SIR Corp.

Condensed Interim Consolidated
Financial Statements
(Unaudited)
For the 12-week and 36-week periods
ended May 8, 2022
(in thousands of Canadian dollars)

SIR Corp.

Condensed Interim Consolidated Statements of Financial Position
(Unaudited)

(in thousands of Canadian dollars)

	May 9, 2021 $ (Note 1)	August 29, 2021 $ (Note 1)
Assets		
Current assets		
Cash	3,104	9,606
Trade and other receivables (note 7(c))	13,364	8,410
Inventories	2,970	2,531
Prepaid expenses, deposits and other assets	2,606	992
Loans and advances	288	284
	22,332	21,823
Non-current assets		
Right-of-use assets – net (note 5)	73,639	82,561
Property and equipment	24,378	26,696
Goodwill and intangible assets	4,956	4,819
	125,305	135,899
Liabilities		
Current liabilities		
Bank indebtedness (note 6)	1,818	-
Trade and other payables (note 7(a))	23,984	25,009
Current portion of long-term debt (note 6)	27,597	30,437
Current portion of lease obligation (note 5)	17,156	21,536
Current portion of loan payable to SIR Royalty Income Fund (note 7(a))	36,036	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	4,396	4,292
	120,294	123,843
Non-current liabilities		
Long-term portion of lease obligation (note 5)	71,925	80,442
Provisions and other long-term liabilities	961	1,150
Ordinary LP Units and Class A LP Units of the Partnership (note 7(b))	105,917	53,526
	299,097	258,961
Shareholders' Deficiency		
Capital stock	20,462	20,462
Contributed surplus	172	150
Deficit	(194,426)	(143,674)
	(173,792)	(123,062)
	125,305	135,899

Subsequent events (note 6)

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		36-week period ended	
	May 8, 2022 $	**May 9, 2021 $**	**May 8, 2022 $**	**May 9, 2021 $**
Corporate restaurant operations				
Food and beverage revenue (note 4)	56,531	16,260	133,754	57,844
Gift card revenue	68	41	187	98
	56,599	16,301	133,941	57,942
Costs of corporate restaurant operations	42,835	17,989	108,874	63,811
Earnings (loss) from corporate restaurant operations	13,764	(1,688)	25,067	(5,869)
Corporate costs	3,440	1,686	8,524	4,062
Earnings (loss) before interest and income taxes	10,324	(3,374)	16,543	(9,931)
Interest expense	570	437	1,441	1,343
Interest on loan payable to SIR Royalty Income Fund (note 7(a))	719	725	2,130	2,122
Interest expense (income) and other expense (income) – net (note 5)	80	(795)	(9)	(9,236)
Interest on lease obligation (note 5)	1,138	1,229	3,518	3,942
Change in amortized cost of Ordinary LP Units and Class A LP Units of the Partnership (note 7(b))	9,398	14,383	60,215	25,288
Loss before income taxes	(1,581)	(19,353)	(50,752)	(33,390)
Provision for income taxes	-	-	-	6
Net loss and comprehensive loss for the period	(1,581)	(19,353)	(50,752)	(33,396)

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)

	36-week period ended May 8, 2022			
	Capital stock $	Contributed Surplus $	Deficit $	Total $
Balance - Beginning of period	20,462	150	(143,674)	(123,062)
Stock-based compensation	-	22	-	22
Net loss for the period	-	-	(50,752)	(50,752)
Balance - End of period	20,462	172	(194,426)	(173,792)

	36-week ended May 9, 2021			
	Capital stock $	Contributed Surplus $	Deficit $	Total $
Balance - Beginning of period	20,453	108	(81,886)	(61,325)
Issuance on exercise of options	9	-	-	9
Stock-based compensation	-	33	-	33
Net loss for the period	-	-	(33,396)	(33,396)
Balance - End of period	20,462	141	(115,282)	(94,679)

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		36-week period ended	
	May 8, 2022 $	May 9, 2021 $	May 8, 2022 $	May 9, 2021 $
Cash provided by (used in)				
Operating activities				
Net loss for the period	(1,581)	(19,353)	(50,752)	(33,396)
Items not affecting cash				
Change in amortized cost of Ordinary LP Units and Class A LP Units of the Partnership (note 7(b))	9,398	14,383	60,215	25,288
Depreciation and amortization	4,669	5,664	13,905	16,118
Stock based compensation	6	17	22	41
Income tax expense	-	-	-	6
(Recovery of) provision for impairment of loans and advances	(880)	237	(880)	2,010
Impairment of non-financial assets	-	690	-	1,178
Interest expense on long-term debt and SIR Loan	1,289	1,162	3,571	3,465
Interest on lease obligations (note 5)	1,138	1,229	3,518	3,942
Non-cash interest loss	(2)	(2)	(7)	-
Amortization of deferred financing charges	111	-	221	-
Loss on disposal of property and equipment	12	11	34	46
Other	23	(65)	-	(319)
Supplier and other rebates (recognized) received	(70)	-	(210)	138
Distributions paid to Ordinary LP and Class A LP unitholders (note 7(b))	(1,276)	-	(5,089)	-
Income taxes paid	-	(6)	-	(6)
Net change in working capital items (note 8)	9,887	4,169	(3,693)	(4,534)
Cash provided by operating activities	22,724	8,136	20,855	13,977
Investing activities				
Purchase of property and equipment and other assets - net	(1,094)	(77)	(3,067)	(660)
Receipt from (advances to) shareholder	21	-	(37)	-
Repayment (issuance) of loans and advances	6	(4)	40	157
Cash used in investing activities	(1,067)	(81)	(3,064)	(503)
Financing activities				
(Decrease) increase in bank indebtedness	(11,725)	-	1,818	(3,711)
Proceeds from issuance of long-term debt	-	6,250	-	20,250
Principal repayment of long-term debt	(903)	(14,591)	(2,977)	(17,824)
Payment of lease obligations (note 5)	(5,176)	(4,033)	(16,137)	(11,763)
Interest paid	(2,418)	(455)	(6,912)	(1,391)
Exercise of stock options		-	-	8
Financing fees	(30)	(44)	(85)	(93)
Cash used in financing activities	(20,252)	(12,873)	(24,293)	(14,524)
Increase (decrease) in cash and cash equivalents during the period	1,405	(4,818)	(6,502)	(1,050)
Cash and cash equivalents - Beginning of period	1,699	5,385	9,606	1,617
Cash and cash equivalents - End of period	3,104	567	3,104	567

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

1 Coronavirus (COVID-19) pandemic

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. Since the onset of the COVID-19 pandemic in March 2020 through to mid-February 2022, restaurants and bars across Canada have experienced a series of government mandated operating capacity restrictions and/or full restaurant closures, followed by periods of easing restrictions and related reopenings and partial reopenings. The pandemic 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 the first two quarters of fiscal 2022. As of mid-March 2022, all operational restrictions have been lifted in the provinces where SIR continues to operate its restaurants, except for masking in the province of Quebec which was lifted in mid-May 2022. The implementation of vaccine certificates/passports in conjunction with the lifting of operating restrictions has supported the recovery of SIR's revenue in the 36-week period ended May 8, 2022. SIR continues to recover and navigate the post-pandemic environment and its effects on the current economic conditions and consumer behaviour.

SIR continued to received government assistance through the now superseded Canada Emergency Wage Subsidy ("CEWS") and the Canada Emergency Rent Subsidy ("CERS") and the newly enacted Canada Recovery Hiring Program ("CRHP") including the additional stream of the support via the Tourism and Hospitality Recovery Program ("THRP") and the Ontario Business Costs Rebate Program. During the 52-week period ended August 29, 2021, SIR recognized government assistance through the CEWS program of $22,171,000, the CERS program of $4,974,000 and other government subsidies of $4,202,000. Of these amounts, $24,109,000 was recognized as a reduction to costs of corporate restaurant operations and $7,238,000 was recognized as a reduction to corporate costs. For the 36-week period ended May 8, 2022, SIR recognized government assistance through the CEWS and CRHP/THRP programs of $12,347,000 (May 9, 2021 – CEWS program of $7,828,000), the CERS and CRHP/THRP programs of $2,102,000 (May 9, 2021 – CERS program of $2,072,000) and other government subsidies of $750,000 (May 9, 2021 – $nil). Of these amounts, $14,674,000 (May 9, 2021 – $9,420,000) was recognized as a reduction to costs of corporate restaurant operations and $525,000 (May 9, 2021 – $480,000) was recognized as a reduction to corporate costs.

The following is a summary of pandemic-related operating restrictions in the Canadian provinces where SIR currently operates restaurants:

Ontario

- Effective January 31, 2022, restaurants, bars and other food and drink establishments without dance facilities in Ontario (where SIR operates 46 restaurants) were permitted to operate at 50% indoor capacity (with proof of vaccination in place).

- Effective February 17, 2022, restaurants, bars and other food and drink establishments without dance facilities were allowed to operate at full indoor capacity (with proof of vaccination in place).

- Effective March 1, 2022, the government of Ontario lifted capacity limits at all indoor public settings and proof of vaccination requirements. Effective March 21, 2022, masks were no longer required in most indoor settings, including restaurants and bars.

Quebec

- Effective January 31, 2022, restaurants in Quebec (where SIR operates 4 restaurants) were permitted to reopen at 50% indoor capacity with tables of up to four people. Alcohol service was restricted until 11 p.m. with restaurant closures by midnight.

- February 28, 2022, bars were allowed to operate at 50% capacity with last call for alcohol at midnight and closing time of 1 a.m.

- Effective March 12, 2022, restaurants and bars were allowed to operate at full indoor capacity, and vaccine requirements were lifted. Effective May 14, 2022, masking was no longer required in the province.

Nova Scotia

- Effective February 14, 2022, restaurants and bars were permitted to operate at 75% capacity with public health measures like social distancing and masking remaining in place, and were required to close by 1 a.m. Takeout, delivery and drive-thru were allowed beyond 1 a.m.

- Effective March 21, 2022, all remaining COVID-19 restrictions were lifted.

Newfoundland

- Effective February 7, 2022, restaurants in Newfoundland (where SIR operates 1 restaurant) were allowed tables of up to 10 people. Proof of vaccination, masking and physical distancing remained in effect.

- Effective March 14, 2022, all COVID-19 related restrictions were lifted.

2 Nature of operations

The Company is a private company amalgamated under the Business Corporations Act of Ontario. As at May 8, 2022, the Company owned a total of 53 (August 29, 2021 - 51) Concept and Signature restaurants in Canada (in Ontario, Quebec, Nova Scotia and Newfoundland) (the SIR Restaurants). The Concept restaurants are Jack Astor's Bar and Grill® (Jack Astor's®) and Scaddabush Italian Kitchen & Bar® (Scaddabush). The Signature restaurants are Reds® Wine Tavern, Reds® Square One, Reds® Kitchen + Wine Bar Fallsview 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 condensed interim consolidated financial statements were approved for issuance by the Board of Directors on June 22, 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 IFRS 16, Leases, COVID-19-Related Rent Concessions

In May 2020, the IASB issued an amendment to provide lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification. The mandatory effective date was for annual periods beginning on or after June 1, 2020. SIR has received 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 amount 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 May 8, 2022 $	12-week period ended May 9, 2021 $	36-week period ended May 8, 2022 $	36-week ended May 9, 2021 $
	(in thousands of dollars)			
Jack Astor's	41,692	13,074	98,327	45,098
Scaddabush	10,364	3,068	25,662	11,221
Canyon Creek	511	14	1,262	131
Signature Restaurants	3,964	104	8,503	1,394
	56,531	16,260	133,754	57,844

5 Right-of-use assets and lease obligations

Right-of-use assets are included as follows in the consolidated balance sheet as at May 8, 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
36-week period ended May 8, 2022			
Termination of leases	(280)	-	(280)
Amortization	(8,287)	(355)	(8,642)
Right-of-use assets – net at May 8, 2022	72,971	668	73,639

For the 36-week period ended May 8, 2022, the lease obligation transactions were as follows:

	$ (in thousands of dollars)
At August 29, 2021	101,978
Disposals	(280)
Repayments	(16,137)
Interest	3,518
Other	2
As at May 8, 2022	89,081
Less: current portion of lease obligations	(17,156)
Long-term portion of lease obligations	71,925

Interest expense on lease obligations for the 12-week and 36-week periods ended May 8, 2022 was $1,138,000 and $3,518,000, respectively (12-week and 36-week periods ended May 9, 2021 - $1,229,000 and $3,942,000, respectively). Total cash outflow for the 12-week period ended May 8, 2022 for leases was $5,176,000 (12-week period ended May 9, 2021 - $4,064,000) which includes $4,038,000 of principal payments and $1,138,000 of interest on lease obligations (12-week period ended May 9, 2021 - $2,835,000 of principal repayments and $1,229,000 of interest on lease obligations). Total cash outflow for the 36-week period ended May 8, 2022 for leases was $16,137,000 which includes $12,619,000 of principal payments and $3,518,000 of interest on lease obligations (36-week period ended May 9, 2021 for leases was $11,763,000 which includes $7,821,000 of principal payments and $3,942,000 of interest on lease obligations. As a result of the pandemic, the Company was offered certain rent abatements (repayments) from landlords of $nil and $121,000 for the 12-week and 36-week periods ended May 8, 2022 (12-week and 36-week periods ended May 9, 2021 – $nil and $46,000, 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.

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 May 8, 2022, the Company was still deferring certain lease payments of $1,749,000 (August 29, 2021 - $4,159,000) while paying current lease obligations as they become 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.

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, May 31, 2021 and June 16, 2022 provides for a maximum principal amount of $47,703,000 consisting of a $20,000,000 revolving term credit facility (Credit Facility 1), a $15,319,000 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 $6,134,000 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.

Subsequent to Q3 2022, on June 16, 2022, SIR and its Lender entered into the Ninth Amending Agreement (“Ninth Amendment”) to its Credit Agreement. The Ninth Amendment provides for the following:

- extension of the Maturity Date from July 6, 2022 to July 6, 2023 of Credit Facilities 1 and 2,
- during the Ninth Amendment, the Cumulative Minimum EBITDA financial covenant has been replaced by the two original, pre-pandemic, financial covenants in the Credit Agreement, which are the Fixed Charge Coverage Ratio and the Senior Leverage Ratio, and
- extension of the $6,250,000 Export Development Canada (“EDC”) through the guaranteed Business Credit Availability Program (“BCAP”) (“EDC-Guaranteed Facility”) to the Maturity Date of the Credit Agreement – the EDC-Guaranteed Facility can be extended at the Lender’s sole discretion by a further of 12 months.

This extension is intended to address SIR’s financial requirements, at least until the Maturity Date of July 6, 2023. There can be no assurance that borrowings will be available to SIR, or available on acceptable terms, beyond the Maturity Date, in an amount sufficient to fund SIR’s needs.

On June 16, 2022, as part of the Ninth Amendment, the Fund and the Partnership entered into an acknowledgement and agreement (the “Acknowledgement Agreement”) with the Lender acknowledging, among other things:

- receipt of a copy of the Ninth Amendment, and
- 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 the Company,

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, 2023. 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, 2023.

During the 12-week period ended May 8, 2022, the Company repaid $11,725,000 on Credit Facility 1. As at May 8, 2022, the Company has drawn $15,264,000 on Credit Facility 1 and Credit Facility 2, net of cash excluding the cash balance of the Partnership (August 29, 2021 - $9,877,000).

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 36-week period ended May 8, 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. The moratorium has elapsed and SIR has commenced repayment on this facility. During the 36-week period ended May 8, 2022, SIR has repaid $116,000. For the 36-week period ended May 8, 2022, SIR has drawn $6,134,000 on this facility.

The Credit Agreement contains certain financial and non-financial covenants. As part of the Ninth Amendment, the Cumulative Minimum EBITDA Covenant has been replaced by the two financial covenants in the Credit Agreement and the Credit Agreement has been extended to July 6, 2023, however, the Eighth Amending Agreement was in effect as at May 8, 2022. Therefore, as at May 8, 2022, the Company was in compliance with the amended covenants stipulated by the Eighth Amending Agreement. As the Credit Agreement was renegotiated and extended subsequent to Q3 2022, the carrying value of the credit facilities under the Credit Agreement were reclassified to current liabilities as it is due within the next 12 months, as at May 8, 2022.

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 May 8, 2022, the Company was in compliance with the two covenants in the SIR Loan Agreement. Subsequent to Q3 2022, the Credit Agreement extended until July 6, 2023; however, there can be no certainty that the Company will continue to be in compliance of the covenants subsequent to July 6, 2023. 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 36-week periods ended May 8, 2022 was $719,000 and $2,130,000, respectively (12-week and 36-week periods ended May 9, 2021 - $725,000 and $2,122,000, respectively), which includes interest on the SIR Loan of $712,000 and $2,083,000, respectively (12-week and 36-week periods ended May 9, 2021 - $713,000 and $2,086,000, respectively) and amortization of financing fees of $12,000 and $38,000, respectively (12-week and 36-week periods ended May 9, 2021 - $12,000 and $36,000, respectively) and other interest of $32,000 and $144,000 (12-week and 36-week periods ended May 9, 2021 - $nil and $nil, respectively). Interest payable on the SIR Loan as at May 8, 2022 was $644,000 (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 May 9, 2021 were $3,964,000 (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		36-week period ended	
	May 8, 2022 $	**May 9, 2021 $**	**May 8, 2022 $**	**May 9, 2021 $**
	(in thousands of dollars)			
Balance - Beginning of period	60,098	10,905	60,098	-
Change in amortized cost of the Ordinary LP Units and Class A LP Units of the Partnership	9,398	14,383	60,215	25,288
Distributions paid to Ordinary LP and Class A LP unitholders	(1,276)	-	(5,089)	-
Balance - End of period	68,220	25,288	115,224	25,288
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	58,913	25,288	105,917	25,288

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

	12-week period ended		36-week period ended	
	May 8, 2022 $	**May 9, 2021 $**	**May 8, 2022 $**	**May 9, 2021 $**
	(in thousands of dollars)			
Pooled Revenue*	55,606	15,762	131,906	55,915
Partnership royalty income*	3,336	934	7,914	3,333
Other income	6	6	19	17
Partnership expenses (income)	733	(36)	776	(115)
Net earnings of the Partnership	4,075	904	8,709	3,235
The Company's interest in the earnings of the Partnership	(1,234)	(814)	(3,495)	(2,268)
Fund's interest in the earnings of the Partnership	2,841	90	5,214	967

*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 36-week periods ended May 8, 2022, distributions of $2,841,000 and $5,214,000 (12-week and 36-week periods ended May 9, 2021 - $nil) were declared to the Fund through the Partnership. Distributions paid during the 12-week and 36-week periods ended May 8, 2022 were $1,276,000 and $5,089,000, respectively (12-week and 36-week periods ended May 9, 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 May 8, 2022 were $4,203,000 (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 Partnership 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 May 8, 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 May 8, 2022 were $2,881,000 (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.

Under the Eighth Amending Agreement, the royalty payments on current sales to the Partnership and interest on the SIR Loan to the Fund resumed effective July 7, 2021. SIR also began its repayment of deferred royalties to the Partnership and deferred interest on the SIR Loan to the Fund on September 15, 2021. The repayments of the deferred interest and royalties on the SIR Loan amounted to 10 equal monthly installments of $350,000 and $530,330, respectively, to be fully repaid by the Credit Facility maturity date of July 6, 2022. Subsequent to Q3 2022, on June 15, 2022, the Company made the final payments and extinguished all liabilities associated with the repayments.

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 36-week periods ended May 8, 2022, the Partnership provided these services to the Fund and the Trust for consideration of $6,000 and $19,000 (12-week and 36-week periods ended May 9, 2021 - $6,000 and $17,000), 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		36-week period ended	
	May 8, 2022 $	May 9, 2021 $	May 8, 2022 $	May 9, 2021 $
		(in thousands of dollars)		
Trade and other receivables	2,129	5,114	(4,074)	3,498
Inventories	(314)	(183)	(439)	7
Prepaid expenses, deposits and other assets	(415)	(406)	(1,574)	(995)
Trade and other payables	2,479	6	2,441	(7,584)
Provisions and other long-term liabilities	6,008	(362)	(47)	540
	9,887	4,169	(3,693)	(4,534)