SIR Corp.

Condensed Interim Consolidated
Financial Statements
(Unaudited)
For the 12-week period ended
November 19, 2023
(in thousands of Canadian dollars)

SIR Corp.

Condensed Interim Consolidated Statements of Financial Position
(Unaudited)

(in thousands of Canadian dollars)

	November 19, 2023 $	August 27, 2023 $
Assets		
Current assets		
Cash	3,545	8,231
Trade and other receivables (note 6(c))	7,500	8,341
Inventories	3,152	3,038
Prepaid expenses, deposits and other assets	2,918	2,551
Loans and advances	10	10
	17,125	22,171
Non-current assets		
Right-of-use assets – net (note 4)	66,658	69,137
Property and equipment	32,699	29,470
Goodwill and intangible assets	5,198	5,186
	121,680	125,964
Liabilities		
Current liabilities		
Bank indebtedness (note 5)	2,961	-
Trade and other payables	24,634	26,482
Current portion of long-term debt (note 5)	8,093	8,084
Current portion of lease obligation (note 4)	17,163	16,577
Current portion of Ordinary LP Units and Class A LP Units of the Partnership (note 6(b))	9,991	9,991
Current portion of provisions and other long-term liabilities	5,432	5,201
	68,274	66,335
Non-current liabilities		
Long-term debt (note 5)	12,610	13,823
Long-term portion of lease obligation (note 4)	66,682	69,581
Loan payable to SIR Royalty Income Fund (note 6(a))	36,131	36,112
Provisions and other long-term liabilities	1,811	1,602
Ordinary LP Units and Class A LP Units of the Partnership (note 6(b))	135,059	131,618
	320,567	319,071
Shareholders' Deficiency		
Capital stock	20,357	20,401
Contributed surplus	191	189
Deficit	(219,435)	(213,697)
	(198,887)	(193,107)
	121,680	125,964

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

SIR Corp.

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

(in thousands of Canadian dollars)

	12-week period ended November 19, 2023 $	12-week period ended November 20, 2022 $
Corporate restaurant operations		
Food and beverage revenue (note 3)	59,348	60,249
Gift card revenue	97	66
	59,445	60,315
Costs of corporate restaurant operations	52,832	52,373
Earnings from corporate restaurant operations	6,613	7,942
Corporate costs	4,074	3,366
Earnings before interest and income taxes	2,539	4,576
Interest expense	466	457
Interest on loan payable to SIR Royalty Income Fund (note 6(a))	709	704
Interest income and other income – net	(6)	(10)
Interest on lease obligation (note 4)	1,037	1,076
Change in amortized cost of Ordinary LP Units and Class A LP Units of the Partnership (note 6(b))	5,940	20,708
Net loss and comprehensive loss for the period	(5,607)	(18,359)

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

SIR Corp.

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

(in thousands of Canadian dollars)

	12-week period ended November 19, 2023			
	Capital stock $	Contributed surplus $	Deficit $	Total $
Balance – Beginning of period	20,401	189	(213,697)	(193,107)
Stock-based compensation	-	2	-	2
Repurchase of capital stock	(44)	-	(131)	(175)
Net loss for the period	-	-	(5,607)	(5,607)
Balance - End of period	20,357	191	(219,435)	(198,887)

	12-week period ended November 20, 2022			
	Capital stock $	Contributed surplus $	Deficit $	Total $
Balance – Beginning of period	20,462	176	(193,337)	(172,699)
Stock-based compensation	-	5	-	5
Net loss for the period	-	-	(18,359)	(18,359)
Balance - End of period	20,462	181	(211,696)	(191,053)

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 November 19, 2023 $	12-week period ended November 20, 2022 $
Cash provided by (used in)		
Operating activities		
Net loss for the period	(5,607)	(18,359)
Items not affecting cash		
Change in amortized cost of Ordinary LP Units and Class A LP Units of the Partnership (note 6(b))	5,940	20,708
Depreciation and amortization	4,733	4,505
Stock based compensation	2	5
Recovery of impairment of financial assets	(12)	(32)
Interest expense on long-term debt and SIR Loan	1,175	1,161
Interest on lease obligations (note 4)	1,037	1,076
Non-cash interest income	-	(2)
Amortization of deferred financing fees	35	24
Loss on disposal of property and equipment and other assets	18	23
Other	2	(66)
Supplier and other rebates received (paid)	50	-
Distributions paid to Ordinary LP and Class A LP unitholders (note 6(b))	(2,499)	(2,383)
Net change in working capital items (note 7)	(390)	(2,673)
Cash provided by operating activities	4,484	3,987
Investing activities		
Purchase of property and equipment and intangible assets	(5,627)	(1,362)
Receipt of loans and advances	-	10
Cash used in investing activities	(5,627)	(1,352)
Financing activities		
Increase in bank indebtedness	2,961	-
Principal repayment of long-term debt	(1,211)	(1,211)
Payment of lease obligations (note 4)	(3,874)	(3,893)
Interest paid	(1,216)	(1,218)
Repurchase of capital stock	(175)	-
Financing fees paid	(28)	(28)
Cash used in financing activities	(3,543)	(6,350)
Decrease in cash and cash equivalents during the period	(4,686)	(3,715)
Cash and cash equivalents - Beginning of period	8,231	8,132
Cash and cash equivalents - End of period	3,545	4,417

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 November 19, 2023, the Company owned a total of 54 (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 Duke's 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 December 21, 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 2024 and 2023 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 52-week periods ended August 27, 2023 and August 28, 2022, 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 52-week periods ended August 27, 2023 and August 28, 2022. Changes to the Company's accounting policies from those disclosed in its consolidated financial statements for the 52-week periods ended August 27, 2023 and August 28, 2022 are described in note 2(a), recently adopted IFRS.

a) Recently adopted IFRS

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

The narrow-scope amendment aims to improve accounting policy disclosures and to help distinguish between changes in accounting estimates and changes in accounting policies. The amendment is effective for annual periods beginning on or after January 1, 2023. The amended standard has been implemented by the Company and did not have a material impact on these consolidated financial statements.

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

In January 2023, the IASB issued amendments to IAS 12 that aim to provide temporary relief from accounting for deferred taxes arising from the implementation of the Pillar Two model rules. The amendment is effective for annual periods beginning on or after January 1, 2023. 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, Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued an amendment to IAS 1 to clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. In October 2022, the IASB issued an amendment to IAS 1, Non-current Liabilities with Covenants, to clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. The 2022 amendments also introduce additional disclosure requirements to improve the information an entity provides when its right to defer settlement of a liability is subject to compliance with covenants within twelve months after the reporting period. The 2022 amendments changed the effective date of the 2020 amendments. The mandatory effective date would be annual periods beginning on or after January 1, 2024, with early adoption permitted. The Company has not yet assessed the impact of the amendment on the consolidated financial statements.

IFRS 16, Lease Liability in a Sale and Leaseback

In September 2022, the IASB issued amendments to IFRS 16 to clarify how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. The mandatory effective date would be annual periods beginning on or after January 1, 2024, with early adoption permitted. The Company has not yet assessed the impact of the amendment on the consolidated financial statements.

IAS 7, Disclosures on Supplier Finance Arrangements

In May 2023, the IASB issued amendments to IAS 7 and IFRS 7 to require specific disclosures regarding supplier finance arrangements. The mandatory effective date would be 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.

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 November 19, 2023 $	12-week period ended November 20, 2022 $
	(in thousands of dollars)	
Jack Astor's	39,902	42,960
Scaddabush	14,420	11,905
Signature Restaurants	5,026	5,384
	59,348	60,249

4 Right-of-use assets and lease obligations

Right-of-use assets are included as follows in the consolidated balance sheet as at November 19, 2023:

	Property $	Equipment $	Total $
	(in thousands of dollars)		
At August 28, 2022	73,546	317	73,863
52-week period ended August 27, 2023			
Additions	5,306	50	5,356
Modifications	3,122	107	3,229
Termination of leases	(476)	(33)	(509)
Amortization	(12,447)	(72)	(12,519)
Impairment	(283)	-	(283)
At August 27, 2023	68,768	369	69,137
12-week period ended November 19, 2023			
Additions	519	-	519
Modifications	5	-	5
Amortization	(2,983)	(20)	(3,003)
Right-of-use assets – net at November 19, 2023	66,309	349	66,658

For the 12-week period ended November 19, 2023, the lease obligation transactions were as follows:

	$ (in thousands of dollars)
At August 27, 2023	86,158
Additions	519
Modifications	5
Repayments	(3,874)
Interest	1,037
As at November 19, 2023	83,845
Less: current portion of lease obligations	(17,163)
Long-term portion of lease obligations	66,682

Interest expense on lease obligations for the 12-week period ended November 19, 2023 was $1,037,000 (12-week period ended November 20, 2022 - $1,076,000). Total repayments for the 12-week period ended November 19, 2023 for leases were $3,874,000 (12-week period ended November 20, 2022 - $3,893,000) which includes $2,837,000 of principal payments and $1,037,000 of interest on lease obligations (12-week period ended November 20, 2022 - $2,817,000 and $1,076,000).

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 provides for a maximum principal amount of $42,043,000 consisting of a $20,000,000 revolving term credit facility (Credit Facility 1), a $10,700,000 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 $5,093,000 Business Development Bank of Canada ("BDC") guaranteed Highly Affected Sectors Credit Availability Program ("HASCAP") facility (the "BDC-Guaranteed Facility"). The term of the Credit Agreement matures on July 6, 2026 ("Maturity Date"). 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 2.75% and/or the bankers' acceptance rate plus 3.75%, principal repaid in one bullet repayment on the Maturity Date. A standby fee of 0.85% is charged on the undrawn balance of Credit Facility 1. Provided SIR 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 November 19, 2023, $2,961,000 was drawn Credit Facility 1.

Credit Facility 2 bears interest at the prime rate plus 2.75% and/or the bankers' acceptance rate plus 3.75%. Each advance under Credit Facility 2 is repayable in equal quarterly instalments based on a seven year amortization, with the remaining outstanding balance due on the Maturity Date. As at November 19, 2023, $9,663,000 was drawn on Credit Facility 2.

As at November 19, 2023, the Company has drawn $11,006,000 on Credit Facility 1 and Credit Facility 2, net of cash excluding the cash balance of the Partnership (August 27, 2023 - $4,681,000).

The EDC-Guaranteed Facility bears interest at the prime rate plus 3.00%. The EDC-Guaranteed Facility is a 364 day revolving term credit facility and can be extended at the Lender's sole discretion, in 12 month increments, by a further 12 months beyond the current expiration date of July 6, 2024. A standby fee of 0.90% is charged on the undrawn balance of this facility. As at November 19, 2023, SIR had fully drawn $6,250,000 on this facility.

The BDC-Guaranteed Facility is a 10 year non-revolving-term credit facility, with a one year principal payment moratorium, bearing a fixed rate of interest of 4%. The moratorium has elapsed and SIR has commenced repayment on this facility. For the 12-week period ended November 19, 2023, SIR repaid $174,000 on this facility. As at November 19, 2023, $5,093,000 was drawn on this facility.

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.

The Credit Agreement contains certain financial and non-financial covenants that the Company is in compliance with as at November 19, 2023.

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.

As at November 19, 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 for the 12-week period ended November 19, 2023 was $709,000 (12-week period ended November 20, 2022 - $704,000), which includes interest on the SIR Loan of $690,000 (12-week period ended November 20, 2022 - $690,000) and amortization of financing fees of $19,000 (12-week period ended November 20, 2022 - $14,000). Interest payable on SIR Loan as at November 19, 2023 was $19,000 (August 27, 2023 - $79,000) and is recorded in trade and other payables.

The Company has recorded the SIR Loan at amortized cost. The Company has netted the financing fees against the SIR Loan and amortizes this cost over the term of the SIR Loan using the effective interest method. Unamortized financing fees netted against the SIR Loan as at November 19, 2023 were $3,869,000 (August 27, 2023 - $3,888,000).

The Company has the right to require the Fund to, indirectly, purchase its Class C GP Units of the Partnership and assume a portion of the SIR Loan as consideration for the acquisition of the Class C GP Units.

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

	12-week period ended November 19, 2023 $	12-week period ended November 20, 2022 $
Balance - Beginning of period	141,609	117,298
Change in amortized cost of the Ordinary LP Units and Class A LP Units of the Partnership	5,940	20,708
Distributions paid to Ordinary LP and Class A LP unitholders	(2,499)	(2,383)
Balance - End of period	145,050	135,623
Less: Current portion of Ordinary LP Units and Class A LP Units of the Partnership	(9,991)	(9,990)
Ordinary LP Units and Class A LP Units of the Partnership	135,059	125,633
The following is a summary of the results of operations of the Partnership:		
Pooled Revenue*	56,927	58,153
Partnership royalty income*	3,416	3,488
Other income	6	8
Partnership expenses	(78)	(36)
Net earnings of the Partnership	3,344	3,460
The Company's interest in the earnings of the Partnership	(1,102)	(1,128)
Fund's interest in the earnings of the Partnership	2,242	2,332

*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.

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

During the 12-week period ended November 19, 2023, distributions of $2,229,000 (12-week period ended November 20, 2022 - $2,300,000) were declared to the Fund through the Partnership. Distributions paid during the 12-week period ended November 19, 2023 were $2,499,000 (12-week period ended November 20, 2022 - $2,383,000). 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 from the Partnership as at November 19, 2023 were $4,149,000 (August 27, 2023 - $4,419,000).

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 accordance 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 November 19, 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 27, 2023 – 12.54%). The Company continues to maintain control of the Partnership and, therefore, continues to consolidate the Partnership.

c) Advances receivable from SIR Royalty Income Fund

Advances receivable from SIR Royalty Income Fund as at November 19, 2023 were $3,023,000 (August 27, 2023 - $2,985,000). 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 period ended November 19, 2023, the Partnership provided these services to the Fund and the Trust for consideration of $6,000 (12-week period ended November 20, 2022 - $8,000), 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 November 19, 2023 $	12-week period ended November 20, 2022 $
	(in thousands of dollars)	
Trade and other receivables	853	1,424
Inventories	(114)	(219)
Prepaid expenses, deposits and other assets	(363)	(584)
Trade and other payables	(858)	(3,387)
Provisions and other long-term liabilities	92	93
	(390)	(2,673)