equipment are depreciated on a straight-line basis as follows:

Corporate furniture, fixtures and equipment	5 years straight-line
Computer equipment and software	5 years straight-line
Restaurant furniture, fixtures and equipment	5 to 10 years straight-line
Leasehold improvements	over the lease term on a straight-line basis to a maximum of 10 years

The Company allocates the amount initially recognized in respect of an item of property and equipment to its significant parts and depreciates separately each such part. Residual values, methods of amortization and useful lives of the assets are reviewed annually and adjusted, if appropriate.

Impairment losses and gains and losses on disposals of restaurant property and equipment are included in costs of corporate restaurant operations.

Intangible and other assets

Intangible computer software is recorded at cost, less accumulated amortization, and is amortized over three to five years on a straight-line basis.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the identifiable net assets of the acquired subsidiary at the date of acquisition. Goodwill is carried at cost, less accumulated impairment losses. Impairment losses are recognized in the costs of corporate restaurant operations. Goodwill is allocated to each cash-generating unit (CGU) that is expected to benefit from the related business combination. Gains and losses on disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Impairment of non-financial assets

Property and equipment and intangible assets (other than goodwill) are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use (being the present value of the expected future cash flows of the relevant asset or CGU, as determined by management).

Goodwill is reviewed for impairment annually or at any time if an indicator of impairment exists. Management monitors goodwill for internal purposes based on its CGUs, which are the restaurants.

The Company evaluates impairment losses, other than goodwill impairment, for potential reversals when events or circumstances warrant such consideration. Goodwill is assessed for impairment together with the assets and liabilities of the related CGU. Impairment losses are recognized in the costs of corporate restaurant operations.

Leases of equipment (IFRS 16) – policy applicable from August 26, 2019

IFRS 16 requires lessees to recognize a lease obligation reflecting future lease payments and a right-of-use asset for virtually all lease contracts, and record it on the statement of financial position, except with respect to lease contracts that meet limited exception criteria.

Leases of equipment – policy applicable before August 26, 2019

Leases of equipment on terms that transfer substantially all of the benefits and risks of ownership to the Company are accounted for as finance leases. All other leases of equipment and head office and retail locations are accounted for as operating leases. Operating lease payments are expensed on a straight-line basis over the term of the lease to a maximum of 10 years.

Leasehold inducements (IAS 17) – policy applicable before August 26, 2019

Leasehold inducements represent payments received or receivable from landlords at the time of construction and are deferred and amortized on a straight-line basis over the term of the lease.

Supplier rebates

Supplier rebates are upfront payments received under supplier agreements, which are recognized as a reduction of the cost of purchases over the term of the supplier agreements.

Financial instruments

At initial recognition, the Company classifies its financial instruments in the following categories:

i) Financial assets at amortized cost: Financial assets at amortized cost are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's financial assets at amortized cost comprise cash, trade and other receivables and loans and advances, and are included in current assets due to their short-term nature, except for the portion expected to be realized beyond 12 months from the date of the consolidated statements of financial position. Financial assets at amortized cost are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, financial assets at amortized cost are measured at amortized cost using the effective interest method less a provision for impairment.

ii) Financial assets and liabilities at fair value through profit or loss: A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short term.

Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the consolidated statements of operations and comprehensive income. Gains and losses arising from changes in the fair value are presented in the consolidated statements of operations and comprehensive income in interest (income) and other (income) expense in the period in which they arise. Non-derivative financial assets and liabilities at fair value through profit or loss are classified as current, except for the portion expected to be realized or paid beyond 12 months of the date of the consolidated statements of financial position, which is classified as long-term.

iii) Financial liabilities at amortized cost: Financial liabilities at amortized cost include bank indebtedness, trade and other payables, long-term debt, loan payable to SIR Royalty Income Fund and the Ordinary LP Units and Class A LP Units of the Partnership. Trade and other payables are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, trade and other payables are measured at amortized cost using the effective interest method. Bank indebtedness, long-term debt, the loan payable to SIR Royalty Income Fund and the Ordinary LP Units and Class A LP Units of the Partnership are recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method. These are classified as current liabilities if payment is due within 12 months. Otherwise, they are presented as non-current liabilities.

Impairment of financial assets

i) Credit impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortized cost are credit impaired. A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit impaired includes the following:

i) Significant financial difficulty of the obligor;
ii) Delinquencies in interest or principal payments;
iii) Restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
iv) It becomes probable that the borrower will enter bankruptcy or other financial reorganization; or
v) The disappearance of an active market for a security because of financial difficulties.

ii) Financial instruments and contract assets

The Company recognizes loss allowances for expected credit losses on:

i) Financial assets measured at amortized cost; and
ii) Contracted assets.

The Company measures loss allowances at an amount equal to lifetime expected credit losses.

Loss allowances for trade receivables are measured at an amount equal to lifetime expected credit losses. Expected credit losses are the expected credit losses that result from all possible default events over the expected life of a financial instrument. Expected credit losses are probability-weighted estimate of credit losses, and credit losses are measured as the present value of cash shortfalls from a financial asset.

The Company determines whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating lifetime expected credit losses, by considering reasonably available quantitative and qualitative information based on the Company's credit risk experience, forward looking information, and other reasonable estimates.

Ordinary LP Units and Class A LP Units of the Partnership

The Ordinary LP Units and Class A LP Units of the Partnership, which are held by the Fund, require the Company to pay distributions to the Fund when declared by the Board of Directors of SIR GP Inc. SIR GP Inc. is controlled by the Fund and, accordingly, the Company is unable to control the declaration of these distributions. As a result, the Ordinary LP Units and Class A LP Units of the Partnership have been classified as a liability in the consolidated statements of financial position. The Ordinary LP Units and Class A LP Units were initially recorded at fair value and subsequently at amortized cost, which requires updating the carrying amount of the financial liability to reflect actual and revised estimates in cash flows. The changes in the estimated cash flows are derived from changes in the value of the underlying Fund units adjusted for taxes and the Company's loan payable to the Fund. Changes in amortized cost are recognized in the consolidated statements of operations and comprehensive income.

Income taxes

Income tax comprises current and deferred income taxes. Income taxes are recognized in the consolidated statements of operations and comprehensive income, except to the extent to which they relate to items recognized directly in other comprehensive income (OCI) or directly in equity, in which case the income taxes are also recognized directly in OCI or equity, respectively.

Current tax is the expected taxes payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to taxes payable in respect of previous years.

In general, deferred income taxes are recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income taxes are not recognized if they arise from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred income taxes are provided on temporary differences arising on investments in subsidiaries and associates, except, in the case of subsidiaries, where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income taxes are determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the consolidated statements of financial position dates and are expected to apply when the deferred tax asset is realized or liability is settled. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized.

Deferred income tax assets and liabilities are presented as non-current.

Stock-based compensation and other stock-based payments

The Company has a stock option plan. Each tranche of the award was considered a separate award with its own vesting period and grant date fair value. Compensation expense was recognized over the tranche's vesting period and a corresponding adjustment to contributed surplus equal to the fair value of the equity instruments granted using the Black-Scholes option pricing model taking into consideration estimates for forfeitures. The contributed surplus is reduced as options are exercised through a credit to capital stock. Any consideration paid by employees or directors on exercising stock options is credited to capital stock.

Long-term management bonus

The Company has a long-term management bonus plan, which entitles certain employees to earn a bonus based on the cash flows of the restaurants. The long-term management bonus is payable in cash over a two-year period on leaving the program. The cost of the long-term management bonus is determined using the projected unit credit method. The related liability is recognized in the consolidated statements of financial position at the present value of the obligation at the end of the reporting period.

The discount rate applied in arriving at the present value of the liability represents the equivalent yield on high quality corporate bonds denominated in Canadian dollars and having terms to maturity approximating the terms of the related liability. Current service cost and past service costs arising on the liability are included in the costs of corporate restaurant operations and corporate costs in the consolidated statements of operations and comprehensive income. Interest costs arising on the liability are included in interest expense. Past service costs and changes in estimates are recognized immediately in the period.

Asset retirement obligations

Asset retirement obligations are the legal obligations associated with the retirement of tangible non-financial assets. The Company has determined the lease-end remediation costs based on its best estimate of the required payment to settle the obligation. Accretion of the obligation over time is based on the market rate of interest for maturity dates that coincide with the expected cash flows.

Provisions and contingent liabilities

Provisions are recognized when present (legal or constructive) obligations as a result of a past event will lead to a probable outflow of economic resources and the amounts can be estimated reliably. Provisions are measured at management's best estimate of the expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. The Company performs evaluations to identify onerous contracts and, where applicable, records provisions for such contracts.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. In those cases where the possible outflow of economic resources as a result of present obligations is considered remote, no liability has been recognized.

Borrowing costs

Borrowing costs attributable to the acquisition or construction of qualifying assets are added to the cost of those assets until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognized as interest expense in the consolidated statements of operations and comprehensive income in the period in which they are incurred.

Recently adopted IFRS

IFRS 16, Leases (IFRS 16)

On August 26, 2019, the Company adopted IFRS 16, Leases, using the modified retrospective approach, and comparative figures have not been restated. At the inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company recognizes a right-of-use asset and a lease obligation at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the lease obligation adjusted for any lease payments made at or before the commencement date, less any lease incentives received. The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits.

The lease term includes periods covered by an option to extend if the Company is reasonably certain it will exercise that option. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease obligation.

The lease obligation is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The lease obligation is measured at amortized cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension, or termination option.

When the lease obligation is re-measured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in the consolidated statements of operations if the carrying amount of the right-of-use asset has been reduced to zero.

In May 2020, the IASB issued an amendment to provide lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification. The mandatory effective date was for annual periods beginning on or after June 1, 2020. The amended standard has been implemented by the company in these consolidated financial statements.

In applying IFRS 16 for the first time, the Company has elected to apply the following practical expedients permitted by the standard:

- Reliance on previous assessment on whether leases are onerous;
- The accounting for operating leases with lease term of 12 months or less and leases of low-value assets as at August 26, 2019 as short-term leases;
- The exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Company has also elected not to reassess whether a contract is, or contains, a lease at August 30, 2020. Instead, for contracts entered into before the transition date, the Company relied on its assessment made applying IAS 17 and IFRIC 4, Determining whether an Arrangement Contains a Lease.

The Company leases various restaurant properties, offices, warehouses, and equipment. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Leases are recognized as a right-of-use asset and a corresponding lease obligation at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between the repayment of the principal portion of the lease obligation and the interest portion. The interest expense is charged to the consolidated statement of operations and comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Assets and obligations arising from a lease are initially measured on a present value basis. Lease obligations include the net present value of the following lease payments:

- Fixed payments, including in-substance fixed payments, less any lease incentives receivable;
- Variable lease payments that are based on an index or a rate;
- Amounts expected to be payable by the lessee under residual value guarantees;
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- Payment of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Right-of-use assets are subject to impairment.

The Company has adopted IFRS 16 using the modified retrospective method. Under this approach, the Company applied a cumulative adjustment to shareholders' deficiency at August 26, 2019, the date of initial application. There is no restatement of prior period financial information.

On adoption, a cumulative adjustment was recognized directly to shareholders' deficiency as at August 26, 2019 that related adjustments as a result of the elimination of step rent liabilities under IFRS 16. For leases previously classified as finance leases, the Company recognized the carrying amount of the lease asset and lease obligation immediately before transition as the carrying value of the right-of-use asset and the lease obligation at the date of initial application. The adjustments to the opening balances below resulted from the initial application of IFRS 16 as at August 26, 2019. The prior period amounts were not adjusted. The effects on the transition were recognized directly in shareholders' deficit.

	As originally reported August 25, 2019 $	IFRS 16 adjustments $	August 26, 2019 (restated) $
		(in thousands of dollars)	
Assets			
Right-of-use assets	-	118,711	118,711
Property and equipment	49,331	(1,527)	47,804
Total assets	71,735	117,184	188,919
Liabilities			
Current portion of long-term debt	3,194	(546)	2,648
Current portion of lease obligations	-	17,384	17,384
Current portion of provisions and other long-term liabilities	4,203	(548)	3,655
Current liabilities	52,747	16,290	69,037
Long-term debt	22,297	(876)	21,421
Long-term portion of lease obligation	-	104,873	104,873
Provisions and other long-term liabilities	8,395	(5,514)	2,881
Total liabilities	213,725	114,773	328,498
Deficit	(162,443)	2,411	(160,032)
Shareholders' Deficiency	(141,990)	2,411	(139,579)
Total liabilities and Shareholders' Deficiency	71,735	117,184	188,919

As of August 26, 2019, the Company recognized right-of-use assets of $118,711,000, and lease obligations of $122,257,000 in certain operating lease arrangements for which the Company is considered the lessee with lease terms of more than 12 months. When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate at August 26, 2019. The weighted-average rate applied is 5.13%.

Depreciation expense on the right-of-use asset and interest expense on the lease obligations replaced the previously recognized operating lease expense. The impact of adopting IFRS 16 on the consolidated statement of cash flows is to present the principal repayment of lease obligations in financing activities under IFRS 16, whereas previously payments for operating leases were presented in operating activities.

The following table reconciles the Company's operating lease obligations at August 25, 2019, as previously disclosed in the Company's consolidated financial statements, to the lease obligations recognized on initial application of IFRS 16 at August 26, 2019.

	$ (in thousands of dollars)
Operating lease commitments as at August 25, 2019	92,127
Add:	
Extension and termination options reasonably certain to be exercised	64,884
Undiscounted minimum lease payments on finance lease liabilities	1,422
Less:	
Short-term and low value leases	(42)
Undiscounted lease obligations	158,391
Discounted using the Company's incremental borrowing rate	(36,135)
Lease obligations recognized as at August 26, 2019	122,257

Leases are included as follows in the consolidated balance sheet as at August 30, 2020:

	Property **$**	**Equipment** **$**	**Total** **$**
	(in thousands of dollars)		
At August 25, 2019	116,722	2,686	119,408
53-week period ended August 30, 2020			
Additions	470	-	470
Disposals	(2,483)	-	(2,483)
Amortization	(14,224)	(1,207)	(15,431)
Impairment (note 9)	(4,260)	-	(4,260)
Right-of-use assets – net at August 30, 2020	96,225	1,479	97,704

For the 53-week period ended August 30, 2020, the lease obligation transactions were as follows:

	$ (in thousands of dollars)
At August 25, 2019	120,834
Adjustment for capital leases previously treated as long-term debt	1,422
Adjustment for lease abatements	1,149
Repayments	(13,533)
Disposals	(2,484)
Interest	6,139
As at August 30, 2020	113,527
Less: current portion of lease obligations	(21,669)
Long-term portion of lease obligations	91,858

The annual lease obligations for the next five years and thereafter are as follows:

	As at August 30, 2020 **$** (in thousands of dollars)
Fiscal 2021	16,516
Fiscal 2022	15,178
Fiscal 2023	15,274
Fiscal 2024	15,046
Fiscal 2025 and thereafter	74,976
Total undiscounted lease obligations	136,990
Total discounted lease obligations	113,527

Interest expense on lease obligations for the 53-week periods ended August 30, 2020 was $6,139,000. Total cash outflow for the 53-week period ended August 30, 2020 for leases was $13,533,000 which includes $7,394,000 of principal payments and $6,139,000 of interest on lease obligations. Expenses for leases of low-dollar value items are not significant. All extension options have been included in the measurement of lease obligations where applicable.

IFRS 15, Revenue from Contracts with Customers

During May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers, which supersedes IAS 18, Revenue, and IAS 11, Construction Contracts. The Company adopted the requirements of IFRS 15 for the year-ended August 25, 2019 using the full retrospective method as permitted by IFRS 15, which requires that comparative figures are restated. For the year-ended August 25, 2019 the Company restated the August 26, 2018 comparative figures. IFRS 15 is based on the principle that revenue is recognized when control of a good or service is transferred to a customer.

A five-step recognition model is used to apply the standard as follows:

1. Identify the contract(s) with the customer;

2. Identify the separate performance obligations in the contract;

3. Determine the transaction price;

4. Allocate the transaction price to separate performance obligations; and

5. Recognize revenue when (or as) each performance obligation is satisfied.

Under IFRS 15, the Company must disaggregate revenue from contracts with customers. The Company has determined that a disaggregation of revenue using Concept and Signature restaurants is adequate for its circumstances. Food and beverage revenue by segment is determined as follows:

	53-week period ended August 30, 2020 $	52-week ended August 25, 2019 $
Jack Astor's	126,623	206,132
Scaddabush	34,322	46,939
Canyon Creek	8,443	19,637
Signature Restaurants	16,420	26,597
	185,808	299,305

Under IFRS 15, revenue is derived from the sale of goods and is recognized at a point in time when the performance obligation is fulfilled. For sales to consumers, the performance obligation is deemed fulfilled when food and beverage is purchased. Gift card revenue represents the estimated revenue that is earned on gift card sales where the gift card will never be redeemed. This breakage amount is estimated based on historical actuals as a percentage of sales. Deferred revenue represents amounts paid by customers in advance of the purchase of products which typically takes the form of pre-loaded gift cards. The amounts received are recorded as a liability within the current portion of provisions and other long-term liabilities on the consolidated balance sheets. Once a gift card is redeemed to make a purchase, the liability is relieved, and revenue is recognized as part of food and beverage revenue.

As at August 26, 2018, the gift card liability decreased by $688,000.

The impact on the consolidated statement of financial position on the adoption of IFRS 15 is as follows:

	As originally reported August 26, 2018 $	IFRS 15 adjustments $	August 26, 2018 (restated) $
	(in thousands of dollars)		
Current portion of provisions and other long-term liabilities	4,115	(688)	3,427
Current liabilities	50,815	(688)	50,127
Total liabilities	241,464	(688)	240,776
Deficit	(186,807)	688	(186,119)
Shareholders' Deficiency	(166,214)	688	(165,526)
Total liabilities and Shareholders' Deficiency	75,250	-	75,250

Amendments to IFRS 9

This standard has been amended to enable companies to measure at amortized cost some prepayable financial assets with negative compensation. The assets affected, that include some loans and debt securities, would otherwise have been measured at fair value through profit or loss. Financial assets that would otherwise have contractual cash flows that are solely payments of principal and interest but do not meet that condition only as a result of a prepayment feature with negative compensation, may be measured at amortized cost or at fair value through other comprehensive income when eligibility conditions are met. The amendment to IFRS 9 also clarifies how to account for the modification of a financial liability. Most modifications of financial liabilities will result in immediate recognition of a gain or loss. The amendment did not have a significant impact on the consolidated financial statements.

International Financial Reporting Interpretations Committee (IFRIC) 23, Uncertainty over Tax Treatments (IFRIC 23)

In June 2017, the IASB issued IFRIC 23 effective for fiscal years beginning on or after January 1, 2019. The interpretations provide guidance on how to value uncertain income tax positions based on the probability of whether the relevant tax authorities will accept the company's tax treatments. A company is to assume that a taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when doing so. IFRIC 23 is to be adopted using the modified retrospective approach, which requires that the adjustment be recorded in the opening deficit and comparatives are not restated. The interpretations did not have a significant impact on the consolidated financial statements.

IFRS issued but not yet effective

Amendments to IAS 1, Presentation of Financial Statements, and IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors

This standard has been amended to clarify the definition of 'material'. The definition of material was revised with three new aspects to the definition. The existing definition focussed on omitting or misstating information, whereas the new definition makes reference to obscuring information in addition to omitting or misstating. The new definition of material also specifies that information is material if it could reasonably be expected to influence the decisions of users. Previously the definition referred to 'could influence'. The third revision to the definition of material clarifies that the users of the financial statements refers to 'primary users'. The amendment is effective for annual periods beginning on or after January 1, 2020. The Company has not yet assessed the impact of the amendment on the consolidated financial statements.

Amendments to IFRS 3, Business Combinations

These amendments provide guidance to assist entities in determining whether they have acquired a business or a group of assets by amending the defined terms, the application guidance, and the illustrative examples found in IFRS 3. The amendments are effective for annual periods beginning on or after January 1, 2020. The Company has not yet assessed the impact of the amendment on the consolidated financial statements.

Amendments to IFRS 9, Financial Instruments, IAS 39, Financial Instruments: Recognition and Measurement, and IFRS 7, Financial Instruments: Disclosures

In August 2020, the IASB issued amendments that address issues arising from the implementation of interest rate benchmark reform, including the replacement of one benchmark with an alternative one. The mandatory effective date would be annual periods beginning on or after January 1, 2021, with early adoption permitted. Management is evaluating the amended standards and has not yet determined the impact on the consolidated financial statements.

5 Significant accounting estimates and judgments

The preparation of consolidated financial statements requires management to use judgment in applying its accounting policies and estimates and assumptions about the future. Estimates and other judgments are continuously evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. The following discusses the most significant accounting judgments and estimates that the Company has made in the preparation of its consolidated financial statements.

Impairment of non-financial assets

The Company tests goodwill for impairment at least annually and tests other non-financial assets for impairment when there is any indication that the asset might be impaired. The Company has estimated the recoverable amounts of the CGUs to which goodwill is allocated using discounted cash flow models that required assumptions about future cash flows, margins and discount rates. Refer to note 9 for more details about methods and assumptions used in estimating the recoverable amounts.

Loans and advances

Loans and advances are recorded at amortized cost and are written down to their estimated realizable amount when there is evidence of an impairment. As at August 30, 2020, the Company evaluated its loans and advances from U.S. S.I.R. L.L.C. for impairment. The Company determined the estimated recoverable amounts by using a discounted cash flow model. Significant assumptions used in the discounted cash flow model included the expected future cash payments. Based on the analysis completed, a provision of $340,000 for the 53-week period ended August 30, 2020 (52-week period ended August 25, 2019 - $202,000) was recognized related to the loans and advances from U.S. S.I.R. L.L.C. in the consolidated statements of operations and comprehensive income.

Consolidation of the Partnership

The determination of the entity having the power to govern the financial and operating policies of the Partnership required significant judgments. Based on an evaluation of the activities of the Partnership and the Partnership Agreement, management concluded the substance of the relationships between the Partnership, the Company and the Fund indicates that the Partnership is controlled by the Company. Accordingly, the Company has consolidated the Partnership.

Ordinary LP Units and Class A LP Units of the Partnership

The classification of a financial instrument as a liability or equity requires significant judgment. Based on an evaluation of the Partnership Agreement and rights of the Company and SIR GP Inc. under this agreement, management concluded that the Company has an obligation to pay distributions once declared. Accordingly, the Ordinary LP Units and Class A LP Units of the Partnership held by the Fund have been classified as a liability in the consolidated statements of financial position.

In addition, accounting for the Ordinary LP Units and Class A LP Units at amortized cost also requires significant estimates. Management is required to estimate the future cash flows for the distributions on the Ordinary LP Units and Class A LP Units, which are estimated using the changes in the underlying unit price of the Fund units adjusted for taxes and the Company's loan payable to the Fund. Accordingly, the adjustments and methods used to estimate the cash flows are subject to uncertainty due to the fact that the expected cash flows can only be observed indirectly.

The current portion of the Ordinary LP Units and Class A LP Units is estimated based on the expected cash payments in the next fiscal year. The actual cash payments could differ from the estimates due to changes in the Fund's distribution policy, requirements of the Fund to settle its obligations, such as income taxes, and the performance of the Royalty Pooled Restaurants.

Income taxes

The Company has recognized certain deferred tax liabilities related to its investments in subsidiaries, based on management's estimate of the amount of the deferred tax liability that may reverse in the foreseeable future. In estimating the amount of the deferred tax liability, management considered the Company's strategies and its future financing requirements. Changes in the Company's strategic plan or financing requirement could result in a change in the amount of the deferred tax liability recognized.

6 Financial instruments

Classification

The following table summarizes the carrying values, fair values and classification of the financial assets and liabilities.

	August 30, 2020		August 25, 2019	
	Carrying value $	Fair value $	Carrying value $	Fair value $
	(in thousands of dollars)		(in thousands of dollars)	
Amortized cost				
Cash	1,617	1,617	3,614	3,614
Trade and other receivables	13,464	13,464	8,564	8,564
Loans and advances	386	386	772	772
Liabilities				
Amortized cost				
Bank indebtedness	3,711	3,711	3,037	3,037
Trade and other payables	24,300	24,300	30,955	30,955
Long-term debt	70,232	see below	25,491	25,574
Loan payable to SIR Royalty Income Fund (a)	35,942	see below	35,889	see below
Ordinary LP Units and Class A LP Units of the Partnership (b)	-	see below	105,755	see below

Carrying and fair values

Cash, trade and other receivables, bank indebtedness and trade and other payables are short-term financial instruments the fair values of which approximate their carrying values, given that they will mature in the short term. The carrying value of the loans and advances approximates fair value as the effective interest rate approximates current market rates. The fair value of long-term debt is determined based on the estimated contractual schedule of payments as the interest rate varies with the current market rates or, in the case of the finance lease obligations, the effect interest rate approximates current market rates.

(a) The loan payable to the Fund is due to a related party (see note 13(a)) and there is no active market for the debt. The Company intends to hold the loan payable to the Fund until its maturity on October 12, 2044. The fair value of the loan payable to the Fund as at September 30, 2020 is estimated to be $20,250,000 (January 1, 2020 - $39,000,000).

The fair value of the loan payable to the Fund is estimated by discounting the expected cash flows using a current market interest rate adjusted for the Company's credit risk. In determining the appropriate discount rate, management has estimated the discount rate by considering comparable corporate bond rates, risk free rates and the Company's credit risk.

During the nine-month period ended September 30, 2020, management adjusted the discount rate from 7.70% at January 1, 2020 to 15.25% at September 30, 2020. The adjustment consists of an estimated increase in the corporate bond rate of 1.8% and an increase in management's estimate for SIR's credit risk of 6.5%, partially offset by a decrease of 0.8% in the Canadian risk free rate.

(b) The fair value of the Ordinary LP Units and Class A LP Units of the Partnership could only be determined through the valuation of the financial instruments. The Ordinary LP Units and Class A LP Units of the Partnership are held by the Fund and there is no active market for the Ordinary LP Units and Class A LP Units. As a result, the determination of their fair values is not practicable within the constraints of timeliness and cost.

Financial risk management

Financial risk management is carried out by the management of the Company and its Board of Directors. The Company's main financial risk exposure, as well as its risk management policy, is detailed as follows.

Interest rate risk

The loan payable to the Fund has a fixed interest rate. Accordingly, changes in interest rates would not impact the consolidated statements of operations and comprehensive income or the carrying value of these financial liabilities. However, the fair value of these financial liabilities will vary with changes in interest rates.

As at August 30, 2020, the Company had $38,002,000 (August 26, 2018 - $27,189,000) in outstanding floating rate debt and bank indebtedness with an effective interest rate of 5.8% (August 25, 2019 - 6.3%). For the 53-week period ended August 30, 2020, the Company incurred interest expense on its floating rate long-term debt and bank indebtedness of $1,626,000 (52-week period ended August 25, 2019 - $1, 418,000). Since the long-term debt and bank indebtedness have variable interest rates, changes in market interest rates will have an impact on the Company's net earnings. An increase or decrease in the market rate of interest of 1% on the balances outstanding as at August 30, 2020, would result in a decrease or increase, respectively, in net earnings of $380,000 for the 53-week period ended August 30, 2020 (52-week period ended August 26, 2018 - $272,000).

The Company's policy is to invest excess cash in short-term highly liquid investments with original maturity of three months or less. It is not the Company's practice to hedge against changes in interest rates.

Other price risk

The expected cash flows used in the estimate of the amortized cost of the Ordinary LP Units and Class A LP Units are derived from the market price of the Fund units adjusted for taxes and the Company's loan payable to the Fund. Accordingly, the change in the carrying value of the Ordinary LP Units and Class A LP Units changes with changes in the market price of the Fund units. An increase/decrease in the market price of the Fund units of 5% would result in an increase/decrease of the carrying value of Ordinary LP Units and Class A LP Units of the Partnership of $nil (August 26, 2018 - $7,200,000).

Credit risk

Credit risk is defined as the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit risk in its cash, trade and other receivables and loans and advances. The Company minimizes the credit risk of cash by depositing funds with reputable financial institutions. The Company's trade and other receivables primarily comprise amounts due from major credit card companies; therefore, management believes that the Company's trade and other receivables credit risk exposure is limited. The Company monitors the collectability of its loans and advances, predominantly due from related parties, by reviewing them for impairment on an individual basis and recording the instrument at its estimated recoverable amount. The Company has determined that the loans and advances to U.S. S.I.R. L.L.C. are impaired based on estimated future cash flows of U.S. S.I.R. L.L.C. Accordingly, the carrying values of the loans and advances are recorded at their estimated recoverable amounts, which were determined by discounting the expected future cash flows. In addition, the Company regularly receives payments on these loans and advances and, accordingly, recognized interest income of $108,000 during the 53-week period ended August 30, 2020 (52-week period ended August 26, 2018 - $130,000).

Liquidity risk

Liquidity risk is the risk the Company will not be able to meet its financial obligations as they fall due.

As at August 30, 2020, the Company's liquidity was comprised of $1,617,000 in cash on hand, $3,288,000 available to borrow under the Company's credit facility (note 12(a)), and $6,250,000 under an Economic Development Canada (EDC) guaranteed Business Credit Availability Program (BCAP). Given the uncertainty surrounding the COVID-19 outbreak and the increasing government mandated shutdowns, the Company's ability to continue as a going concern for the next 12 to 18 months involves significant judgement. The Company's ability to meet its obligations for the next 12 to 18 months is dependent on its ability to obtain increased and extended financing through further amendments to its Credit Agreement and the availability of credit under the current Credit Agreement or other financing sources and/or additional government assistance to aid businesses. There can be no assurance that borrowings will be available to the Company, or available on acceptable terms, in an amount sufficient to fund the Company's needs. Availability under the credit facility is subject to certain conditions, including certain financial and non-financial covenants as determined by the Lender. The Company prepares budgets and forecasts to evaluate its ability to meet future cash obligations. The Company continues to assess changes in the marketplace, including economic conditions and consumer confidence.

The Company consolidates its investment in the Partnership. Included in cash is $331,000 (August 25, 2019 - $1,628,000) of cash of the Partnership. These funds can only be utilized by the Partnership and are not available to the Company for other general corporate purposes. These funds are maintained in separate bank accounts of the Partnership.

The estimated contractual payments required for the financial liabilities are as follows:

	As at August 30, 2020		
	Less than 1 year $	**2 - 5 years** $	**Over 5 years** $
	(in thousands of dollars)		
Bank indebtedness	3,711	-	-
Trade and other payables	24,300	-	-
Long-term debt*	35,510	-	-
Loan payable to SIR Royalty Income Fund*	42,992	-	-
	106,513	-	-

	As at August 25, 2019		
	Less than 1 year $	**2 - 5 years** $	**Over 5 years** $
	(in thousands of dollars)		
Bank indebtedness	3,037	-	-
Trade and other payables	30,955	-	-
Long-term debt*	4,590	23,410	-
Loan payable to SIR Royalty Income Fund*	2,992	11,968	100,427
	41,574	35,378	100,427

* Includes principal repayments and an estimate of interest payable based on current market interest rates or the interest rate per the credit agreement.

The above table excludes the cash flows relating to the Ordinary LP Units and Class A LP Units of the Partnership, as these are not contractual obligations until declared. The estimated amount expected to be paid in the next fiscal year is $nil (August 25, 2019 - $11,358,000).

7 Trade and other receivables

	August 30, 2020 $	August 25, 2019 $
	(in thousands of dollars)	
Trade receivables	1,636	3,032
Receivables from SIR Royalty Income Fund and its subsidiaries (note 13(c))	3,536	3,294
Marketing receivables	93	684
Gift card receivables	49	132
Canada Emergency Wage Subsidy receivable	3,980	-
Other	4,170	1,422
	13,464	8,564

8 Loans and advances

	August 30, 2020 $	August 25, 2019 $
	(in thousands of dollars)	
Loan receivable from U.S. S.I.R. L.L.C., with interest at 10%, interest only repayable annually, due on August 31, 2003 (a)	1,180	1,180
Advances to and receivables from U.S. S.I.R. L.L.C., non-interest bearing, due on demand (a)	1,887	1,931
Advances to and receivables from subsidiaries of U.S. S.I.R. L.L.C., non-interest bearing, due on demand (a)	398	398
Loan receivable from U.S. S.I.R. L.L.C., with interest at 10% and no set terms of repayment (a)	2,284	2,284
Loan receivable from U.S. S.I.R. L.L.C., non-interest bearing, due on demand (a)	265	265
Loan receivable from a company owned by a shareholder and director, together with a member of executive management of SIR, non-interest bearing, due on demand	10	10
Loan receivable from a shareholder, with interest at 6.75%, due on August 15, 2020 (note 17)	163	165
	6,187	6,233
Provision for impairment	(5,801)	(5,461)
	386	772
Current portion	(386)	(477)
	-	295

a) U.S. S.I.R. L.L.C. is owned by shareholders of the Company and, accordingly, is a related party. Loans and advances are reviewed for impairment on an individual basis. The assessment of impairment is based on the expected ability of the payor to make the required payments when due.

Prior to 2008, loans and advances were made to U.S. S.I.R. L.L.C. and its subsidiaries to facilitate ongoing operations and the closure of certain restaurant operations. The Company determined that these loans and advances are impaired based on estimated future cash flows of the remaining US operations. Accordingly, the loans and advances to U.S. S.I.R. L.L.C. have been recorded at their estimated net realizable value of $213,000 (August 25, 2019 - $597,000). During the 53-week period ended August 30, 2020, the Company received cash payments of $125,000 (52-week period ended August 25, 2019 - $305,000) and recognized interest income of $81,000 (52-week period ended August 25, 2019 - $130,000).

A continuity of the loans and advances to U.S. S.I.R. L.L.C. and subsidiaries is as follows:

	$ (in thousands of dollars)
Balance - August 26, 2018	974
Payments received	(305)
Interest	130
Impairment	(202)
Balance – August 25, 2019	597
Payments received	(125)
Interest	81
Impairment	(340)
Balance – August 30, 2020	213

b) During the 52-week period ended August 30, 2015, the Company sold substantially all the assets of a Dukes Refresher to a company owned by a party related to a director of the Company for consideration of a $400,000 loan receivable. Annual principal payments of $50,000 or 6% of gross revenue from any restaurant located and operating on the leased premise, whichever is greater, are payable in monthly instalments beginning on June 15 to November 15 for each of the five years commencing May 1, 2015, with the balance of the amounts owing due on November 15, 2020. During the 52-week period ended August 25, 2019, this loan was paid in full. During the 52-week period ended August 25, 2019, the Company received payments of $230,000 and wrote-off interest receivable of $21,000.

9 Property and equipment

	Corporate			Restaurants		
	Furniture, fixtures and equipment $	Leasehold improvements $	Computer equipment and software $	Furniture, fixtures and equipment $	Leasehold improvements $	Total $
			(in thousands of dollars)			
As at August 26, 2018						
Cost	688	290	2,357	69,868	103,170	176,373
Accumulated depreciation and impairment losses	(622)	(224)	(1,923)	(45,313)	(76,852)	(124,934)
Net book value as at August 26, 2018	66	66	434	24,555	26,318	51,439
Net book value as at August 26,2018	66	66	434	24,555	26,318	51,439
Additions	-	36	73	5,285	5,254	10,648
Disposals	-	-	-	(100)	(2)	(102)
Depreciation	(30)	(4)	(151)	(4,691)	(5,398)	(10,274)
Impairment losses	-	-	-	-	(2,380)	(2,380)
As at August 25, 2019	36	98	356	25,049	23,792	49,331
As at August 25, 2019						
Cost	688	326	2,430	73,965	106,754	184,163
Accumulated depreciation and impairment losses	(652)	(228)	(2,074)	(48,916)	(82,962)	(134,832)
Net book value as at August 25, 2019 as reported	36	98	356	25,049	23,792	49,331
Adoption of IFRS 16 (note 4)	-	-	-	(1,527)	-	(1,527)
Net book value as at August 26, 2019	36	98	356	23,522	23,792	47,804
Net book value as at August 26, 2019	36	98	356	23,522	23,792	47,804
Additions	4	55	86	2,078	1,115	3,338
Disposals	-	-	-	(219)	(62)	(281)
Depreciation	(29)	(7)	(164)	(4,537)	(4,989)	(9,726)
Impairment losses	-	-		-	(5,036)	(5,036)
As at August 30, 2020	11	146	278	20,844	14,820	36,099
As at August 30, 2020						
Cost	692	381	2,516	70,755	103,801	178,145
Accumulated depreciation and impairment losses	(681)	(235)	(2,238)	(49,911)	(88,981)	(142,046)
Net book value as at August 30, 2020	11	146	278	20,844	14,820	36,099

Property and equipment include $289,000 (August 25, 2019 - $98,000) of costs for restaurants under development that were not being depreciated as at August 30, 2020.

As a result of a decline in sales and earnings primarily related to the COVID-19 pandemic, the Company identified triggering events which required the Company to conduct an impairment analysis of these restaurants' non-financial assets. The analysis indicated that the estimated recoverable amounts for 12 restaurants (2019 – five restaurants) was less than the carrying value of the restaurants' non-financial assets (property and equipment). Management has performed sensitivity testing on the estimates and determined that a reasonable change in the estimates would not result in a material change in the impairment of the property and equipment.

Restaurant furniture, fixtures and equipment, leasehold improvements and non-financial assets were written down to reflect their impairment as follows:

	53-week period ended August 30, 2020 $	52-week period ended August 25, 2019 $
	(in thousands of dollars)	
Impairment of property and equipment	5,036	2,380
Impairment of right-of-use assets	4,260	-
	9,296	2,380

In the 53-week period ended August 30, 2020, the Company recorded an impairment loss of $5,036,000 relating to the property and equipment of one Scaddabush restaurant, three Signature restaurants and four Jack Astor's restaurants. The recoverable amounts for one Jack Astor's restaurant and one Signature restaurant were based on value-in-use using a discounted cash flow model. The recoverable amounts for one Scaddabush restaurant, two Signature restaurants and four Jack Astor's restaurants were based on the discounted cash flow (fair value less cost to sell). Significant assumptions used in these models include the estimate of cash flows and a discount rate of 15% for both methodologies.

In fiscal 2019, the Company recorded an impairment loss of $2,380,000 in respect of one Signature restaurant, one Canyon Creek restaurant, and three Jack Astor's restaurants. The recoverable amounts were based on value-in-use using a discounted cash flow model. Significant assumptions used in this model include the estimate of cash flows and a discount rate of 13% for the value-in-use methodology. Management has performed sensitivity testing on the estimates and determined that a reasonable change in the estimates would not result in a material change in the impairment of the property and equipment.

Restaurant furniture, fixtures and equipment and leasehold improvements were written down to reflect their impairment in the following Concept and Signature restaurants:

	53-week period ended August 30, 2020 $	52-week period ended August 25, 2019 $
	(in thousands of dollars)	
Jack Astor's	1,170	750
Scaddabush	2,168	-
Canyon Creek	-	21
Signature	1,698	1,609
	5,036	2,380

In the 53-week period ended August 30, 2020, the Company recorded an impairment loss of $4,260,000 in respect of the right-of-use assets of 11 restaurants (one Scaddabush restaurant, three Canyon Creek restaurants, three Signature restaurants and four Jack Astor's restaurants).

Right-of-use assets were written down to reflect their impairment in the following Concept and Signature restaurants:

	53-week period ended August 30, 2020 $ (in thousands of dollars)
Jack Astor's	1,008
Scaddabush	582
Canyon Creek	248
Signature	2,422
	4,260

10 Goodwill and intangible assets

	Goodwill $	Computer software $	Total $
As at August 26,2018			
Cost	5,410	1,879	7,289
Accumulated amortization and impairment losses	(990)	(1,099)	(2,089)
Net book value	4,420	780	5,200
For the 52-week period ended August 25, 2019			
As at August 26, 2018	4,420	780	5,200
Additions	-	313	313
Amortization	-	(243)	(243)
Impairment losses	(268)	-	(268)
As at August 25, 2019	4,152	850	5,002
As at August 25, 2019			
Cost	5,410	2,192	7,602
Accumulated amortization and impairment losses	(1,258)	(1,342)	(2,600)
Net book value	4,152	850	5,002
For the 53-week period ended August 30, 2020			
As at August 25, 2019	4,152	850	5,002
Additions	-	241	241
Amortization	-	(289)	(289)
As at August 30, 2020	4,152	802	4,954
As at August 30, 2020			
Cost	5,410	2,433	7,843
Accumulated amortization and impairment losses	(1,258)	(1,631)	(2,889)
Net book value	4,152	802	4,954

As a result of a decline in sales and earnings from certain restaurants, the Company recognized impairment of goodwill of $268,000 during the 52-week period ended August 25, 2019.

Goodwill has been allocated to the following Concept restaurants:

	August 30, 2020 $	August 25, 2019 $
	(in thousands of dollars)	
Jack Astor's	4,001	4,001
Canyon Creek Chophouse	151	151
	4,152	4,152

11 Trade and other payables

	August 30, 2020 $	August 25, 2019 $
	(in thousands of dollars)	
Trade payables	19,257	17,918
Accrued liabilities	2,446	11,409
Construction payables	916	1,080
Interest payable on long-term debt	-	3
Interest payable on SIR Loan (note 13(a))	1,492	459
Payables to related parties (note 17)	189	86
	24,300	30,955

12 Bank indebtedness and long-term debt

	53-week period ended August 30, 2020 (in thousands of dollars)		
	Credit Facility 1 (a) $	Credit Facility 2 (a) $	Total $
Balance - Beginning of period	14,015	13,090	27,105
Issuance of long-term debt	11,000	10,500	21,500
Repayment of long-term debt	(9,000)	(2,361)	(11,361)
Increase in bank indebtedness	674	-	674
Finance fees paid	(20)	(30)	(50)
Amortization of finance fees	42	91	133
Balance - End of period	16,711	21,290	38,001
Bank indebtedness	(3,711)	-	(3,711)
Current portion of long-term debt	(13,000)	(21,290)	(34,290)
Long-term debt	-	-	-

	52-week period ended August 25, 2019 (in thousands of dollars)			
	Credit Facility 1 (a) $	Credit Facility 2 (a) $	Finance leases $	Total $
Balance - Beginning of period	10,679	8,107	1,689	20,475
Issuance of long-term debt	13,000	7,000	-	20,000
Repayment of long-term debt	(12,000)	(2,073)	-	(14,073)
Increase in bank indebtedness	2,272	-	-	2,272
Proceeds from finance leases	-	-	253	253
Repayment of finance leases	-	-	(519)	(519)
Amortization of finance fees	64	56	-	120
Balance - End of period	14,015	13,090	1,423	28,528
Bank indebtedness	(3,037)	-	-	(3,037)
Current portion of long-term debt	-	(2,648)	(546)	(3,194)
Long-term debt	10,978	10,442	877	22,297

Reconciliation of interest expense to interest paid	**53-week period ended August 30, 2020 $**	**52-week period ended August 25, 2019 $**
	(in thousands of dollars)	
Interest expense	4,934	4,807
Amortization of finance fees	(186)	(168)
Interest on equity bonus	(35)	(102)
Asset retirement obligation accretion	(1)	(1)
Change in prepaid interest	(13)	57
Change in interest payable	(1,030)	9
Interest paid	3,669	4,602

a) The Company has a Credit Agreement with the Lender. The Credit Agreement, as amended on December 8, 2017, July 6, 2018, April 1, 2020, June 30, 2020, and September 30, 2020, provides for a maximum principal amount of $41,291,000consisting of a $20,000,000 revolving term credit facility (Credit Facility 1), and a $21,291,000 revolving term loan (Credit Facility 2). The Company and the Lender also have a purchase card agreement providing credit of up to an additional $1,500,000.

Credit Facility 1 is for general corporate and operating purposes, bearing interest at the prime rate plus 3.25% and/or the bankers' acceptance rate plus 4.25%, principal repaid in one bullet repayment on July 6, 2021. A standby fee of 0.85% is charged on the undrawn balance of Credit Facility 1.

Credit Facility 2 bears interest at the prime rate plus 3.25% and/or the bankers' acceptance rate plus 4.25%. Each advance under Credit Facility 2 is repayable in equal quarterly instalments based on a seven year amortization, with the remaining outstanding principal balance due on July 6, 2021. On November 13, 2019, the Company drew $5,000,000 on Credit Facility 2. On April 2, 2020, the Company drew an additional $5,500,000 on Credit Facility 2.

The undrawn balance of Credit Facility 1 as at August 30, 2020 is $3,288,000.

As at August 30, 2020, the Company has drawn $36,718,000 on Credit Facility 1 and Credit Facility 2, net of cash excluding the cash balance of the Partnership (August 25, 2019 - $25,203,000).

Under its Credit Agreement, the Company also has access to $6,250,000 of credit with EDC. The EDC-Guaranteed Facility is a 364 day revolving term credit facility and can be extended at the Lender's sole discretion by a further 12 months. This facility is currently undrawn.

The Credit Agreement contains certain financial and non-financial covenants. As at August 30, 2020, the Company was in breach of these covenants as a result of the impact of the COVID-19 outbreak on its operations. As a result, the carrying value of the credit facilities under the Credit Agreement were reclassified to current liabilities. As part of the fourth amending agreement with the Lender, the two financial covenants in the Credit Agreement are replaced by a minimum quarterly EBITDA amount. Management continues to work closely with its Lender for guidance and support.

The Credit Agreement is secured by substantially all of the assets of the Company and most of its subsidiaries, which are also guarantors. The Partnership and the Fund have not guaranteed the Credit Agreement.

As at August 30, 2020, the Company has amounts owing on the purchase card agreement totalling $688,000 (August 25, 2019 - $465,000), which are included in trade and other payables.

The Company has recorded its long-term debt at amortized cost. The Company has netted the financing fees paid against its long-term debt and amortizes these costs over the expected life of the long-term debt using the effective interest method. Amortization of financing fees of $133,000 (52-week period ended August 25, 2019 - $120,000) has been charged to interest expense in the consolidated statements of operations and comprehensive income. Unamortized financing fees on the Credit Agreement netted against the debt as at August 30, 2020 were $nil (August 25, 2019 - $83,000).

The principal amount of long-term debt outstanding (excluding the bank indebtedness) as at August 30, 2020 is repayable as follows:

	Long-term debt repayments $ (in thousands of dollars)
2021	34,290

The effective interest rate on long-term debt as at August 30, 2020 is 5.7% (August 25, 2019 – 6.3%).

13 SIR Royalty Income Fund

a) Loan payable to SIR Royalty Income Fund (the SIR Loan)

The $40,000,000 SIR Loan bears interest at 7.5% per annum and is due on October 12, 2044. In conjunction with the Credit Agreement, on July 6, 2015, the Company, the Fund and the Partnership entered into an Intercreditor Agreement to subordinate and postpone their claims against the Company in favour of the Lender. The Fund and the Partnership have not guaranteed the Credit Agreement.

The long-term debt is permitted indebtedness within the meaning of the agreements between the Fund, the Partnership and the Company and, as a result, the Fund and the Partnership have, as contemplated in the existing agreements, subordinated and postponed their claims against the Company to the claims of the Lender. This subordination, which includes a subordination of the Partnership's rights under the Licence and Royalty Agreement between the Partnership and the Company, whereby the Partnership licenses to the Company the right to use the trademarks and related intellectual property in return for royalty payments based on revenue, has been effected pursuant to the terms of the Intercreditor Agreement.

Under the Intercreditor Agreement, absent a default or event of default under the Credit Agreement, ordinary payments to the Fund and the Partnership can continue and the Partnership can exercise any and all of its rights to preserve the trademarks and related intellectual property governed by the Licence and Royalty Agreement. However, if a default or an event of default were to occur, the Fund and the Partnership agree not to take actions on their security until the Lender has been repaid in full. However, payments by the Company to the Fund and the Partnership are permitted for such amounts as are required to fund their monthly operating expenses, up to an annual limit. In addition, the Company, the Fund and the Partnership have the right, acting cooperatively, to reduce payments of Royalties and/or interest on the SIR Loan by up to 50% without triggering a cross default under the Credit Agreement for a period of up to nine consecutive months. The Company and each obligor provided an undertaking to cooperate and explore all options with the Fund to maximize value to the Fund's unitholders and the Company and its shareholders in exchange for the subordinating parties not demanding repayment or enforcing security as a result of any such related party obligation default. The Intercreditor Agreement also contains various other typical covenants of the Fund and the Partnership.

At August 30, 2020, the Company was in breach of the covenants in the SIR Loan Agreement. As a result, the carrying value of the loan payable to the Fund was reclassified to current liabilities (note 24).

Interest expense charged to the consolidated statements of operations and comprehensive income for the 53-week period ended August 30, 2020 was $3,085,000 (52-week period ended August 25, 2019 - $3,039,000), which includes interest on the SIR Loan of $3,033,000 (52-week period ended August 25, 2019 - $2,992,000) and amortization of financing fees of $52,000 (52-week period ended August 25, 2019 - $47,000). Interest payable on the SIR Loan as at August 30, 2020 was $1,492,000 (August 25, 2019 - $459,000) and is recorded in trade and other payables.

The Company has recorded the SIR Loan at amortized cost. The Company has netted the financing fees against the SIR Loan and amortizes this cost over the term of the SIR Loan using the effective interest method. Unamortized financing fees netted against the SIR Loan as at August 30, 2020 were $4,058,000 (August 25, 2019 - $4,111,000).

The Company has the right to require the Fund to, indirectly, purchase its Class C GP Units of the Partnership and assume a portion of the SIR Loan as consideration for the acquisition of the Class C GP Units.

b) Ordinary LP Units and Class A LP Units of SIR Royalty Limited Partnership

	53-week period ended August 30, 2020 $	52-week period ended August 25, 2019 $
	(in thousands of dollars)	
Balance - Beginning of period	105,755	137,864
Change in amortized cost of the Ordinary LP Units and Class A LP Units of the Partnership	(99,181)	(20,287)
Distributions paid to Ordinary LP and Class A LP unitholders	(6,574)	(11,822)
Balance - End of period	-	105,755
Less: Current portion of Ordinary LP Units and Class A LP Units of the Partnership	-	(11,358)
Ordinary LP Units and Class A LP Units of the Partnership	-	94,397
The following is a summary of the results of operations of the Partnership:		
Pooled Revenue*	180,308	291,874
Partnership royalty income*	10,883	17,727
Other income	24	24
Partnership expenses	(85)	(83)
Net earnings of the Partnership	10,822	17,668
The Company's interest in the earnings of the Partnership	(5,030)	(6,574)
Fund's interest in the earnings of the Partnership	5,792	11,094

*Includes revenue from the Royalty Pooled Restaurants. The Partnership owns the Canadian trademarks (the SIR Rights) formerly owned or licensed by the Company or its subsidiaries and used in connection with the operation of the majority of the Company's restaurants in Canada. Partnership royalty income is 6% of pooled revenue in accordance with the Licence and Royalty Agreement, plus a Make-Whole Payment for closed restaurants, from the date of closure to December 31 of the year closed.

On October 12, 2004, the Partnership issued Ordinary LP and GP Units to the Fund for cash of $11,167,000. The holders of the Ordinary LP Units and the Class A LP Units are entitled to receive a pro rata share of all residual distributions of the Partnership. The distributions are declared by the Board of Directors of SIR GP Inc., which is controlled by the Fund. Accordingly, the Ordinary LP Units and the Class A LP Units of the Partnership have been classified as a financial liability in the consolidated statements of financial position. The Ordinary LP Units and the Class A LP Units are accounted for at amortized cost, with changes in the carrying value of Ordinary LP Units and the Class A LP Units of the Partnership recorded in the consolidated statements of operations and comprehensive income.

During the 52-week period ended August 30, 2020, distributions of $5,792,000 (52-week period ended August 25, 2019 - $11,094,000) were declared to the Fund through the Partnership. Distributions paid during the 52-week period ended August 30, 2020 were $6,574,000 (52-week period ended August 25, 2019 - $11,822,000, respectively). The Fund, indirectly through the Trust, is entitled to receive a pro rata share of all residual distributions. Distributions payable to SIR Royalty Income Fund as at August 30, 2020 were $3,766,000 (August 25, 2019 - $4,548,000).

The Company, as the holder of the Class A GP Units, is entitled to receive a pro rata share of all residual distributions of the Partnership and the Class A GP Units are exchangeable into units of the Fund.

The Partnership owns the SIR Rights formerly owned or licensed by the Company or its subsidiaries and used in connection with the operation of the majority of the Company's restaurants in Canada. In 2004, the Partnership granted the Company a 99-year licence to use the SIR Rights in most of Canada in consideration for a Royalty, payable by the Company to the Partnership, equal to 6% of the revenue of the Royalty Pooled Restaurants (the Licence and Royalty Agreement).

Under the terms of the Licence and Royalty Agreement, the Company may be required to pay a Make-Whole Payment in respect of the reduction in revenue for restaurants closed during a reporting period. As of October 12, 2019, the 15th anniversary of the closing date of the Fund's Initial Public Offering, the Company is not required to pay any Make-Whole Payment in respect of a closed restaurant. On January 1 of each year (the Adjustment Date), the restaurants subject to the Licence and Royalty Agreement are adjusted for new SIR Restaurants opened for at least 60 days preceding such Adjustment Date. At each Adjustment Date, the Company will be entitled to convert its Class B GP Units into Class A GP Units based on the formula defined in the Partnership Agreement. Additional Class B GP Units may be converted into Class A GP Units in respect of these new SIR Restaurants if actual revenue of the new SIR Restaurants exceeds 80% of the initial estimated revenue. Conversely, converted Class A GP Units will be returned by the Company if the actual revenue is less than 80% of the initial estimated revenue. In December of each year, an additional distribution will be payable to the Class B GP unitholders based on actual revenue of the new SIR Restaurants exceeding 80% of the initial estimated revenue or there will be a reduction in the distributions to the Class A GP unitholders if revenue is less than 80% of the initial estimated revenue.

On January 1, 2020, one new SIR Restaurant was added (January 1, 2019 – two new SIR Restaurants were added) to Royalty Pooled Restaurants in accordance with the Partnership Agreement. As consideration for the additional Royalty associated with the addition of one new SIR Restaurant on January 1, 2020 (January 1, 2019 – two new SIR Restaurants), as well as the Second Incremental Adjustment for two new SIR Restaurants added to Royalty Pooled Restaurants on January 1, 2019 (January 1, 2018 - three), SIR converted its Class B GP Units into Class A GP Units based on the formula defined in the Partnership Agreement. In addition, there was a re-conversion of Class A GP Units into Class B GP Units for the permanent closure of three (January 1, 2019 – one) SIR Restaurants during 2019. The net effect of these adjustments to Royalty Pooled Restaurants was that SIR returned 395,899 Class A GP Units for 395,899 Class B GP Units (January 1, 2019 – SIR converted 197,824 Class B GP Units into 197,824 Class A GP

Units) on January 1, 2020 reducing the value of the SIR Rights by $3,493,096 (January 1, 2019 – increasing the value of the SIR Rights by $3,986,264).

In addition, the revenues of the two (January 1, 2018 – three) new SIR Restaurants added to Royalty Pooled Restaurants on January 1, 2019 was less than 80% of the Initial Adjustment's estimated revenue (January 1, 2018 – revenue of the three new SIR Restaurants exceeded 80% of the Initial Adjustment's estimated revenue) and, as a result, the distributions of the Class A GP Units were reduced by a special conversion refund of $23,240 in December 2019 and paid in January 2020 (a special conversion distribution of $90,971 was declared on the Class B GP Units in December 2018 and paid in January 2019).

As a result of the permanent closure of one SIR restaurant during the 53-week period ended August 30, 2020, a Make-Whole payment to the Partnership of $65,000 has been recognized by the Company for the 53-week period ended August 30, 2020 (52-week period ended August 25, 2019 - $215,000).

As at August 30, 2020, after the net effect of the adjustments to Royalty Pooled Restaurants on January 1, 2020, the Company's residual interest in the Partnership is 17.84% (August 25, 2019 – 20.91%). The Company continues to maintain control of the Partnership and, therefore, continues to consolidate the Partnership.

c) Advances receivable from SIR Royalty Income Fund

Advances receivable from SIR Royalty Income Fund as at August 30, 2020 were $3,535,000 (August 25, 2019 - $3,294,000). Advances receivable are non-interest bearing and due on demand. Advances receivable are recorded in trade and other receivables.

The Company, through the Partnership, has entered into an arrangement with the Fund and the Trust, whereby the Partnership will provide or arrange for the provision of services required in the administration of the Fund and the Trust. The Partnership has arranged for these services to be provided by SIR GP Inc., in its capacity as the Managing General Partner. For the 53-week period ended August 30, 2020, the Partnership provided these services to the Fund and the Trust for consideration of $24,000 (52-week period ended August 25, 2019 - $24,000), which was the amount of consideration agreed to by the related parties.

14 Provisions and other long-term liabilities

	August 30, 2020 $	August 25, 2019 $
	(in thousands of dollars)	
Gift cards (deferred revenue) (note 4)	3,930	2,902
Deferred supplier rebates	1,032	298
Leasehold inducements and straight-line rent liability	-	6,062
Long-term management bonus (a)	1,499	2,682
Asset retirement obligations	687	654
	7,148	12,598
Current portion	(5,689)	(4,203)
	1,459	8,395

a) The Company has a management bonus program that provides restaurant managers and area directors with the opportunity to earn a bonus based on the cash flow of the restaurant(s). The percentage of cash flow earned depends on the manager's and area director's years of service and ranges up to 10%. The managers and area directors also have the opportunity to earn a bonus on leaving the organization if he or she has completed at least five years of service. This bonus is based on a predetermined formula, using cash flows over a three-year period and a percentage that ranges up to 10%. On leaving the program, the participant's bonus is paid in three instalments over a two-year period.

Movement in the long-term management bonus is as follows:

	$ (in thousands of dollars)
As at August 26, 2018	4,035
Current service cost and changes in estimates	(978)
Interest cost	102
Payments	(477)
As at August 25, 2019	2,682
Current service cost and changes in estimates	(253)
Interest cost	35
Payments	(965)
As at August 30, 2020	1,499

The amounts recognized in the consolidated statements of operations and comprehensive income are as follows:

	53-week period ended August 30, 2020 $	52-week 52-week period ended August 25, 2019 $
	(in thousands of dollars)	
Current service cost and change in estimates	(253)	(978)
Interest cost	35	102
	(218)	(876)

The discount rate used to estimate the long-term management bonus for the 53-week period ended August 30, 2020 was 0.6% (52-week period ended August 25, 2019 – 2.0%). Other significant estimates include the expected cash flows for the respective restaurant(s).

The Company has recorded an asset retirement obligation in respect of the estimated lease-end remediation costs. The asset retirement obligation was estimated based on a discounted cash flow analysis using the following key assumptions:

	August 30, 2020	August 25, 2019
Total undiscounted estimated cash flows (in thousands of dollars)	$791	$807
Expected timing of repayments	0.0 to 12.8 years	0.1 to 13.8 years
Discount rate	4.2%	5.2%

15 Capital stock

Authorized
Unlimited common shares

Issued and outstanding

	August 30, 2020		August 25, 2019	
	Number of common shares	$	Number of common shares	$
	(in thousands)		(in thousands)	
Balance - Beginning of period	10,875	20,453	10,875	20,484
Repurchase of capital stock	-	-	(35)	(66)
Exercise of stock options (note 16)	-	-	35	35
Balance - End of period	10,875	20,453	10,875	20,453

During the 52-week period ended August 25, 2019, a dividend in the amount of $1,000,000 was declared and paid to the holders of the issued and outstanding common shares of the Company as at August 25, 2019.

16 Stock option plan

During the 53-week period ended August 30, 2020, 25,000 stock options were granted (52-week period ended August 25, 2019 – nil). During the 52-week period ended August 25, 2019, 35,000 stock options were exercised, and 35,000 common shares were issued, for consideration of $35,000. During the 52-week period ended August 25, 2019, 35,000 common shares were repurchased for consideration of $226,000.

During the 53-week period ended August 30, 2020, compensation expense of $108,000 was recognized in the consolidated statement of operations and comprehensive income (52-week period ended August 25, 2019 – $nil). Compensation expense for options not yet vested of $86,000 will be recognized in the consolidated statements of operations and comprehensive income over the vesting period of the stock options.

Stock options issued are valued using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

	53-week period ended August 30, 2020
Risk-free interest rate	1.68% to 2.06%
Expected life	5.5 years
Expected volatility	15.77% to 19.12%
Expected dividend	nil

	Number of stock options outstanding (in thousands)	**Weighted average exercise price per share $**
Balance - August 25, 2019	1,428	1.31
Granted during 2020	25	4.93
Balance - August 30, 2020	1,453	1.86

As at August 30, 2020, the outstanding and exercisable stock options to purchase common shares are as follows:

Stock option price range	Weighted average remaining life (years)	Stock options outstanding: Number of stock options (in thousands)	Stock options outstanding: Weighted average exercise price per share $	Stock options exercisable: Number of stock options (in thousands)	Stock options exercisable: Weighted average exercise price per share $
$0.01 (a)	0.5	868	0.01	868	0.01
$3.84 (b)	4.34	460	3.84	460	3.84
$4.93 (c)	4.34	25	4.93	nil	4.93
$8.08 (d)	4.34	100	8.08	25	8.08
		1,453		1,353	

As at August 25, 2019, the outstanding and exercisable stock options to purchase common shares are as follows:

Stock option price range	Weighted average remaining life (years)	Stock options outstanding: Number of stock options (in thousands)	Stock options outstanding: Weighted average exercise price per share $	Stock options exercisable: Number of stock options (in thousands)	Stock options exercisable: Weighted average exercise price per share $
$0.01 (a)	1.5	868	0.01	868	0.01
$3.84 (b)	0.3	460	3.84	460	3.84
$8.08 (d)	4.34	100	8.08	10	8.08
		1,428		1,338	

a) These stock options vested at the date of grant and expire on February 12, 2021.

b) These stock options were granted to key management of the Company during the 52-week period ended August 25, 2013, with an exercise price of $3.84 and an expiry date of January 1, 2020. During the 53-week period ended August 30, 2020, the expiry date was extended to January 1, 2025. Of the remaining stock options, 200,000 stock options vested on January 1, 2014 and 87,000 stock options vested annually thereafter over the next three years. On termination with cause, all vested and unvested options of the participant immediately expire and are cancelled.

c) These stock options were granted to key management of the Company during the 53-week period ended August 30, 2020, with an exercise price of $4.93 and an expiry date of January 1, 2025. 5,000 options will vest annually beginning on January 1, 2021.

d) These stock options were granted to key management of the Company on July 1, 2018 with an exercise price of $8.08 and an expiry date of January 1, 2025. 10,000 options vested on January 1, 2019 and 15,000 options vested on January 1, 2020. 20,000 options will vest on January 1, 2021, 25,000 options will vest on January 1, 2022, and 30,000 options will vest on January 1, 2023.

17 Related party transactions

Transactions with U.S. S.I.R. L.L.C. and the Fund are related party transactions and are disclosed in notes 8 and 13, respectively.

In addition to the transactions disclosed elsewhere in these consolidated financial statements, the Company entered into the following related party transactions:

	August 30, 2020 $	August 25, 2019 $
	(in thousands of dollars)	
Corporate costs		
Maintenance services provided by a shareholder of the Company	1	2
Consulting fees provided by a company owned by a director of the Company	-	63
Design fees provided by a company owned by a shareholder of the Company	7	36
Direct costs of restaurant operations		
Occupancy costs provided by a company owned by a party related to a director and shareholder of SIR	3	37
Services provided by a shareholder of the Company	2	4
Property and equipment		
Design and construction management fees and fixtures provided by a company owned by a shareholder of the Company	12	15
Fixtures provided by a shareholder of the Company	16	57
Furniture and equipment provided by a company owned by a shareholder and director, together with a member of executive management of the Company	29	117
Prepaid deposits		
Consulting services provided by a director of the Company	-	2

The above transactions are in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

During the 52-week period ended August 26, 2012, the Company entered into a lease agreement with a company that is owned by a party related to a director of the Company. Rent is payable under the lease agreement based on a percentage of the revenue of the related restaurant. Rent paid under this lease agreement for the 53-week period ended August 30, 2020 was $3,000 (52-week period ended August 25, 2019 - $37,000).

Included in loans and advances is the following amount due from related parties:

	August 30, 2020 $	August 25, 2019 $
	(in thousands of dollars)	
Amount due from a shareholder of the Company, with interest at 6.75%, due on August 15, 2021	162	165

Included in trade and other payables are the following amounts due to related parties:

	August 30, 2020 $	August 25, 2019 $
	(in thousands of dollars)	
Amounts due to companies owned by a shareholder or director of the Company	189	55
Amounts due to a company owned by a party related to a director of the Company	-	31
	189	86

Compensation of key management

	53-week period ended August 30, 2020 $	52-week period ended August 25, 2019 $
	(in thousands of dollars)	
Salaries, short-term employee benefits and director's fees	837	814
Fees paid to companies for management services and director's fees	877	963
	1,714	1,777

Key management includes the Company's directors and members of executive management.

18 Expenses by nature

	53-week period ended August 30, 2020 $	52-week period ended August 25, 2019 $
	(in thousands of dollars)	
Food and beverage	51,868	82,027
Labour	60,561	112,563
Direct costs of restaurant operations	40,850	52,554
Rent	-	16,155
Depreciation and amortization	23,269	10,098
Loss on disposal of property and equipment	246	86
Impairment of non-financial assets	9,296	2,380
Goodwill impairment	-	267
Cost of corporate restaurant operations	186,090	276,130
Salaries and benefits	6,809	9,358
Advertising and marketing	1,145	1,191
Professional, legal and consulting fees	854	1,103
Rent	-	624
Depreciation and amortization	1,478	419
Other	611	1,332
Corporate costs	10,897	14,027

19 Contingencies

In the normal course of business, the Company is threatened from time to time with, or named as a defendant in, legal proceedings, including those relating to wrongful dismissal or personal injury. Many claims are covered by the Company's insurance policies and none of the current claims are expected to have a material adverse effect on the Company.

20 Supplemental cash flow information to the consolidated statements of cash flows

The net change in working capital items is as follows:

	53-week period ended August 30, 2020 $	52-week period ended August 25, 2019 $
	(in thousands of dollars)	
Trade and other receivables	(4,900)	(449)
Inventories	536	158
Prepaid expenses, deposits and other assets	533	(53)
Trade and other payables	(6,840)	(1,681)
Provisions and other long-term liabilities	(540)	(912)
	(11,211)	(2,937)

Other non-cash items consist of the following:

	53-week period ended August 30, 2020 $	52-week period ended August 25, 2019 $
	(in thousands of dollars)	
Straight-line rent expense	-	(112)
Supplier rebates	(412)	(705)
Other	13	-
	(399)	(817)

21 Income taxes

The components of the provision for (recovery of) income taxes are as follows:

	53-week period ended August 30, 2020 $	52-week period ended August 25, 2019 $
	(in thousands of dollars)	
Current	(422)	1

The reconciliation of the Company's effective tax rate to the combined Canadian federal and provincial statutory income tax rate is as follows:

	53-week period ended August 30, 2020 $	**52-week period ended August 25, 2019 $**
	(in thousands of dollars)	
Earnings before income taxes	78,146	24,749
Income tax expense at Canadian statutory income tax rate of 26.5% (August 25, 2019 - 26.5%)	20,709	6,558
Increase (decrease) by the effect of		
Change in amortized cost of Ordinary LP Units and Class A LP Units	(26,283)	(5,376)
Non-deductible expenses	131	199
Partnership structure	(8,161)	(2,927)
Deferred tax assets not recognized	13,616	1,546
Other	(434)	1
Provision for (recovery of) income taxes	(422)	1

Deferred income tax assets not recognized are summarized as follows:

	August 30, 2020 $	**August 25, 2019 $**
	(in thousands of dollars)	
Property and equipment	9,080	3,412
Other non-current assets	429	321
Loss carry-forwards	9,375	3,305
Long-term management bonus	397	713
Leasehold inducements	-	1,603
Asset retirement obligation	-	173
	19,281	9,527

Deferred income tax assets (liabilities) recognized are as follows:

	August 30, 2020 **$**	**August 25, 2019** **$**
	(in thousands of dollars)	
Property and equipment	-	(614)
Deferred financing fees	(1,006)	(1,019)
Loss carry-forwards	1,519	3,864
Investment in the Partnership	(300)	(2,000)
Other	(213)	(231)
	-	-

As at August 30, 2020, the deferred tax liability related to subsidiaries that has not been recognized amounted to $6,273,000 (August 25, 2019 - $7,700,000).

As at August 30, 2020, the Company and its subsidiaries have available non-capital losses for income tax purposes which expire as follows:

	$ (in thousands of dollars)
2026	224
2027	339
2028	2,772
2029	473
2030	1,983
2031	1,263
2032	428
2033	1,001
2034	723
2035	1,080
2036	590
2037	1,674
2038	523
2039	308
2040	28,534
	41,915

In addition, the Company's US subsidiary has loss carry-forwards of $113,000 which expire in 2028 and 2029.

22 Interest (income) and other expenses (income) - net

Interest (income) and other expense (income) - net comprise the following:

	53-week period ended August 30, 2020 $	52-week period ended August 25, 2019 $
	(in thousands of dollars)	
Interest income	(91)	(145)
Provision for impairment of loans and advances (note 8)	340	202
Restructuring costs	295	194
Foreign exchange loss	58	15
Recognition of rent abatements	(1,149)	-
	(547)	266

23 Capital management

The Company's capital consists of its capital stock and deficit of $20,453,000 and $81,286,000, respectively. The objectives in managing capital are to safeguard the Company's ability to continue as a going concern, to provide financial capacity and flexibility to meet its strategic objectives, to allow the Company to respond to changes in economic and/or marketplace conditions and to provide a return to its shareholders. The Company strives to maintain an optimal split between senior debt and equity with a view to balancing its flexibility while minimizing its cost of capital. The Company evaluates cash flow through its budgeting and forecasting process, to help plan and track its capital requirements to meet its strategic plans and to monitor compliance with its Credit Agreement.

Compliance with the covenants included in the Company's Credit Agreement is monitored by management on a quarterly basis. As at August 30, 2020, the Company was in breach of these covenants as a result of the impact of the COVID-19 outbreak on its operations. As the Company is not in compliance with the covenants of the Credit Agreement, certain security is available to the Lender as described in note 12.

SIR currently holds 1,818,000 Class A GP Units, representing a 17.84% residual interest in the Partnership. The Class A GP Units are exchangeable into units of the Fund on a one for one basis, and, as at August 30, 2020, have a market value of approximately $4,090,000.

Under the Credit Agreement and without prior consent from the Lender, SIR may convert Class A GP Units into Fund Units and promptly sell such units for the purposes of financing construction projects for new and existing restaurants, provided in any year the sale of the units does not exceed the lower of $7,000,000 and 400,000 units.

The Company is required to issue common shares on the exercise of stock options by shareholders, directors and employees (note 16).

24 Subsequent events

On September 30, 2020 the Company and its Lender entered into a fifth amending agreement to its Credit Agreement which, among other things, extended certain waivers from August 31, 2020 to December 31, 2020. There can be no assurance that the Company will receive additional waivers or remain in compliance in the future.

On September 30, 2020, the Fund and the Partnership entered into an acknowledgement consent agreement with the Lender, and the Fund, the Partnership, and the Company entered into a waiver and extension agreement. The current expiration date of certain deferrals in these agreements is December 31, 2020.

Due to increasing COVID-19 case counts in Ontario and Quebec, the provincial governments have imposed increased restrictions on in-restaurant dining. Increased restrictions target regions with the highest new case rates. These restrictions may include, among other things, in increasing levels of adverse impact on SIR's business, such as: lowering music levels, shorter hours for alcohol service, reductions to group sizes, further reductions to indoor seating, and full closure of indoor dining.

On September 28, 2020 the Quebec government announced, effective October 1, 2020, all restaurants and bars in three regions of the province with high rates of new cases would be closed for at least 28 days other than for takeout and delivery. This affected four Jack Astor's locations. Prior to the end of October, the closures were extended another 28 days to November 23, 2020. On November 19, 2020, the Quebec government announced that these closures would remain in place until January 11, 2021.

Effective October 10, 2020, the Toronto, Ottawa and Peel regions returned to modified Stage 2 restrictions, resulting in the temporary closure of indoor dining rooms and bars in these regions for 28 days. SIR has 28 restaurants in these regions. Effective October 19, 2020, the York region, where SIR has five restaurants, was also returned to modified Stage 2 restrictions for 28 days. As of November 7, 2020, dining rooms in the Toronto, Ottawa, Peel, and York regions were permitted to re-open. Effective November 9, 2020, additional regions were moved into various zones within the provincial government's COVID-19 framework, which restricts the capacity of indoor dining guests, as follows:

Provincial Tier	Public Health Region (Number of SIR restaurants)
Red/Control • indoor dining capacity: 10 • maximum number of guests per table: 4	Toronto (19) Peel (6) York (5) Halton (3) Hamilton (2)
Orange/Restrict • indoor dining capacity: 50 • maximum number of guests per table: 4	Durham (2) Niagara (2) Ottawa (3) Waterloo (1)
Yellow/Protect • maximum number of guests per table: 6	London Middlesex (3) Simcoe-Muskoka (1)

Effective November 23, 2020, the Ontario government announced additional movement of various regions within the provincial government's COVID-19 framework as follows:

Provincial Tier	Public Health Region (Number of SIR restaurants)
Grey/Lockdown • no indoor or patio dining • take-out and delivery only	Toronto (19) Peel (6)
Red/Control • indoor dining capacity: 10 • maximum number of guests per table: 4	York (5) Halton (3) Hamilton (2) Durham (2) Waterloo (1)
Orange/Restrict • indoor dining capacity: 50 • maximum number of guests per table: 4	Ottawa (3) Niagara (2) Simcoe-Muskoka (1)
Yellow/Protect • maximum number of guests per table: 6	London Middlesex (3) Kingston (1)

Effective November 26, 2020, the provincial government in Nova Scotia, where the Company has two locations, announced the closure of all restaurant dining rooms.

The Company's ability to meet its financial obligations for the next 12 to 18 months also depends on, among other factors:

- the length of the closure of dine-in operations,
- the speed at which the Company is able to return to full operating capacity in the near future,
- Canadian economic conditions after bars and restaurants are able to re-open, and
- the type and impact of new government mandated pandemic-related operating regulations.

Reduced services and restaurant closures have resulted, and will continue to result, in material declines to sales at SIR restaurants. In order to provide SIR with financial support, the Partnership deferred the collection of restaurant royalties and the Fund deferred the collection of interest on interest on the SIR Loan from the Company until December 31, 2020.