SIR Corp.

Condensed Interim Consolidated
Financial Statements
(Unaudited)
For the 12-week and 24-week periods
ended February 12, 2023
(in thousands of Canadian dollars)

SIR Corp.

Condensed Interim Consolidated Statements of Financial Position
(Unaudited)

(in thousands of Canadian dollars)

	February 12, 2023 $	August 28, 2022 $
Assets		
Current assets		
Cash	2,771	8,132
Trade and other receivables (note 6(c))	7,212	10,089
Inventories	3,243	2,924
Prepaid expenses, deposits and other assets	2,771	1,220
Loans and advances	131	142
	16,128	22,507
Non-current assets		
Right-of-use assets – net (note 4)	68,534	73,863
Property and equipment	25,642	24,718
Goodwill and intangible assets	5,069	4,982
	115,373	126,070
Liabilities		
Current liabilities		
Bank indebtedness (note 5)	4,516	-
Trade and other payables	18,863	24,272
Current portion of long-term debt (note 5)	23,723	26,135
Current portion of lease obligation (note 4)	16,282	16,492
Current portion of Ordinary LP Units and Class A LP Units of the Partnership (note 6(b))	9,991	9,307
Current portion of provisions and other long-term liabilities	5,954	4,401
	79,329	80,607
Non-current liabilities		
Long-term portion of lease obligation (note 4)	67,946	73,024
Loan payable to SIR Royalty Income Fund (note 6(a))	36,080	36,053
Provisions and other long-term liabilities	1,203	1,092
Ordinary LP Units and Class A LP Units of the Partnership (note 6(b))	143,030	107,992
	327,588	298,768
Shareholders' Deficiency		
Capital stock	20,462	20,462
Contributed surplus	185	177
Deficit	(232,862)	(193,337)
	(212,215)	(172,698)
	115,373	126,070

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) Income (Unaudited)

(in thousands of Canadian dollars)

	12-week period ended		24-week period ended	
	February 12, 2023 $	February 13, 2022 $	February 12, 2023 $	February 13, 2022 $
Corporate restaurant operations				
Food and beverage revenue (note 3)	60,021	31,590	120,270	77,223
Gift card revenue	129	66	195	119
	60,150	31,656	120,465	77,342
Costs of corporate restaurant operations	52,753	25,891	105,126	66,039
Earnings from corporate restaurant operations	7,397	5,765	15,339	11,303
Corporate costs	4,329	2,288	7,695	5,084
Earnings before interest and income taxes	3,068	3,477	7,644	6,219
Interest expense	558	499	1,015	871
Interest on loan payable to SIR Royalty Income Fund (note 6(a))	702	684	1,406	1,411
Interest expense (income) and other income expense (income) – net	87	(13)	77	(89)
Interest on lease obligation (note 4)	1,047	1,172	2,123	2,380
Change in amortized cost of Ordinary LP Units and Class A LP Units of the Partnership (note 6(b))	21,840	(492)	42,548	50,817
Net (loss) earnings and comprehensive (loss) income for the period	(21,166)	1,627	(39,525)	(49,171)

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 12, 2023			
	Capital stock $	Contributed surplus $	Deficit $	Total $
Balance – Beginning of period	20,462	176	(193,337)	(172,699)
Stock-based compensation	-	9	-	9
Net loss and comprehensive loss for the period	-	-	(39,525)	(39,525)
Balance - End of period	20,462	185	(232,862)	(212,215)

	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 and comprehensive loss for the period	-	-	(49,171)	(49,171)
Balance - End of period	20,462	166	(192,845)	(172,217)

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 12, 2023 $	February 13, 2022 $	February 12, 2023 $	February 13, 2022 $
Cash provided by (used in)				
Operating activities				
Net (loss) earnings for the period	(21,166)	1,627	(39,525)	(49,171)
Items not affecting cash				
Change in amortized cost of Ordinary LP Units and Class A LP Units of the Partnership (note 6(b))	21,840	(492)	42,548	50,817
Amortization of deferred financing fees	41	91	65	110
Depreciation and amortization	4,411	4,622	8,916	9,236
Stock based compensation	4	7	9	16
Recovery of impairment of financial assets	(31)	-	(63)	-
Interest expense on long-term debt and SIR Loan	1,260	1,183	2,421	2,282
Other items affecting interest	-	20	-	-
Interest on lease obligations (note 4)	1,047	1,172	2,123	2,380
Non-cash interest income	(2)	(3)	(4)	(5)
Loss on disposal of property and equipment	51	2	74	22
Other	(60)	47	(125)	(23)
Supplier and other rebates paid	-	(140)	-	(140)
Distributions paid to Ordinary LP and Class A LP unitholders (note 6(b))	(4,444)	(2,415)	(6,827)	(3,813)
Net change in working capital items (note 7)	66	(10,462)	(2,608)	(13,580)
Cash provided by (used in) operating activities	3,017	(4,741)	7,004	(1,869)
Investing activities				
Purchase of property and equipment and other assets	(2,774)	(1,199)	(4,136)	(1,973)
Receipt of loans and advances	5	(10)	15	(58)
Issuance of loans and advances	-	13	-	34
Cash used in investing activities	(2,769)	(1,196)	(4,121)	(1,997)
Financing activities				
Increase in bank indebtedness	4,516	13,543	4,516	13,543
Principal repayment of long-term debt	(1,210)	(1,037)	(2,421)	(2,074)
Payment of lease obligations (note 4)	(3,851)	(5,104)	(7,744)	(10,961)
Interest paid	(1,322)	(2,006)	(2,540)	(4,494)
Financing fees paid	(27)	(28)	(55)	(55)
Cash (used in) provided by financing activities	(1,894)	5,368	(8,244)	(4,041)
(Decrease) in cash and cash equivalents during the period	(1,646)	(569)	(5,361)	(7,907)
Cash and cash equivalents - Beginning of period	4,417	2,268	8,132	9,606
Cash and cash equivalents - End of period	2,771	1,699	2,771	1,699

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

1 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 12, 2023, the Company owned a total of 53 (August 28, 2022 - 53) 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®) 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 6(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 6(a)) and, indirectly, through SIR Holdings Trust (the Trust), all of the Ordinary LP Units of SIR Royalty Limited Partnership (the Partnership) (note 6(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 March 28, 2023.

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 2023 and 2022 both consist of 52 weeks.

2 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 28, 2022 and August 29, 2021, 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 28, 2022 and August 29, 2021. Changes to the Company's accounting policies from those disclosed in its consolidated financial statements for the years ended August 28, 2022 and August 29, 2021 are described in note 2(a), recently adopted accounting pronouncements.

a) Recently adopted accounting pronouncements

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

In August 2020, the IASB issued amendments that address issues arising from the implementation of interest rate benchmark reform, including the replacement of one benchmark with an alternative one. The mandatory effective date would be annual periods beginning on or after January 1, 2021, with early adoption permitted. The amendment did not have a material impact 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 amended standard has been implemented by the Company and did not have a material impact on these 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 amended standard has been implemented by the Company and did not have a material impact on these consolidated financial statements.

IFRS issued but not yet effective

IAS 1, Presentation of Financial Statements

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, 2024. The Company has not yet assessed the impact of the amendment 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.

3 Disaggregated revenue

The Company has determined that a disaggregation of revenue using Concept and Signature restaurants is adequate for its circumstances. Food and beverage revenue by segment is determined as follows:

	12-week period ended February 12, 2023 $	12-week period ended February 13, 2022 $	24-week period ended February 12, 2023 $	24-week ended February 13, 2022 $
	(in thousands of dollars)			
Jack Astor’s	42,169	22,885	85,129	56,636
Scaddabush	12,426	6,472	24,331	15,297
Canyon Creek	-	327	-	752
Signature Restaurants	5,426	1,906	10,810	4,538
	60,021	31,590	120,270	77,223

4 Right-of-use assets and lease obligations

Right-of-use assets are included as follows in the consolidated balance sheet as at February 12, 2023:

	Property $	Equipment $	Total $
	(in thousands of dollars)		
At August 29, 2021	81,538	1,023	82,561
52-week period ended August 28, 2022			
Modifications	4,211	-	4,211
Termination of leases	(352)	-	(352)
Amortization	(11,851)	(706)	(12,557)
At August 28, 2022	73,546	317	73,863
24-week period ended February 12, 2023			
Modifications	320	13	333
Amortization	(5,630)	(32)	(5,662)
Right-of-use assets – net at February 12, 2023	68,236	298	68,534

For the 24-week period ended February 12, 2023, the lease obligation transactions were as follows:

	$ (in thousands of dollars)
At August 28, 2022	89,516
Additions	333
Repayments	(7,744)
Interest	2,123
As at February 12, 2023	84,228
Less: current portion of lease obligations	(16,282)
Long-term portion of lease obligations	67,946

Interest expense on lease obligations for the 12-week and 24-week periods ended February 12, 2023 was $1,047,000 and $2,123,000, respectively (12-week and 24-week periods ended February 13, 2022 - $1,172,000 and $2,380,000, respectively). Total cash outflow for the 12-week period ended February 12, 2023 for leases was $3,851,000 (12-week period ended February 13, 2022 - $5,104,000) which includes $2,804,000 of principal payments and $1,047,000 of interest on lease obligations (12-week period ended February 13, 2022 - $3,932,000 of principal payments and $1,172,000 of interest on lease obligations). Total cash outflow for the 24-week period ended February 12, 2023 for leases was $7,744,000 which includes $5,621,000 of principal repayments and

$2,123,000 of interest on lease obligations (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).

Expenses for leases of low-dollar value items are not significant. All extension options that were reasonably expected to be exercised have been included in the measurement of lease obligations where applicable.

5 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 $43,821,000 consisting of a $20,000,000 revolving term credit facility (Credit Facility 1), a $11,958,000 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 $5,613,000 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, 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. As at February 12, 2023, $4,500,000 was drawn on Credit Facility 1.

Credit Facility 2 bears interest at the prime rate plus 3.25% and/or the bankers' acceptance rate plus 4.25%. Each advance under Credit Facility 2 is repayable in equal quarterly instalments based on a seven year amortization, with the remaining outstanding balance due on July 6, 2023.

As at February 12, 2023, the Company has drawn $15,019,000 on Credit Facility 1 and Credit Facility 2, net of cash excluding the cash balance of the Partneship (August 28, 2022 - $7,530,000)

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 3.50%. 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. As at February 12, 2023, SIR has drawn $6,250,000 on this facility.

The BDC-Guaranteed Facility bears interest at a fixed rate of 4.00%. 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. As at February 12, 2023, SIR has repaid $347,000 on this facility. As at February 12, 2023, SIR has drawn $5,613,000 on this facility.

The Credit Agreement contains certain financial and non-financial covenants. As part of the Ninth Amending Agreement, the Fixed Charge Coverage Ration and the Senior Leverage Ratio financial covenants are effective in the Credit Agreement which has been extended to July 6, 2023. As at February 12, 2023, the Company was in compliance with these covenants. As a result of the Credit Agreement being due within the next 12 months on July 6, 2023, the carrying value of the credit facilities under the Credit Agreement remain classified under 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.

6 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.

As at February 12, 2023, the Company was in compliance with the covenants stipulated by the SIR Loan Agreement.

Interest expense charged to the condensed interim consolidated statements of operations and comprehensive (loss) income for the 12-week and 24-week periods ended February 12, 2023 was $702,000 and $1,406,000, respectively (12-week and 24-week periods ended February 13, 2022 - $684,000 and $1,411,000, respectively), which includes interest on the SIR Loan of $689,000 and $1,379,000, respectively (12-week and 24-week periods ended February 13, 2022 - $680,000 and $1,371,000, respectively), amortization of financing fees of $13,000 and $27,000, respectively (12-week and 24-week periods ended February 13, 2022 - $13,000 and $26,000, respectively) and other interest of $nil (12-week and 24-week periods ended February 13, 2022 - $50,000 and $112,000, respectively).

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 12, 2023 were $3,920,000 (August 28, 2022 - $3,947,000).

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 12, 2023 $	February 13, 2022 $	February 12, 2023 $	February 13, 2022 $
	(in thousands of dollars)			
Balance - Beginning of period	117,299	60,098	117,299	60,098
Change in amortized cost of the Ordinary LP Units and Class A LP Units of the Partnership	21,840	(492)	42,548	50,817
Distributions paid to Ordinary LP and Class A LP unitholders	(4,444)	(2,415)	(6,827)	(3,813)
Balance - End of period	134,695	57,191	153,020	107,102
Less: Current portion of Ordinary LP Units and Class A LP Units of the Partnership	(9,991)	(9,307)	(9,991)	(9,307)
Ordinary LP Units and Class A LP Units of the Partnership	124,704	47,884	143,029	97,795

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

	12-week period ended		24-week period ended	
	February 12, 2023 $	February 13, 2022 $	February 12, 2023 $	February 13, 2022 $
	(in thousands of dollars)			
Pooled Revenue*	58,433	31,200	116,567	76,300
Partnership royalty income*	3,506	1,872	6,994	4,578
Other income	5	5	13	13
Partnership expenses (income)	(38)	132	(74)	43
Net earnings of the Partnership	3,473	2,009	6,933	4,634
The Company's interest in the earnings of the Partnership	(1,122)	(1,106)	(2,250)	(2,261)
Fund's interest in the earnings of the Partnership	2,351	903	4,683	2,373

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

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

During the 12-week and 24-week periods ended February 12, 2023, distributions of $2,319,000 and $4,619,000, respectively (12-week and 24-week periods ended February 13, 2022 - $903,000 and $2,373,000, respectively) were declared to the Fund through the Partnership. Distributions paid during the 12-week and 24-week periods ended February 12, 2023 were $4,444,000 and $6,827,000, respectively (12-week and 24-week periods ended February 13, 2022 - $2,415,000 and $3,813,000, respectively). The Fund, indirectly through the Trust, is entitled to receive a pro rata share of all residual distributions. Distributions payable to the Fund as at February 12, 2023 were $3,132,000 (August 28, 2022 - $5,340,000).

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, 2023, two new SIR Restaurants were added (January 1, 2022 - $nil) to Royalty Pooled Restaurants in accordace with the Partnership Agreement. There were no Second Incremental Adjustments on January 1, 2023 as no new SIR Restaurants were added to the Royalty Pooled Restaurants on January 1, 2022 (January 1, 2021 – one). As consideration for the additional Royalty associated with the addition of two new SIR Restaurants added (January 1, 2022 – nil) to the Royalty Pooled Restaurants on January 1, 2023, SIR converted its Class B GP Units into Class A GP Units based on the formulas 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 two (January 1, 2022 – five) SIR Restaurants during Fiscal 2022. The net effect of these adjustments to Royalty Pooled Restaurants was that SIR converted 90,958 Class A GP Units into Class B GP Units (January 1, 2022 – 679,934) on January 1, 2023, increasing the value of the SIR rights by $1,455,725 (January 1, 2022 – reducing the value of the SIR rights by $8,100,078).

In addition, there were no conversion distributions effective in December 2022 as no new SIR Restaurants were added to Royalty Pooled Restaurants on January 1, 2022 (January 1, 2022 – revenues of 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 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).

As at February 12, 2023, after the net effect of the adjustments to Royalty Pooled Restaurants on January 1, 2023, the Company's residual interest in the Partnership is 12.54% (August 28, 2022 – 13.36%). 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 the Fund as at February 12, 2023 were $2,545,000 (August 28, 2022 - $3,847,000). Advances receivable are non-interest bearing and due on demand. Advances receivable are recorded in trade and other receivables.

The Company, through the Partnership, has entered into an arrangement with the Fund and the Trust, whereby the Partnership will provide or arrange for the provision of services required in the administration of the Fund and the Trust. The Partnership has arranged for these services to be provided by SIR GP Inc., in its capacity as the Managing General Partner. For the 12-week and 24-week periods ended February 12, 2023, 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 13, 2022 - $5,000 and $13,000), which was the amount of consideration agreed to by the related parties.

7 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 12, 2023 $	February 13, 2022 $	February 12, 2023 $	February 13, 2022 $
	(in thousands of dollars)			
Trade and other receivables	1,516	(5,922)	2,940	(6,203)
Inventories	(100)	(72)	(319)	(125)
Prepaid expenses, deposits and other assets	(926)	(471)	(1,510)	(1,159)
Trade and other payables	(1,328)	1,947	(4,715)	(38)
Provisions and other long-term liabilities	903	(5,944)	996	(6,055)
	65	(10,462)	(2,608)	(13,580)