SIR Corp.

Condensed Interim Consolidated
Financial Statements
(Unaudited)
For the 12-week and 24-week periods
ended February 13, 2022
(in thousands of Canadian dollars)

SIR Corp.

Condensed Interim Consolidated Statements of Financial Position
(Unaudited)

(in thousands of Canadian dollars)

	February 13, 2022 $ (Note 1)	August 29, 2021 $ (Note 1)
Assets		
Current assets		
Cash	1,699	9,606
Trade and other receivables (note 7(c))	14,613	8,410
Inventories	2,656	2,531
Prepaid expenses, deposits and other assets	2,177	992
Current portion of loans and advances	154	284
	21,299	21,823
Non-current assets		
Loans and advances	158	-
Right-of-use assets – net (note 5)	76,571	82,561
Property and equipment	25,270	26,696
Goodwill and intangible assets	4,923	4,819
	128,221	135,899
Liabilities		
Current liabilities		
Bank indebtedness (note 6)	13,543	-
Trade and other payables (note 7(a))	16,520	25,009
Current portion of long-term debt (note 6)	28,419	30,437
Current portion of lease obligation (note 5)	18,335	21,536
Current portion of loan payable to SIR Royalty Income Fund (note 7(a))	36,023	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	4,687	4,292
	126,834	123,843
Non-current liabilities		
Long-term portion of lease obligation (note 5)	74,782	80,442
Provisions and other long-term liabilities	1,027	1,150
Ordinary LP Units and Class A LP Units of the Partnership (note 7(b))	97,795	53,526
	300,438	258,961
Shareholders' Deficiency		
Capital stock	20,462	20,462
Contributed surplus	166	150
Deficit	(192,845)	(143,674)
	(172,217)	(123,062)
	128,221	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 Income (Loss) (Unaudited)

(in thousands of Canadian dollars)

	12-week period ended		24-week period ended	
	February 13, 2022 $	February 14, 2021 $	February 13, 2022 $	February 14, 2021 $
Corporate restaurant operations				
Food and beverage revenue (note 4)	31,590	12,820	77,223	41,584
Gift card revenue	66	46	119	57
	31,656	12,866	77,342	41,641
Costs of corporate restaurant operations	25,891	16,393	66,039	45,822
Earnings (loss) from corporate restaurant operations	5,765	(3,527)	11,303	(4,181)
Corporate costs	2,288	1,706	5,084	2,376
Earnings (loss) before interest and income taxes	3,477	(5,233)	6,219	(6,557)
Interest expense	499	507	871	906
Interest on loan payable to SIR Royalty Income Fund (note 7(a))	684	693	1,411	1,397
Interest income and other income – net (note 5)	(13)	(10,286)	(89)	(8,441)
Interest on lease obligation (note 5)	1,172	1,336	2,380	2,713
Change in amortized cost of Ordinary LP Units and Class A LP Units of the Partnership (note 7(b))	(492)	10,905	50,817	10,905
Earnings (loss) before income taxes	1,627	(8,388)	(49,171)	(14,037)
Provision for income taxes	-	6	-	6
Net earnings (loss) and comprehensive income (loss) for the period	1,627	(8,394)	(49,171)	(14,043)

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)

	24-week period ended February 13, 2022			
	Capital stock $	Contributed surplus $	Deficit $	Total $
Balance – Beginning of period	20,462	150	(143,674)	(123,062)
Stock-based compensation	-	16	-	16
Net loss for the period	-	-	(49,171)	(49,171)
Balance - End of period	20,462	166	(192,845)	(172,217)

	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	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)

The accompanying notes are an integral part of these condensed interim 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 13, 2022 $	February 14, 2021 $	February 13, 2022 $	February 14, 2021 $
Cash provided by (used in)				
Operating activities				
Net earnings (loss) for the period	1,627	(8,394)	(49,171)	(14,043)
Items not affecting cash				
Change in amortized cost of Ordinary LP Units and Class A LP Units of the Partnership (note 7(b))	(492)	10,905	50,817	10,905
Amortization of deferred financing fees	91	-	110	-
Depreciation and amortization	4,622	4,629	9,236	10,454
Stock based compensation	7	12	16	24
Income tax expense	-	6	-	6
Provision for impairment of loans and advances	-	111	-	1,773
Impairment of non-financial assets	-	488	-	488
Interest expense on long-term debt and SIR Loan	1,183	1,200	2,282	2,303
Other items affecting interest	20	-	-	-
Interest on lease obligations (note 5)	1,172	1,336	2,380	2,713
Non-cash interest (loss) income	(3)	12	(5)	2
Loss on disposal of property and equipment	2	27	22	35
Other	47	(161)	(23)	(254)
Supplier and other rebates (paid) received	(140)	58	(140)	138
Distributions paid to Ordinary LP and Class A LP unitholders (note 7(b))	(2,415)	-	(3,813)	-
Net change in working capital items (note 8)	(10,462)	(9,702)	(13,580)	(8,703)
Cash (used in) provided by operating activities	(4,741)	527	(1,869)	5,841
Investing activities				
Purchase of property and equipment and other assets - net	(1,199)	(303)	(1,973)	(583)
Advances to shareholder	(10)	-	(58)	-
Collection of loans and advances	13	161	34	161
Cash used in investing activities	(1,196)	(142)	(1,997)	(422)
Financing activities				
Increase (decrease) in bank indebtedness	13,543	-	13,543	(3,711)
Proceeds from issuance of long-term debt	-	6,500	-	14,000
Principal repayment of long-term debt	(1,037)	(446)	(2,074)	(3,233)
Payment of lease obligations (note 5)	(5,104)	(3,288)	(10,961)	(7,730)
Interest paid	(2,006)	(493)	(4,494)	(936)
Exercise of stock options	-	8	-	8
Financing Fees	(28)	(49)	(55)	(49)
Cash provided by (used in) financing activities	5,368	2,232	(4,041)	(1,651)
(Decrease) increase in cash and cash equivalents during the period	(569)	2,617	(7,907)	3,768
Cash and cash equivalents - Beginning of period	2,268	2,768	9,606	1,617
Cash and cash equivalents - End of period	1,699	5,385	1,699	5,385

The accompanying notes are an integral part of these condensed interim 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 which significantly impacted the results of the Company for its 52-week year ended August 29, 2021 and 24-week period ended February 13, 2022. The implementation of vaccine certificates/passports in conjunction with the easing of operating restrictions, supported the recovery of SIR's revenue, compared to prior periods during the pandemic when there were greater operating restrictions and/or restaurant closures. However, during the third week of December 2021 heightened restrictions, followed by further indoor and patio dining closures, until mid-February 2022, slowed SIR's recovery impacting over half of the Company's locations.

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 $48,606,000 consisting of a $20,000,000 revolving term credit facility (Credit Facility 1), a $16,106,000 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 February 13, 2022, the Company was still deferring certain lease payments of $3,100,000 (August 29, 2021 - $4,159,000) while paying current lease obligations as they became due 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; however, the Company has resumed repayment on deferred amounts in accordance with landlord agreements over defined periods in the future.

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, 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:

- the speed at which SIR is able to return and remain 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 renewal of its Credit Agreement which expires on July 6, 2022,
- 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"), the Canada Emergency Rent Subsidy ("CERS"), the newly proposed and extended Canada Recovery Hiring Program ("CRHP") including the additional stream of the support via the Tourism and Hospitality Recovery Program ("THRP") and the COVID-19 Energy Assistance Program ("CEAP"). For the 12-week period ended February 13, 2022, SIR recognized government assistance through the combination of the CEWS and/or CRHP/THRP programs of $5,805,000 (February 14, 2021 - the CEWS program of $4,012,000), the CERS program of $2,272,000 (February 14, 2021 - $1,688,000) and other subsidies of $233,000 (February 14, 2021 - $287,000). Of these amounts, $7,631,000 (February 14, 2021 - $3,705,000) was recognized as a reduction to costs of corporate restaurant operations and $445,000 (February 14, 2021 - $2,283,000) was recognized as a reduction to corporate costs,
- 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.

The potential for future reduced services and/or restaurant closures will continue to create risk of material declines to sales at SIR restaurants. These circumstances indicate the existence of a material uncertainty that may cast doubt on the Fund'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, mandated patrons to show proof of full vaccination (vaccine certificate or passport) along with identification to dine indoors at restaurants. Vaccination certificate mandates enabled restaurants to reopen with limited operating restrictions until the third week of December 2021 when heightened restrictions, followed by further indoor and patio dining closures, until mid-February 2022, were instituted again due to the emergence of the Omicron variant. 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 and increasing infection rates. These factors may impact SIR's ability to renew its Credit Agreement, which, expires in less than 12 months.

Ontario

Effective December 19, 2021, in response to the Omicron variant, the province of Ontario, where SIR operates 44 restaurants, implemented the following restrictions: i) 50% capacity limits for bars and restaurants, ii) restaurants required to close at 11 p.m. and the sale of alcohol restricted after 10 p.m., iii) maximum table capacity of 10 patrons, and iv) guests must remain seated at all times. Effective January 5, 2022, Ontario implemented heightened restrictions until January 31, 2022 including: i) closure of indoor dining at restaurants, bars and other food or drink establishments, ii) restriction on the sale of alcohol after 10 p.m., iii) outdoor dining with restrictions and iv) permission for takeout, drive-through and delivery. Effective January 31, 2022, Ontario began gradually easing these restrictions. As of January 31, 2022, restaurants, bars and other food and drink establishments, without dance facilities, were permitted to operate at 50% capacity (with vaccination certificates in place).

Quebec

Effective December 26, 2021, in response to the Omicron variant, the province of Quebec, where SIR operates four restaurants, implemented the following restrictions: i) indoor dining capacity restricted at 50% for restaurants and bars, ii) operations limited between the hours of 5 a.m. and 10 p.m. and iii) a maximum of six patrons per table. Effective December 31, 2021, new restrictions were announced with closures of indoor dining spaces and bars, except for takeout and delivery, and a curfew until January 17, 2022. Effective January 31, 2022, Quebec allowed restaurants to reopen at 50% capacity with tables of up to four people. Alcohol service was restricted until 11 p.m. and restaurants were required to close by midnight.

Nova Scotia

Effective December 26, 2021, in response to the Omicron variant, the province of Quebec, where SIR operates four restaurants, implemented the following restrictions: i) indoor dining capacity restricted at 50% for restaurants and bars, ii) operations limited between the hours of 5 a.m. and 10 p.m. and iii) a maximum of six patrons per table. Effective December 31, 2021, new restrictions were announced with closures of indoor dining spaces and bars, except for takeout and delivery, and a curfew until January 17, 2022. Effective January 31, 2022, Quebec allowed restaurants to reopen at 50% capacity with tables of up to four people. Alcohol service was restricted until 11 p.m. and restaurants were required to close by midnight.

Newfoundland

Effective December 20, 2021, in response to the Omicron variant, the province of Newfoundland, where SIR operates one restaurant, implemented 50% capacity limits for bars and restaurants with physical distancing measures remaining in effect. Effective January 4, 2022, Newfoundland implemented a maximum guest capacity of six people per table. Effective February 7, 2022, Newfoundland moved to an Alert Level 3 which increased table sizes to 10 people from the previous six for restaurants. Bars were allowed to operate at 50% capacity. Masking and physical distancing remained in effect.

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 February 13, 2022, the Company owned a total of 50 (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. These condensed interim consolidated financial statements were approved for issuance by the Board of Directors on March 30, 2022.

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 February 13, 2022 $	12-week period ended February 14, 2021 $	24-week period ended February 13, 2022 $	24-week ended February 14, 2021 $
	(in thousands of dollars)			
Jack Astor's	22,885	10,057	56,636	32,024
Scaddabush	6,472	2,638	15,297	8,153
Canyon Creek	327	-	752	117
Signature Restaurants	1,906	125	4,538	1,290
	31,590	12,820	77,223	41,584

5 Right-of-use assets and lease obligations

Right-of-use assets are included as follows in the consolidated balance sheet as at February 13, 2022:

	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
24-week period ended February 13, 2022			
Termination of leases	(280)	-	(280)
Amortization	(5,463)	(239)	(5,710)
Right-of-use assets – net at February 13, 2022	75,795	784	76,571

For the 24-week period ended February 13, 2022, the lease obligation transactions were as follows:

	$ (in thousands of dollars)
At August 29, 2021	101,978
Disposals	(280)
Repayments	(10,961)
Interest	2,380
As at February 13, 2022	93,117
Less: current portion of lease obligations	(18,335)
Long-term portion of lease obligations	74,782

Interest expense on lease obligations for the 12-week and 24-week periods ended February 13, 2022 was $1,172,000 and $2,380,000, respectively (12-week and 24-week periods ended February 14, 2021 - $1,336,000 and $2,713,000, respectively). Total cash outflow for the 12-week period ended February 13, 2022 for leases was $5,104,000 (12-week period ended February 14, 2021 - $3,288,000) which includes $3,932,000 of principal payments and $1,172,000 of interest on lease obligations (12-week period ended February 14, 2021 - $1,952,000 of principal repayments and $1,336,000 of interest on lease obligations). Total cash outflow for the 24-week period ended February 13, 2022 for leases was $10,961,000 which includes $8,581,000 of principal repayments and $2,380,000 of interest on lease obligations (24-week period ended February 14, 2021 for leases was $7,730,000 which includes $5,017,000 of principal repayments and $2,713,000 of interest on lease obligations). As a result of the the pandemic, the Company was offered certain rent abatements (repayments) from landlords of $20,000 and $121,000 for the 12-week and 24-week periods ended February 13, 2022 (12-week and 24-week periods ended February 14, 2021 - $65,000 and ($76,000), respectively). 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 $48,606,000 consisting of a $20,000,000 revolving term credit facility (Credit Facility 1), a $16,106,000 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 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.

During the 12-week period ended February 13, 2022, the Company drew $13,543,000 on Credit Facility 1. As at February 13, 2022, the Company has drawn $28,608,000 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 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 13, 2022, SIR has drawn $6,250,000 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 24-week period ended February 13, 2022, SIR has drawn $6,250,000 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 February 13, 2022, 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 any 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 Februrary 13, 2022, 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 and 24-week periods ended February 13, 2022 was $684,000 and $1,411,000, respectively (12-week and 24-week periods ended February 14, 2021 - $693,000 and $1,397,000, respectively), which includes interest on the SIR Loan of $680,000 and $1,371,000, respectively (12-week and 24-week periods ended February 14, 2021 - $686,000 and $1,369,000, respectively), amortization of financing fees of $13,000 and $26,000, respectively (12-week and 24-week periods ended February 14, 2021 - $12,000 and $24,000, respectively) and other interest of $50,000 and $112,000 (12-week and 24-week periods ended February 14, 2021 - $nil and $nil, respectively). Interest payable on the SIR Loan as at February 13, 2022 was $1,771,000 (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 February 13, 2022 were $3,977,000 (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		24-week period ended	
	February 13, 2022 $	February 14, 2021 $	February 13, 2022 $	February 14, 2021 $
	(in thousands of dollars)			
Balance - Beginning of period	60,098	-	60,098	-
Change in amortized cost of the Ordinary LP Units and Class A LP Units of the Partnership	(492)	10,905	50,817	10,905
Distributions paid to Ordinary LP and Class A LP unitholders	(2,415)		(3,813)	-
Balance - End of period	57,191	10,905	107,102	10,905
Less: Current portion of Ordinary LP Units and Class A LP Units of the Partnership	(9,307)	-	(9,307)	-
Ordinary LP Units and Class A LP Units of the Partnership	47,884	10,905	97,795	10,905

The following is a summary of the results of operations of the Partnership:

	12-week period ended		24-week period ended	
	February 13, 2022 $	February 14, 2021 $	February 13, 2022 $	February 14, 2021 $
	(in thousands of dollars)			
Pooled Revenue*	31,200	12,417	76,300	40,153
Partnership royalty income*	1,872	735	4,578	2,399
Other income	5	5	13	11
Partnership expenses (income)	132	(25)	43	(79)
Net earnings of the Partnership	2,009	715	4,634	2,331
The Company's interest in the earnings of the Partnership	(1,106)	(506)	(2,261)	(1,454)
Fund's interest in the earnings of the Partnership	903	209	2,373	877

*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 and 24-week periods ended February 13, 2022, distributions of $903,000 and $2,373,000 (12-week and 24-week periods ended February 14, 2021 - $nil) were declared to the Fund through the Partnership. Distributions paid during the 12-week and 24-week periods ended February 13, 2022 were $2,415,000 and $3,813,000, respectively (12-week and 24-week periods ended February 14, 2021 - $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 February 13, 2022 were $2,637,000 (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, 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, 2022, no new SIR restaurants were added (January 1, 2021 – one new SIR Restaurant was added) to Royalty Pooled Restaurants in accordance with the Partenrship Agreement. There was a Second Incremental Adjustment done for one new SIR restaurant added to the Royalty Pooled Restaurants on January 1, 2021 (January 1, 2020 – one). As consideration for this adjustment, SIR converted its Class B GP units into Class A GP units based on the formula defined in the Partenrship Agreement. In addition, there was a reconversion of Class A GP units into Class B GP units for the permanent closure of five (January 1, 2021 – one) SIR restaurants during Fiscal 2021. The net effect of these adjustments to the Royalty Pooled Restaurants was that SIR returned 679,934 Class A GP units for 679,934 Class B GP units (January 1, 2021 – SIR converted 153,201 Class B GP units into 153,201 Class A GP units) on January 1, 2022 resulting in a $nil impact to the SIR Rights value as the Class A and B GP units have a $nil value (January 1, 2021 - $nil).

In addition, the revenues of the one (January 1, 2020 – one) new SIR Restaurant added to the Royalty Pooled Restaurants on January 1, 2021 were greater than 80% of the Initial Adjustment's estimated revenue (January 1, 2020 – revenue of one SIR Restaurant was less than 80% of the Initial Adjustment's estimated revenue) and, as a result, a special conversion distribution of $71,780 was declared on the Class B GP units in December 2021 and paid in January 2022 (distributions of Class A GP units were reduced by a special conversion refund of $8,858 in December 2020 and paid in January 2021).

As at February 13, 2022, after the net effect of the adjustments to Royalty Pooled Restaurants on January 1, 2022, the Company's residual interest in the Partnership is 13.36% (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 February 13, 2022 were $1,959,000 (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 continued 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 and 24-week periods ended February 13, 2022, the Partnership provided these services to the Fund and the Trust for consideration of $5,000 and $13,000 (12-week and 24-week periods ended February 14, 2021 - $5,000 and $11,000), 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		24-week period ended	
	February 13, 2022 $	February 14, 2021 $	February 13, 2022 $	February 14, 2021 $
	(in thousands of dollars)			
Trade and other receivables	(5,922)	(4,912)	(6,203)	(1,616)
Inventories	(72)	195	(125)	190
Prepaid expenses, deposits and other assets	(471)	(84)	(1,159)	(589)
Trade and other payables	1,947	(4,569)	(38)	(7,590)
Provisions and other long-term liabilities	(5,944)	(332)	(6,055)	902
	(10,462)	(9,702)	(13,580)	(8,703)

9 Subsequent events

Ontario

Effective February 17, 2022, in the province of Ontario, restaurants, bars and other food and drink establishments, without dance facilities, were allowed to operate at full capacity (vaccination certificates to remain in effect). Effective March 1, 2022, the government of Ontario lifted capacity limits at all indoor public settings and vaccination certificate requirements. Mask mandates were lifted on March 21, 2022.

Quebec

Effective February 28, 2022, in the province of Quebec, bars were allowed to operate at 50% capacity with last call for alcohol at midnight and a closing time of 1 a.m. Effective March 12, 2022, restaurants and bars are allowed to operate at full capacity and vaccination requirements have been lifted. Masking will remain in place until mid-April 2022.

Nova Scotia

Effective February 14, 2022, the province of Nova Scotia, allowed restaurants and bars to operate at 75% capacity with public health measures like social distancing and masking remaining in place. Restaurants and bars are required to close by 1 a.m. Takeout, delivery and drive-thru are allowed beyond 1 a.m. Effective February 28, 2022, the province lifted its vaccination requirements with all other measures remaining in place for restaurants and bars. Effective March 21, 2022, all COVID-19 related restrictions were lifted.

Newfoundland

Effective February 14, 2022, the province of Newfoundland decided to end the use of the Alert Level systems. Effective March 14, 2022, the province lifted all COVID-19 related restrictions and measures.