SIR Corp.

Condensed Interim Consolidated
Financial Statements
(Unaudited)
For the 12-week and 24-week periods ended February 14, 2021
(in thousands of Canadian dollars)

SIR Corp.

Condensed Interim Consolidated Statements of Financial Position
(Unaudited)

(in thousands of Canadian dollars)

	February 14, 2021 $ (Note 1)	August 30, 2020 $ (Note 1)
Assets		
Current assets		
Cash	5,385	1,617
Trade and other receivables (notes 5 and 7(c))	13,307	13,464
Inventories	2,297	2,486
Prepaid expenses, deposits and other assets	1,525	883
Current portion of loans and advances	177	386
	22,691	18,836
Non-current assets		
Loans and advances	48	-
Right-of-use assets – net (note 5)	86,180	97,704
Property and equipment	32,016	36,099
Goodwill and intangible assets	4,914	4,954
	145,849	157,593
Liabilities		
Current liabilities		
Bank indebtedness (note 6)	-	3,711
Trade and other payables (note 6)	17,811	24,300
Current portion of long-term debt (notes 3(a) and 6)	44,996	34,290
Current portion of lease obligation (note 5)	22,174	21,669
Current portion of loan payable to SIR Royalty Income Fund (note 7(a))	35,967	35,942
Current portion of provisions and other long-term liabilities (note 3(a))	5,739	5,689
	126,687	125,601
Non-current liabilities		
Long-term portion of lease obligation (note 5)	82,330	91,858
Provisions and other long-term liabilities (note 3(a))	1,262	1,459
Ordinary LP Units and Class A LP Units of the Partnership (note 7(b))	10,905	-
	221,184	218,918
Shareholders' Deficiency		
Capital stock	20,462	20,453
Contributed surplus	132	108
Deficit	(95,929)	(81,886)
	(75,335)	(61,325)
	145,849	157,593

Subsequent events (note 9)

Going concern (note 9)

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

SIR Corp.

Condensed Interim Consolidated Statements of Operations and Comprehensive Income (Loss)
(Unaudited)

(in thousands of Canadian dollars)

	12-week period ended		24-week period ended	
	February 14, 2021 $	**February 9, 2020 $**	**February 14, 2021 $**	**February 9, 2021 $**
Corporate restaurant operations				
Food and beverage revenue (note 4(a))	12,820	61,455	41,584	123,524
Gift card revenue	46	56	57	140
	12,866	61,511	41,641	123,664
Costs of corporate restaurant operations	16,393	56,446	45,822	113,779
Earnings (loss) from corporate restaurant operations	(3,527)	5,065	(4,181)	9,885
Corporate costs	1,706	3,276	2,376	6,522
Earnings (loss) before interest and income taxes	(5,233)	1,789	(6,557)	3,363
Interest expense	507	408	906	830
Interest on loan payable to SIR Royalty Income Fund (note 7(a))	693	698	1,397	1,393
Interest expense (income) and other expense (income) – net (note 5)	(10,286)	106	(8,441)	37
Interest on lease obligation (note 5)	1,336	1,542	2,713	3,235
Change in amortized cost of Ordinary LP Units and Class A LP Units of the Partnership (note 7(b))	10,905	(7,303)	10,905	(41,994)
Earnings (loss) before income taxes	(8,388)	6,338	(14,037)	39,862
(Recovery of) provision for income taxes	6	(218)	6	(422)
Net earnings (loss) and comprehensive income (loss) for the period	(8,394)	6,556	(14,043)	40,284

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

SIR Corp.
Condensed Interim Consolidated Statements of Changes in Shareholders' Deficiency
(Unaudited)

(in thousands of Canadian dollars)

	24-week period ended February 14, 2021			
	Capital stock $	Contributed Surplus $	Deficit $	Total $
Balance - Beginning of period	20,453	108	(81,866)	(61,325)
Issue on exercise of options (note 7(c))	9	-	-	9
Stock-based compensation	-	24	-	24
Net loss for the period	-	-	(14,043)	(14,043)
Balance - End of period	20,462	132	(95,929)	(75,335)

	24-week ended February 9, 2020		
	Capital stock $	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	-	2,411	2,411
Total deficit as at August 26, 2019	20,453	(160,032)	(139,579)
Net earnings for the period	-	40,284	40,284
Balance - End of period	20,453	(119,748)	(99,295)

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

SIR Corp.

Condensed Interim Consolidated Statements of Cash Flows
(Unaudited)

(in thousands of Canadian dollars)

	12-week period ended		24-week period ended	
	February 14, 2021 $	February 9, 2020 $	February 14, 2021 $	February 9, 2020 $
Cash provided by (used in)				
Operating activities				
Net earnings (loss) for the period	(8,394)	6,556	(14,043)	40,284
Items not affecting cash				
Change in amortized cost of Ordinary LP Units and Class A LP Units of the Partnership (note 7(b))	10,905	(7,303)	10,905	(41,994)
Depreciation and amortization	4,629	5,631	10,454	11,361
Stock based compensation	12	-	24	-
Income tax expense (recovery)	6	(218)	6	(422)
(Recovery of) provision for impairment of loans and advances	111	23	1,773	(17)
Impairment of non-financial assets	488	-	488	-
Interest expense on long-term debt and SIR Loan	1,200	1,106	2,303	2,223
Interest on lease obligations (note 5)	1,336	1,542	2,713	3,235
Non-cash interest income (loss)	12	(29)	2	(58)
Amortization of leasehold inducements	-	(134)	-	(270)
Loss on disposal of property and equipment	27	91	35	153
Other	(161)	133	(254)	44
Supplier rebates received	58	-	138	1,260
Distributions paid to Ordinary LP and Class A LP unitholders (note 7(b))	-	(2,240)	-	(5,081)
Income taxes recovered	-	218	-	422
Net change in working capital items (note 8)	(9,702)	(505)	(8,703)	(4,283)
Cash provided by (used in) operating activities	527	4,871	5,841	6,857
Investing activities				
Purchase of property and equipment and other assets - net	(303)	(3,074)	(583)	(4,365)
Payment received on shareholder loan	-	4	-	13
Collection of loans and advances	161	64	161	110
Cash used in investing activities	(142)	(3,006)	(422)	(4,242)
Financing activities				
Increase (decrease) in bank indebtedness	-	4,204	(3,711)	1,167
Proceeds from issuance of long-term debt	6,500	1,500	14,000	11,500
Principal repayment of long-term debt	(446)	(5,662)	(3,233)	(6,324)
Proceeds from issuance of lease financing	-	-	-	-
Payment of lease obligations (note 5)	(3,288)	(4,199)	(7,730)	(8,232)
Interest paid	(493)	(1,173)	(936)	(2,312)
Exercise of stock options	8	-	8	-
Financing Fees	(49)		(49)	
Cash provided by (used in) financing activities	2,232	(5,330)	(1,651)	(4,201)
Increase (decrease) in cash and cash equivalents during the period	2,617	(3,465)	3,768	(1,586)
Cash and cash equivalents - Beginning of period	2,768	5,493	1,617	3,614
Cash and cash equivalents - End of period	5,385	2,028	5,385	2,028

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

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 pandemic 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 had a significant impact on the results of the Company for its 53-week year ended August 30, 2020 and 24-week period ended February 14, 2021.

An increase in COVID-19 cases in Ontario and Quebec resulted in the provincial government announcements of 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 9 for more details about subsequent events.

As described in note 6, 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 $45,910,000 consisting of a $20,000,000 revolving term credit facility (Credit Facility 1), a $19,660,000 revolving term loan (Credit Facility 2) and a $6,250,000 guaranteed facility with Economic Development Canada ("EDC") through the guaranteed Business Credit Availability Program ("BCAP") (EDC-Guaranteed Facility). SIR and the Lender have also entered into 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 February 14, 2021, 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 pandemic 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. Refer to note 10 for more details. 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.

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

- the speed at which SIR 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 for SIR to obtain necessary financing through a renewal of its Credit Agreement,
- the availability of credit under SIR's current Credit Agreement or other financing sources,
- government assistance, including the Canada Emergency Wage Subsidy and Canada Emergency Rent Subsidy,
- business interruption insurance coverage, and SIR'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 unaudited condensed interim 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. The consolidated financial statements of SIR Corp. have been prepared using International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS) applicable to a going concern, which contemplates the realization of assets and the settlement of liabilities during the normal course of operations for the foreseeable future. In the preparation of financial statements, SIR Corp.'s management is required to identify when events or conditions indicate that significant doubt may exist about SIR Corp.'s ability to continue as a going concern. Significant doubt about SIR Corp.'s ability to continue as a going concern would exist when relevant conditions and events indicate that SIR Corp. 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 SIR Corp. identifies conditions or events that raise potential for significant doubt about its ability to continue as a going concern, SIR Corp. considers whether its plans that are intended to mitigate those relevant conditions or events will alleviate the potential significant doubt.

Given the uncertainty surrounding the COVID-19 pandemic and the increasing government mandated shutdowns and the related impact to SIR which SIR Corp. is dependent on for cash flow, SIR Corp.'s ability to continue as a going concern for the next 12 to 18 months involves significant judgement. Management of SIR is currently addressing its financial requirements and the details of certain financial and non-financial covenants within the Credit Agreement with the Lender. Refer to note 5 for more details. There can be no assurance that borrowings will be available to SIR, or available on acceptable terms, in an amount sufficient to fund SIR's needs.

Coronavirus (COVID-19) pandemic

The COVID-19 pandmic 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, SIR closed all of its dining rooms and bars except for takeout and delivery services at certain of its locations. Government mandated restrictions were eased in June and July, 2020, enabling varying levels of in-restaurant and outdoor dining operations by region. Government mandated restrictions were heightened again in October, November and December 2020. Mandated restaurant closures and /or operating restrictions are expected to continue until further notice, in an effort to reduce large group gatherings as required by public health and government officials.. Beginning on June 9, 2020, restaurant re-openings commenced in western Canada and the Maritime provinces. On June 12, 2020, certain regions in the province of Ontario began re-opening patio dining. On June 15, 2020, restaurants in Quebec, outside of Montreal, were permitted to re-open for sit-down dining, with Montreal area restaurants following on June 22, 2020.

On July 17, 2020, the province of Ontario permitted the re-opening of limited capacity in-restaurant and patio dining in most public health regions of the province, with exceptions of the Toronto, Peel and Windsor-Essex regions. Accordingly, SIR commenced the gradual re-opening of dine-in and outdoor patio operations at the majority of its restaurants in these regions. On July 31, 2020, the province of Ontario permitted restaurants in the Toronto and Peel public health regions, where SIR has 26 restaurants, to re-open on a similar basis to other regions in the province.

Due to increasing COVID-19 case counts in Quebec, the provincial government imposed increased restrictions on in-restaurant dining. Increased restrictions target regions with the highest new case rates. On October 1, 2020, all restaurants and bars in three regions of the province with high rates of new cases were closed for at least 28 days other than for takeout and delivery. This affected four Jack Astor's locations. This initial 28-day closure period was extended multiple times and has now been extended until further notice.

Effective October 10, 2020, the Toronto, Ottawa and Peel regions, where SIR has 28 restaurants, returned to modified Stage 2 restrictions, resulting in the temporary closure of indoor dining rooms and bars in these regions for 28 days. 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 new COVID-19 framework, which restricted the capacity of indoor dining guests. The Red/Control zone, which limited indoor dining capacity to 10 guests, affected 35 SIR restaurants in the Toronto, Peel, York, Halton, and Hamilton regions.

Effective November 23, 2020, the Ontario government announced additional movement of various regions within its COVID-19 framework. 25 SIR restaurants (in the Toronto and Peel regions) were moved into the Grey/Lockdown zone, which prohibits indoor and patio dining. York, Halton, Hamilton, Durham, and Kitchener-Waterloo regions, where SIR has a total of 13 restaurants, were classified under the Red/Control zone, which limits indoor dining capacity to 10 guests.

Effective November 26, 2020, the provincial government in Nova Scotia, where SIR has two restaurants, announced the closure of all restaurant dining rooms. Restaurant dining rooms were permitted to re-open in the Halifax Regional Municipality, where both of SIR's restaurants in the province are located, on January 4, 2021.

Effective January 8, 2021, SIR permanently closed the Canyon Creek locations at the Square One shopping centre in Mississauga, Ontario and in Scarborough, Ontario.

Due to continuing increasing COVID-19 case counts, the provincial government moved all regions in Southern Ontario into lockdown for at least 28 days beginning on December 26, 2020. As a result, SIR closed all of its dining rooms, bars, and patios. SIR continues to offer take-out and delivery services at certain locations.

On December 21, 2020 the Company and its Lender entered into a sixth amending agreement to its Credit Agreement which, among other things, extended certain waivers from December 31, 2020 to March 31, 2021. There can be no assurance that the Company will receive additional waivers or remain in compliance in the future.

On December 21, 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 March 31, 2021.

Due to increasing COVID-19 case counts in Ontario, lockdowns remained in effect from December 26, 2020 until February 10, 2021, whereby the Waterloo region, where SIR has one restaurant, was moved into Green/Prevent zone within the provincial government's COVID-19 framework.

Effective February 9, 2021, SIR permanently closed three restaurants located at the corner of Yonge and Gerrard in downtown Toronto. The three restaurants closed included a Scaddabush, a Reds and a Duke's.

Subsueqent to February 14, 2021 further changes in reopenings, effective February 31, 2021 and amendments to the Credit Agreement were made. Refer to note 9 for more details about subsequent events.

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 November 17, 2019, the Company owned a total of 60 (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 12(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 12(a) and, indirectly, through SIR Holdings Trust (the Trust), all of the Ordinary LP Units of SIR Royalty Limited Partnership (the Partnership) (note 12(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 March 31, 2021.

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 2021 and 2020 consist of 52 weeks and 53 weeks, respectively.

3 Basis of presentation

The Company prepares its condensed interim consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS) for interim financial reporting, including International Accounting Standard (IAS) 34, Interim Financial Reporting. The condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the years ended August 30, 2020 and August 25, 2019, which have been prepared in accordance with IFRS.

The note disclosures for these condensed interim consolidated financial statements only present material changes to the disclosure found in the Company's audited consolidated financial statements for the years ended August 30, 2020 and August 25, 2019. Changes to the Company's accounting policies from those disclosed in its consolidated financial statements for the years ended August 30, 2020 and August 25, 2019are described in note 3(a), recently adopted accounting pronouncements.

a) Recently adopted accounting pronouncements

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 amendment did not have a material impact 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 amendment did not have a material impact on the consolidated financial statements.

b) Recently issued accounting pronouncements

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.

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 classification of liabilities as current or non-current. This amendment is effective for annual periods beginning on or after January 1, 2022. The Company has not yet assessed the impact of the amendment on the consolidated financial statements.

IAS 16, Property, Plant and Equipment

This standard has been amended to prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds received from selling items produced while the entity is preparing the asset for its intended use, clarify that an entity is “testing whether the asset is functioning properly” when it assesses the technical and physical performance of the asset and require certain related disclosures. The amendments are effective for annual periods beginning on or after January 1, 2022. The Company has not yet assessed the impact of the amendments on the consolidated financial statements.

IAS 37, Provisions

This standard has been amended to clarify that, before a separate provision for an onerous contract is established, an entity recognizes an impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract and to clarify the meaning of costs to fulfil a contract. The amendments are effective for annual periods beginning on or after January 1, 2022. The Company has not yet assessed the impact of the amendments on the consolidated financial statements.

4 Disaggregated revenue

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:

	12-week period ended February 14, 2021 $	12-week period ended February 9, 2020 $	24-week period ended February 14, 2021 $	24-week ended February 9, 2020 $
	(in thousands of dollars)			
Jack Astor's	10,057	39,976	32,024	81,747
Scaddabush	2,638	11,372	8,153	21,950
Canyon Creek	-	3,525	117	7,017
Signature Restaurants	125	6,582	1,290	12,810
	12,820	61,455	41,584	123,524

5 Right-of-use assets and lease obligations

Leases are included as follows in the condensed interim consolidated balance sheet as at February 14, 2021:

	Property $	Equipment $	Total $
	(in thousands of dollars)		
At August 30, 2020	96,225	1,479	97,704
24-week period ended February 14, 2021			
Derecognition of lease(s)	(5,471)	-	(5,471)
Amortization	(5,854)	(198)	(6,053)
Right-of-use assets – net at February 14, 2021	84,900	1,281	86,180

For the 24-week period ended February 14, 2021, the lease obligation transactions were as follows:

	$ (in thousands of dollars)
At August 30, 2020	113,527
Adjustments for lease abatements	65
Disposals	(4,983)
Other	912
Repayments	(7,730)
Interest	2,713
As at February 14, 2021	104,504
Less: current portion of lease obligations	(22,174)
Long-term portion of lease obligations	82,330

Interest expense on lease obligations for the 12-week and 24-week periods ended February 14, 2021 was $1,336,000 and $2,713,000, respectively. Total cash outflow for the 12-week period ended February 14, 2021 for leases was $3,288,000 which includes $1,952,000 of principal payments and $1,336,000 of interest on lease obligations. Total cash outflow for the 24-week period ended February 14, 2021 for leases was $7,730,000 which includes $5,017,000 of principal payments and $2,713,000 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.

Effective February 9, 2021, the Company permanently closed three restaurants located at the corner of Yonge and Gerrard in downtown Toronto. The three closed restaurants included a Scaddabush, a Reds and a Duke's. The Scaddabush and Reds locations were part of the Royalty Pool, but the Duke's was not. The Company was offered an early lease termination agreement from the landlord, which would pay the Company proceeds of $6,000,000 (net of deferred occupancy costs paid) if the properties were returned on February 28, 2021. Given the current operating environment and uncertain future prospects, the Company decided to exercise this option and return the properties to the landlord. Derecognition of the right-of-use assets and the disposal of the lease liability for the 24-week period ended February 14, 2021 was $5,471,000 and $4,983,000, respectively. The other expense (income) was outstanding as at February 14, 2021 in Trade and Other receivables.

For the 24-week period ended February 14, 2021, the Interest expense (income) and other expense (income) – net transactions were as follows:

	$ (in thousands of dollars)
Lease contract cancellations and abatements	(9,076)
Restructuring and related transaction costs	426
Interest (income) expense	(11)
Impairment on notes receiveable	220
As at February 14, 2021	(8,441)

6 Bank indebtedness and long-term debt

The Company has a credit agreement (Credit Agreement) with a Schedule 1 Canadian chartered bank (the Lender). The Credit Agreement, as amended on December 8, 2017, July 6, 2018, April 1, 2020, June 30, 2020, September 30, 2020 and December 21, 2020 provides for a maximum principal amount of $45,910,000 consisting of a $20,000,000 revolving term credit facility (Credit Facility 1), a $19,660,000 revolving term loan (Credit Facility 2) and a $6,250,000 guaranteed facility with Export Development Canada (“EDC”) through the guaranteed Business Credit Availability Program (“BCAP”) (EDC-Guaranteed Facility). SIR and the Lender have also entered into a purchase card agreement providing credit of up to an additional $1,500,000.

Credit Facility 1 is for general corporate and operating purposes, including capital spending on new and renovated restaurants, 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. Provided the Company is in compliance with the Credit Agreement, the principal amount of Credit Facility 1 can be repaid and reborrowed at any time during the term of the Credit Agreement.

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 balance due on the Maturity Date.

As at February 14, 2021, the Company has drawn $33,184,000 on Credit Facility 1 and Credit Facility 2, net of cash excluding the cash balance of the Partnership (August 30, 2020 - $36,718,000).

Under its Credit Agreement, the Company also has access to $6,250,000 million of credit with Export Development Canada (“EDC”) through the guaranteed Business Credit Availability Program (“BCAP”) (the “EDC-Guaranteed Facility”). The EDC-Guaranteed Facility bears interest at the prime rate plus 3.5%. 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. A standby fee of 0.90% is charged on the undrawn balance of this facility. For the 24-week period ended February 14, 2021, SIR has drawn $6,250,000 million on this facility.

The Credit Agreement contains certain financial and non-financial covenants. As at February 14, 2021, the Company was in breach of these covenants as a result of the impact of the COVID-19 pandemic 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 sixth 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.

7 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 February 14, 2021, 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.

Interest expense charged to the consolidated statements of operations and comprehensive income (loss) for the 12-week and 24-week periods ended February 14, 2021 was $693,000 and $1,397,000, respectively (12-week and 24-week periods ended February 9, 2020 - $698,000 and $1,393,000, respectively), which includes interest on the SIR Loan of $686,000 and $1,369,000, respectively (12-week and 24-week periods ended February 9, 2020 - $686,000 and $1,369,000, respectively) and amortization of financing fees of $12,000 and $24,000, respectively (12-week and 24-week periods ended February 9, 2020 - $12,000 and $24,000, respectively). Interest payable on the SIR Loan as at February 14, 2021 was $1,397,000 (August 30, 2020 - $2,183,000) and is recorded in trade and other payables

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

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

	12-week period ended		24-week period ended	
	February 14, 2021 $	February 9, 2020 $	February 14, 2021 $	February 9, 2020 $
	(in thousands of dollars)			
Balance - Beginning of period	-	68,223	-	105,755
Change in amortized cost of the Ordinary LP Units and Class A LP Units of the Partnership	10,905	(7,303)	10,905	(41,994)
Distributions paid to Ordinary LP and Class A LP unitholders		(2,240)	-	(5,081)
Balance - End of period	10,905	58,680	10,905	58,680
Less: Current portion of Ordinary LP Units and Class A LP Units of the Partnership	-	(8,965)	-	(8,965)
Ordinary LP Units and Class A LP Units of the Partnership	10,905	49,715	10,905	49,715

The following is a summary of the results of operations of the Partnership:				
Pooled Revenue*	12,417	59,153	40,153	119,814
Partnership royalty income*	735	3,549	2,399	7,254
Other income	5	5	11	11
Partnership expenses	(25)	(16)	(79)	(31)
Net earnings of the Partnership	715	3,538	2,331	7,234
The Company's interest in the earnings of the Partnership	(506)	(1,340)	(1,454)	(2,770)
Fund's interest in the earnings of the Partnership	209	2,198	877	4,464

*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 (loss).

During the 12-week and 24-week periods ended February 14, 2021, distributions of $nil (12-week and 24-week periods ended February 9, 2020 - $2,199,000 and $4,464,000, respectively) were declared to the Fund through the Partnership. Distributions paid during the 12-week and 24-week periods ended February 14, 2021 were $nil, respectively (12-week and 24-week periods ended February 9, 2020 - $2,240,000 and $5,801,000, 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 February 14, 2021 were $3,078,000 (August 30, 2020 - $3,766,000).

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, 2021, one new SIR Restaurant was added (January 1, 2020 – one new SIR Restaurant was 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, 2021 (January 1, 2020 – one new SIR Restaurants), as well as the Second Incremental Adjustment for one new SIR Restaurant added to Royalty Pooled Restaurants on January 1, 2020 (January 1, 2019 - two), 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 one (January 1, 2020 – three) SIR Restaurants during 2020. The net effect of these adjustments to Royalty Pooled Restaurants was that SIR converted 153,201 Class B GP Units into 153,201 Class A GP Units (January 1, 2020 – SIR returned 395,899 Class A GP Units for 395,899 Class B GP Units) on January 1, 2021 reducing the value of the SIR Rights by $673,766 (January 1, 2020 – reducing the value of the SIR Rights by $3,493,096).

In addition, the revenues of the one (January 1, 2019 – two) new SIR Restaurant added to Royalty Pooled Restaurants on January 1, 2020 was less than 80% of the Initial Adjustment's estimated revenue (January 1, 2019 – revenue of the two new SIR Restaurants was less than 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 $8,858 in December 2020 and paid in January 2021 (a special conversion refund of $23,240 in December 2019 and paid in January 2020). Make-Whole Payments of $nil (year ended December 31, 2019 - $267,573) have been recorded in Royalty income in the statement of (loss) earnings and comprehensive (loss) income of the Partnership for the year ended December 31, 2020.

As at February 14, 2021, after the net effect of the adjustments to Royalty Pooled Restaurants on January 1, 2021, the Company's residual interest in the Partnership is 19.05% (August 30, 2020 – 17.84%). 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 February 14, 2021 were $3,694,000 (August 30, 2020 - $3,535,000). Advances receivable are non-interest bearing and due on demand. Advances receivable are recorded in trade and other receivables.

The Partnership continues to defer the collection of restaurant royalties in order to provide the Company with financial support. In addition, the Partnership continues to defer payment of distributions to unitholders and the Fund continues to defer collection of the interest on the SIR Loan. As a result, during the 24-week period ended February 14, 2021, the Partnership recognized an impairment loss on the advances receivable from the Trust, GP and Fund based on management's assessment of the company-specific risks. A rate of 40% was applied to the advances receivable at February 14, 2021.

	As at February 14, 2021 $ (in thousands of dollars)
SIR Royalty Limited Partnership	
Advances receivable – SIR GP	678
Advances receivable – SIR Holdings Trust	1,577
Advances receivable – SIR Royalty Income Fund	2,178
	4,433
Provision for impairment	(1,773)
	2,660

c) Capital stock

During the 12-week and 24-week periods ended February 14, 2021, 868,000 (12-week and 24-week periods ended February 9, 2020 – nil and 35,000, respectively) stock options were exercised and 868,000 (12-week and 24-week periods ended February 9, 2020 – nil and 35,000, respectively) common shares were issued for consideration of $8,680 (12-week and 24-week periods ended February 9, 2020 – nil and $35,000, respectively). During the 12-week and 24-week periods ended February 14, 2021, nil (12-week and 24-week periods ended February 9, 2020 – nil and 35,000, respectively) common shares were repurchased for consideration of $nil (12-week and 24-week periods ended February 9, 2020 – nil and $226,000, respectively).

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

The net change in working capital items is as follows:

	12-week period ended		24-week period ended	
	February 14, 2021 $	February 9, 2020 $	February 14, 2021 $	February 9, 2020 $
		(in thousands of dollars)		
Trade and other receivables	(4,912)	327	(1,616)	471
Inventories	195	(138)	190	(47)
Prepaid expenses, deposits and other assets	(85)	375	(590)	(427)
Trade and other payables	(4,569)	(1,559)	(7,590)	(4,620)
Provisions and other long-term liabilities	(333)	490	901	340
	(9,704)	(505)	(8,705)	(4,283)

9 Subsequent events

Effective February 16, 2021, additional regions within Ontario 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)
Grey/Lockdown • no indoor dining	• Peel (6) • Toronto (16) Effective March 29, 2021 • Hamilton (2)
Red/Control • indoor dining capacity: 10 • maximum number of guests per table: 4	Effective February 16, 2021 • Halton (3) • Durham (2) • Simcoe-Muskoka (1) Effective March 8, 2021 • York (5) • Niagara (2) Effective March 30, 2021 • London Middlesex (3) • Ottawa (3)
Orange/Restrict • indoor dining capacity: 50 • maximum number of guests per table: 4	
Yellow/Protect • maximum number of guests per table: 6	Effective March 22, 2021 • Waterloo (1)

Green/Prevent • maximum number of guests per table: 10	

Effective February 15, 2021, certain locations in Quebec moved into "maximum alert" and dining rooms were closed; only takeout and delivery are permitted.

Effective March 5, 2021, the province of Nova Scotia permitted the reopening of dining rooms in the Halifax Regional Municipality, where SIR has two restaurants.

Effective March 27, 2021, the province of Newfoundland, where SIR has one restaurant, relaxed restrictions for indoor dining.

Effective March 31, 2021, SIR permanently closed the Canyon Creek location in Vaughan, Ontario.

On March 31, 2021, SIR and its Lender entered into the Seventh Amending Agreement to its Credit Agreement. The Seventh Amending Agreement provides for the following:

- an extension of the waivers of certain of the previously granted anticipated covenant breaches and events of default until July 6, 2021 (the "Seventh Amending Agreement Waiver Period"),
- waiving, for the Seventh Amending Agreement Waiver Period which now extends to the July 6, 2021 Maturity Date, the financial covenants in the Credit Agreement,
- during the Seventh Amending Agreement Waiver Period which now extends to the Maturity Date, the two financial covenants in the Credit Agreement are replaced by a minimum quarterly EBITDA amount,
- waiver of the minimum quarterly EBITDA covenant amount for SIR's fiscal 2021 second quarter
- the addition of a new $6,250,000 million Business Development Bank of Canada ("BDC") guaranteed Highly Affected Sectors Credit Availability Program ("HASCAP") facility (the "BDC-Guaranteed Facility") to the Credit Agreement. The BDC-Guaranteed Facility is a 10 year term credit facility, with a one year principal payment moratorium, bearing fixed rate interest of 4%,
- consents to SIR making a distribution to the Partnership or the Fund in an amount up to $1,000,000 for previously deferred royalty payments and/or payments of interest on the SIR Loan (the "Anticipated Fund Distribution"),
- the Fund and the Partnership were required to acknowledge, consent and subordinate to the BDC-Guaranteed Facility, and
- the Fund and the Partnership were required to extend their agreement to defer payments by SIR of interest on the SIR Loan and royalty payments from April 1, 2021 until July 6, 2021.

There can be no assurance that SIR will receive additional waivers or remain in compliance in the future.

On March 31, 2021, the Fund and the Partnership entered into a consent agreement with the Lender acknowledging, among other things:

- receipt of a copy of the Seventh Amending Agreement,
- consent to the new BDC-Guaranteed Facility of $6,250,000,

- that none of: entering the agreement, borrowing under the agreement, or performing any of the obligations under the agreement shall breach any of the terms or constitute an event of default under any of the Fund's or the Partnership's existing agreements with SIR,
- any debt arising under the BDC-Guaranteed Facility constitutes Permitted Debt (as such term is defined in the SIR Loan Agreement).
- On March 31, 2021, the Fund and the Partnership entered into a waiver and extension agreement with the Lender and SIR, acknowledging, among other things:
- receipt of a copy of the Seventh Amending Agreement,
- the extension of the period of the deferral of interest on the SIR Loan to the Fund and royalties to the Partnership from March 31, 2021 to July 6, 2021, and
- the waiver of any and all existing breaches of covenants and events of default under the various agreements between SIR, the Fund, and the Partnership until July 6, 2021.

In order to provide SIR with financial support, including SIR securing necessary waivers and extension from the Lender, SIR gaining access to additional needed debt facilities, along with the additional consideration of the $1,000,000 Anticipated Fund Distribution, the Partnership deferred the collection of restaurant royalties and the Fund deferred the collection of interest on the SIR Loan from SIR until July 6, 2021. Failure to obtain the waiver extensions from the Lender would have materially and adversely affected SIR, the Fund and the Partnership. The long-term viability of SIR is in the best interests of the Fund and the Partnership.

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.