SIR Corp.

Condensed Interim Consolidated
Financial Statements
(Unaudited)
For the 12-week period ended
November 21, 2021
(in thousands of Canadian dollars)

SIR Corp.

Condensed Interim Consolidated Statements of Financial Position
(Unaudited)

(in thousands of Canadian dollars)

	November 21, 2021 $ (Note 1)	August 29, 2021 $ (Note 1)
Assets		
Current assets		
Cash	2,267	9,606
Trade and other receivables (note 7(c))	8,690	8,410
Inventories	2,584	2,531
Prepaid expenses, deposits and other assets	1,694	992
Current portion of loans and advances	314	284
	15,549	21,823
Non-current assets		
Right-of-use assets – net (note 5)	79,439	82,561
Property and equipment	25,961	26,696
Goodwill and intangible assets	4,843	4,819
	125,792	135,899
Liabilities		
Current liabilities		
Trade and other payables (note 7(a))	21,926	25,009
Current portion of long-term debt (note 6)	29,392	30,437
Current portion of lease obligation (note 5)	19,522	21,536
Current portion of loan payable to SIR Royalty Income Fund (note 7(a))	36,010	35,997
Current portion of Ordinary LP Units and Class A LP Units of the Partnership (note 7(b))	9,307	6,572
Current portion of provisions and other long-term liabilities	4,219	4,292
	120,376	123,843
Non-current liabilities		
Long-term portion of lease obligation (note 5)	77,426	80,442
Provisions and other long-term liabilities	1,139	1,150
Ordinary LP Units and Class A LP Units of the Partnership (note 7(b))	100,702	53,526
	299,643	258,961
Shareholders' Deficiency		
Capital stock	20,462	20,462
Contributed surplus	159	150
Deficit	(194,472)	(143,674)
	(173,851)	(123,062)
	125,792	135,899

Going concern (note 1)
Subsequent events (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 Loss
(Unaudited)

(in thousands of Canadian dollars)

	12-week period ended November 21, 2021 $	12-week period ended November 22, 2020 $
Corporate restaurant operations		
Food and beverage revenue (note 4)	45,633	28,764
Gift card revenue	53	11
	45,686	28,775
Costs of corporate restaurant operations	40,148	29,429
Earnings (loss) from corporate restaurant operations	5,538	(654)
Corporate costs	2,796	670
Earnings (loss) before interest and income taxes	2,742	(1,324)
Interest expense	372	399
Interest on loan payable to SIR Royalty Income Fund (note 7(a))	727	704
Interest (income) and other expenses (income) - net	(76)	1,845
Interest on lease obligation (note 5)	1,208	1,377
Change in amortized cost of Ordinary LP Units and Class A LP Units of the Partnership (note 7(b))	51,309	-
Loss before income taxes	(50,798)	(5,649)
Recovery of income taxes	-	-
Net loss and comprehensive loss for the period	(50,798)	(5,649)

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

SIR Corp.

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

(in thousands of Canadian dollars)

	12-week period ended November 21, 2021			
	Capital stock $	Contributed surplus $	Deficit $	Total $
Balance – Beginning of period	20,462	150	(143,674)	(123,062)
Stock-based compensation	-	9	-	9
Net loss for the period	-	-	(50,798)	(50,798)
Balance - End of period	20,462	159	(194,472)	(173,851)

	12-week period ended November 22, 2020			
	Capital stock $	Contributed surplus $	Deficit $	Total $
Balance - Beginning of period	20,453	108	(81,886)	(61,325)
Stock-based compensation	-	12	-	12
Net loss for the period	-	-	(5,649)	(5,649)
Balance - End of period	20,453	120	(87,535)	(66,962)

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

SIR Corp.

Condensed Interim Consolidated Statements of Cash Flows
(Unaudited)

	12-week period ended	
	November 21, 2021 $	November 22, 2020 $
Cash provided by (used in)		
Operating activities		
Net loss for the period	(50,798)	(5,649)
Items not affecting cash		
Change in amortized cost of Ordinary LP Units and Class A LP Units of the Partnership (note 7(b))	51,309	-
Depreciation and amortization	4,614	5,825
Stock-based compensation	9	12
Provision for impairment of loans and advances	-	1,662
Interest expense on long-term debt and SIR Loan	1,099	1,103
Other items affecting interest	(20)	-
Interest on lease obligations	1,208	1,377
Non-cash interest income	(2)	(10)
Loss on disposal of property and equipment (note 5)	20	8
Other	(70)	(93)
Supplier and other rebates (paid) received	-	80
Distributions paid to Ordinary LP and Class A LP unitholders (note 7(b))	(1,398)	-
Net change in working capital items (note 8)	(3,118)	999
Cash provided by operating activities	2,853	5,314
Investing activities		
Purchase of property and equipment	(671)	(244)
Purchase of intangible and other assets	(103)	(36)
(Issuance) collection of loans and advances	(27)	-
Cash used in investing activities	(801)	(280)
Financing activities		
Net reduction in bank indebtedness	-	(3,711)
Proceeds from issuance of long-term debt	-	7,500
Principal repayment of long-term debt	(1,037)	(2,787)
Payment of lease obligations	(5,857)	(4,442)
Financing fees paid	(9)	-
Interest paid	(2,488)	(443)
Cash used in financing activities	(9,391)	(3,883)
(Decrease) increase in cash during the period	(7,339)	1,151
Cash - Beginning of period	9,606	1,617
Cash - End of period	2,267	2,768

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 had resulted in a severe drop in in-restaurant dining which significantly impacted the results of the Company for its 52-week year ended August 29, 2021. The implementation of vaccine certificates/passports during the 12-week period ended November 21, 2021, enabled the resumption of in-restaurant dining (without pause), with minimal operating and/or capacity restrictions.

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 $49,643,000 consisting of a $20,000,000 revolving term credit facility (Credit Facility 1), a $17,143,000 revolving term loan (Credit Facility 2), a $6,250,000 guaranteed facility with Economic Development Canada ("EDC") through the guaranteed Business Credit Availability Program ("BCAP") (EDC-Guaranteed Facility) and a $6,250,000 Business Development Bank of Canada ("BDC") guaranteed Highly Affected Sectors Credit Availability Program ("HASCAP") facility (the "BDC-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 on July 6, 2022 (the "Maturity Date"). The Company also has a number of leases comprised of restaurant properties, head office, and warehouse space. In light of previous restaurant closures, the risk of future government mandated shutdowns and ongoing capacity restrictions, as a result of the pandemic, the Company continues to work with its landlords to ensure it meets its obligations under its lease agreements. As at November 21, 2021, the Company was still deferring (however, negotiating payment arrangements on deferred amounts) certain lease payments while remaining current on recent lease obligations 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 pandemic and the risk surrounding potential future government mandated shutdowns and/or capacity restrictions due to new variants of the COVID-19 virus such as Omicron and Delta, the Company's ability to continue as a going concern for the next 12 to 18 months involves significant judgement. Management continues to address its financial requirements and the details of certain financial and non-financial covenants within the Credit Agreement with the Lender. Effective May 31, 2021, the Company and its Lender entered into an eighth amending agreement to its Credit Agreement which, among other things, extended the maturity date of the credit facilities as well as certain waivers from July 6, 2021 to July 6, 2022. There can be no assurance that borrowings will be available to the Company, or available on acceptable terms, in the future, 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:

- SIR's ability to remain operating at full operating capacity in the near future,
- Canadian economic conditions affecting bars and restaurants that are able to fully 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,
- SIR's eligibility for continued government assistance, including the now superseded Canada Emergency Wage Subsidy ("CEWS") and the Canada Emergency Rent Subsidy ("CERS") and the newly proposed and extended Canada Recovery Hiring Program ("CRHP") and the additional stream of the support, the Tourism and Hospitality Recovery Program ("THRP"). For the 12-week period ended November 21, 2021, SIR recognized government assistance through the CEWS and CRHP program of $2,023,000 (November 22, 2020 – the CEWS program of $6,727,000) and the CERS program of $33,000 (November 22, 2020 - nil). Of these amounts, $2,022,000 (November 22, 2020 - $6,241,000), was recognized as a reduction to costs of corporate restaurant operations and $34,000 (November 22, 2020 - $486,000), was recognized as a reduction to corporate costs.
- business interruption insurance coverage,
- SIR's ability (if necessary) 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 may 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.

Coronavirus (COVID-19) pandemic

The hospitality industry has faced significant challenges related to operating restrictions imposed by federal, provincial and municipal governments in response to the pandemic since March 2020. All levels of government in Canada, in all provinces that the Company operates its restaurants, have mandated patrons to show proof of full vaccination (vaccine certificate or passport) along with identification to dine indoors at restaurants which has enabled restaurants to reopen with limited operating restrictions. As the recovery from the pandemic slowly progresses, there is still significant uncertainty with regards to the risk of future government mandated shutdowns and/or increased capacity limitations due to the emergence of new COVID-19 variants (Delta and Omicron) and increasing infection rates. These factors may impact SIR's ability to renew its Credit Agreement, which, expires in less than 12 months.

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 21, 2021, the Company owned a total of 51 (August 29, 2021 - 51) 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®), Scaddabush Italian Kitchen & Bar® (Scaddabush) and Canyon Creek Chop House® (Canyon Creek®), and the Signature restaurants are Reds® Wine Tavern, , Reds® Square One, and Loose Moose Tap & Grill®. The Company also owns one Dukes Refresher® & Bar (Duke's Refresher) location 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 7(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 7(a)) and, indirectly, through SIR Holdings Trust (the Trust), all of the Ordinary LP Units of SIR Royalty Limited Partnership (the Partnership) (note 7(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 unaudited condensed interim consolidated financial statements were approved for issuance by the Board of Directors on December 23, 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 2022 and 2021 consist of 52 weeks.

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 29, 2021 and August 30, 2020, 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 29, 2021 and August 30, 2020. Changes to the Company's accounting policies from those disclosed in its consolidated financial statements for the years ended August 29, 2021 and August 30, 2020 are 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.

IFRS 16, Leases (IFRS 16)

This standard has been amended to provide lessees with an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification. This amendment is effective for annual periods beginning on or after June 1, 2020. The Company has received certain rent concessions related to COVID-19 and has applied the amendment which resulted in no lease modifications.

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

b) Recently issued accounting pronouncements

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 depending on the rights that exist at the end of the reporting period. 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.

IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors

In February 2021, the IASB issued amendments to IAS 8 to introduce a new definition of accounting estimates to clarify the distinction between changes in accounting policies and changes in accounting estimates and the correction of errors. This amendment is effective for annual periods beginning on or after January 1, 2023. The Company has not yet assessed the impact of the amendment on the consolidated financial statements.

IAS 12, Deferred Tax related to Assets and Liabilities arising from a Single Transaction.

In May 2021, the IASB issued amendments to IAS 12 that require an entity to recognize deferred tax on certain transactions such as leases and decommissioning obligations that give rise to equal amounts of taxable and deductible temporary differences on initial recognition. This amendment is effective for annual periods beginning on or after January 1, 2023. The Company has not yet assessed the impact of the amendment on the consolidated financial statements.

4 Disaggregated revenue

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:

	12-week period ended November 21, 2021 $	12-week period ended November 22, 2020 $
Jack Astor's	33,750	21,967
Scaddabush	8,826	5,515
Canyon Creek	425	117
Signature Restaurants	2,632	1,165
	45,633	28,764

5 Right-of-use assets and lease obligations

Leases are included as follows in the consolidated balance sheet as at November 21, 2021:

	Property $	Equipment $	Total $
	(in thousands of dollars)		
At August 30, 2020	96,225	1,479	97,704
52-week period ended August 29, 2021			
Additions	4,866	67	4,933
Termination of leases	(6,952)	(21)	(6,973)
Amortization	(12,601)	(502)	(13,103)
At August 29, 2021	81,538	1,023	82,561
12-week period ended November 21, 2021			
Termination of leases	(280)	-	(280)
Amortization	(2,722)	(120)	(2,842)
Right-of-use assets – net at November 21, 2021	78,536	903	79,439

For the 12-week period ended November 21, 2021, the lease obligation transactions were as follows:

	$ (in thousands of dollars)
At August 29, 2021	101,978
Adjustments for lease abatements	(101)
Termination of leases	(280)
Repayments	(5,857)
Interest	1,208
As at November 21, 2021	96,948
Less: current portion of lease obligations	(19,522)
Long-term portion of lease obligations	77,426

Interest expense on lease obligations for the 12-week period ended November 21, 2021 was $1,208,000 (12-week period ended November 22, 2020 - $1,377,000). Total cash outflow for the 12-week period ended November 21, 2021 for leases was $5,857,000 (12-week period ended November 22, 2020 - $4,442,000) which includes $4,652,000 of principal payments and $1,208,000 of interest on lease obligations (12-week period ended November 22, 2020 - $3,065,000 and $1,377,000). As a result of the the pandemic, the Company was offered certain rent abatements from landlords of $101,000 (August 29, 2021 - $861,000) during the 12-week period ended November 21, 2021. Abatements were recorded in Interest (income) and other expenses (income) - net.

Expenses for leases of low-dollar value items are not significant. All extension options have been included in the measurement of lease obligations where it is reasonably certain the option will be taken.

6 Bank indebtedness and long-term debt

The Company has a 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, December 21, 2020, March 31, 2021 and May 31, 2021 provides for a maximum principal amount of $49,643,000, consisting of a $20,000,000 revolving term credit facility (Credit Facility 1), and a $17,143,000 revolving term loan (Credit Facility 2), a $6,250,000 guaranteed facility with Export Development Canada (“EDC”) through the guaranteed Business Credit Availability Program (“BCAP”) (EDC-Guaranteed Facility) and a $6,250,000 Business Development Bank of Canada (“BDC”) guaranteed Highly Affected Sectors Credit Availability Program (“HASCAP”) facility (the “BDC-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, 2022. 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 July 6, 2022.

As at November 21, 2021, the Company has drawn $17,144,000 on Credit Facility 1 and Credit Facility 2, net of cash excluding the cash balance of the Partnership (August 29, 2021 - $9,877,000).

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 12-week period ended November 21, 2021, SIR has drawn $6,250,000 million on this facility.

The BDC-Guaranteed Facility bears interest at a fixed rate of 4%. The BDC-Guaranteed Facility is a 10 year revolving-term credit facility, with a one year principal payment moratorium and can be extended at the Lender's sole discretion by a further 12 months. For the 12-week period ended November 21, 2021, SIR has drawn $6,250,000 million on this facility.

The Credit Agreement contains certain financial and non-financial covenants. As part of the eighth amending agreement with the Lender, the two financial covenants in the Credit Agreement have been replaced by a minimum quarterly EBITDA amount and the Credit Agreement has been extended to July 6, 2022. As at November 21, 2021, the Company was in compliance with these amended covenants. As a result of the Credit Agreement being due within the next 12 months on July 6, 2022, the carrying value of the credit facilities under the Credit Agreement were reclassified to current liabilities.

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 November 21, 2021, the Company would have been in breach of the covenants in the SIR Loan Agreement for which a waiver had been previously obtained. The waiver extends until July 6, 2022; however, there can be no certainty that the Company will not continue to be in breach of the covenants subsequent to July 6, 2022. As a result, the carrying value of the loan payable to the Fund was reclassified to current liabilities.

Interest expense charged to the condensed interim consolidated statements of operations and comprehensive loss for the 12-week period ended November 21, 2021 was $727,000 (12-week period ended November 22, 2020 - $704,000), which includes interest on the SIR Loan of $691,000 (12-week period ended November 22, 2020 - $692,000), amortization of financing fees of $13,000 (12-week period ended November 22, 2020 - $12,000) and other interest of $23,000 (12-week period ended November 22, 2020 - $nil). Interest payable on the SIR Loan as at November 21, 2021 was $2,586,000 (August 29, 2021 - $3,992,000) 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 November 21, 2021 were $3,990,000 (August 29, 2021 - $4,003,000).

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

	12-week period ended November 21, 2021 $	12-week period ended November 22, 2020 $
	(in thousands of dollars)	
Balance - Beginning of period	60,098	-
Change in amortized cost of the Ordinary LP Units and Class A LP Units of the Partnership	51,309	-
Distributions paid to Ordinary LP and Class A LP unitholders	(1,398)	-
Balance - End of period	110,009	-
Less: Current portion of Ordinary LP Units and Class A LP Units of the Partnership	(9,307)	-
Ordinary LP Units and Class A LP Units of the Partnership	100,702	-
The following is a summary of the results of operations of the Partnership:		
Pooled Revenue*	45,100	27,736
Partnership royalty income*	2,706	1,664
Other income	8	6
Partnership expenses	(89)	(54)
Net earnings of the Partnership	2,625	1,616
The Company's interest in the earnings of the Partnership	(1,155)	(948)
Fund's interest in the earnings of the Partnership	1,470	668

*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 loss.

During the 12-week period ended November 21, 2021, distributions of $1,470,000 (12-week period ended November 22, 2020 - $668,000) were declared to the Fund through the Partnership. Distributions paid during the 12-week period ended November 21, 2021 were $1,398,000 (12-week period ended November 22, 2020 - $nil). 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 November 21, 2021 were $4,149,000 (August 29, 2021 - $4,064,000).

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, 2020, 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 with a $nil impact to the SIR Rights as the Class A and B GP Units have a $nil value (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 November 21, 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 29, 2021 – 19.05%). 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 November 21, 2021 were $2,903,000 (August 29, 2021 - $2,295,000). Advances receivable are non-interest bearing and due on demand. Advances receivable are recorded in trade and other receivables.

The royalty payments on current sales to the Partnership and interest on the SIR Loan to the Fund have resumed effective July 7, 2021. In accordance with the amended Credit Agreement, the collection of previously deferred royalties and interest continue to be deferred until July 6, 2022 and will be collected by both the Partnership and the Fund over 10 equal monthly installments, in order to provide the Company with financial support.

The Company was entitled to begin repaying the deferred royalty payments to the Partnership and interest on the SIR Loan to the Fund on August 15, 2021 per the conditions stipulated in the amended Credit Agreement. Effective September 15, 2021, the Company began the monthly installments of $530,000 and $350,000, respectively.

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 12-week period ended November 21, 2021, the Partnership provided these services to the Fund and the Trust for consideration of $8,000 (12-week period ended November 22, 2020 - $6,000), which was the amount of consideration agreed to by the related parties.

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 November 21, 2021 $	12-week period ended November 22, 2020 $
	(in thousands of dollars)	
Trade and other receivables	(281)	3,296
Inventories	(53)	(5)
Prepaid expenses, deposits and other assets	(688)	(505)
Trade and other payables	(1,985)	(3,021)
Provisions and other long-term liabilities	(111)	1,234
	(3,118)	999

9 Subsequent events

Subsequent to November 21, 2021, the emergence of new COVID-19 variants (Delta and Omicron) and as a result, increasing infection rates, new operating restrictions have been introduced in all provinces where SIR operates its restaurants. These restrictions are expected to continue up to January 2022 (at a minimum).

Effective December 17, 2021, the province of Nova Scotia, where SIR operates two restaurants, implemented: i) 50% capacity limits for bars and restaurants, ii) restaurants will be required to close at 11 p.m., iii) physical distancing between tables (two metres), iv) a maximum table capacity of 10 patrons, and v) patrons must be seated to remove their mask for eating and/or drinking; all other mask requirements for indoor public places remain.

Effective December 19, 2021, the province of Ontario, where SIR operates 44 restaurants, implemented: i) 50% capacity limits for bars and restaurants, ii) restaurants will be required to close at 11 p.m. and the sale of alcohol will be restricted after 10 p.m., iii) a maximum table capacity of 10 patrons, and iv) guests must remain seated at all times.

Effective December 20, 2021, the province of Quebec, where SIR operates four restaurants, implemented: i) 50% capacity limits for restaurants, ii) restaurants will be required to close at 10 p.m., iii) physical distancing between tables (one metre) if there are no partitions between them, and iv) maximum table capacity of 6 patrons.

Effective December 20, 2021, the province of Newfoundland, where SIR operates one restaurant, implemented 50% capacity limits for bars and restaurants, with physical distancing measures in effect.

Subsequent to November 21, 2021, on December 17, 2021, Bill C-2 was enacted and approved, among other things, the THRP and extension of the CRHP. SIR will recognize additional government assistance through the extended CRHP of $573,000 (increase in the subsidy rate from 20% to 50% of eligible expenditures) as at December 17, 2021.