

SIR Corp.

Consolidated Financial Statements
August 30, 2009 and August 31, 2008

This document is being placed on www.sedar.com by SIR Corp. on a voluntary basis. It is not being placed by or with the approval of or on behalf of SIR Royalty Income Fund or any of its trustees or officers or by SIR GP Inc., or SIR Holdings Trust or their respective trustees, managing general partners, directors or officers, has not been approved by any of them, and is not to be regarded as a document placed, filed, furnished or submitted by or on behalf of any of them or by anyone with actual, implied or apparent authority to act on behalf of any of them. None of them has approved, authorized, permitted or acquiesced to the contents of this document.

November 24, 2009

Auditors' Report

To the Shareholders of SIR Corp.

We have audited the consolidated balance sheets of **SIR Corp.** as at August 30, 2009 and August 31, 2008 and the consolidated statements of operations and comprehensive loss, deficit and cash flows for the 52- and 53-week periods then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at August 30, 2009 and August 31, 2008 and the results of its operations and its cash flows for the 52- and 53-week periods then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

SIR Corp.

Consolidated Balance Sheets

(in thousands of dollars)

	August 30, 2009	August 31, 2008
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	8,183	1,483
Accounts receivable	2,787	3,773
Inventories	2,540	2,806
Prepaid expenses, deposits and other assets	538	584
Current portion of loans and advances (note 6)	250	180
	<hr/>	<hr/>
	14,298	8,826
Loans and advances (note 6)	877	707
Property and equipment (notes 7 and 14)	49,820	53,015
Goodwill (note 8)	5,410	5,625
Intangible and other assets (note 9)	3,291	3,780
	<hr/>	<hr/>
	73,696	71,953
	<hr/>	<hr/>

SIR Corp.

Consolidated Balance Sheets ...continued

(in thousands of dollars)

	August 30, 2009 \$	August 31, 2008 \$
Liabilities		
Current liabilities		
Bank indebtedness (note 10)	-	905
Accounts payable and accrued liabilities	19,513	16,679
Construction accounts payable and accrued liabilities	256	2,274
Current portion of long-term debt (note 10)	2,982	1,733
Current portion of other long-term liabilities (note 12)	1,483	1,499
Amounts due to SIR Royalty Income Fund - net (note 11(c))	1,380	1,524
	<u>25,614</u>	<u>24,614</u>
Long-term debt (note 10)	11,550	8,777
Loan payable to SIR Royalty Income Fund (note 11(a))	35,552	35,531
Non-controlling interest in SIR Royalty Limited Partnership (note 11(b))	11,167	11,167
Other long-term liabilities (note 12)	9,006	10,110
Future income taxes (note 17)	138	9
	<u>93,027</u>	<u>90,208</u>
Non-controlling interest in other subsidiary companies	-	32
Shareholders' Deficiency		
Capital stock (note 13)	17,605	17,605
Accumulated other comprehensive loss (note 3)	(202)	(202)
Deficit	<u>(36,734)</u>	<u>(35,690)</u>
	<u>(19,331)</u>	<u>(18,287)</u>
	<u>73,696</u>	<u>71,953</u>
Contingencies and commitments (note 15)		
Subsequent events (note 23)		

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

Approved by the Board of Directors

(signed) Grey Sisson
Director

(signed) Peter Fowler
Director

SIR Corp.

Consolidated Statements of Operations and Comprehensive Loss

(in thousands of dollars)

	52-week period ended August 30, 2009 \$	53-week period ended August 31, 2008 \$
Corporate restaurant operations (note 1)		
Food and beverage revenue (note 19)	196,705	188,365
Costs of corporate restaurant operations		
Food and beverage	59,751	57,695
Labour	63,974	60,376
Direct costs of restaurant operations (note 14)	45,783	44,275
Amortization of restaurant assets	9,595	8,343
	179,103	170,689
Earnings from corporate restaurant operations	17,602	17,676
Corporate costs (note 14)	(8,904)	(11,301)
Restructuring costs (note 20)	(228)	-
Other amortization	(294)	(297)
	(9,426)	(11,598)
Earnings before the following items	8,176	6,078
Interest expense - net (note 10)	(1,365)	(377)
Interest on loan payable to SIR Royalty Income Fund (note 11(a))	(2,992)	(3,049)
Non-controlling interest in SIR Royalty Limited Partnership (note 11(b))	(4,679)	(5,078)
Unrealized foreign exchange loss	(79)	(16)
Goodwill impairment (notes 5 and 8)	(237)	(277)
Provision for impairment of long-lived assets (notes 7 and 9)	-	(225)
Recovery of impairment of loans and advances (note 6)	700	350
Other income (expense) (note 18)	(635)	141
Loss before income taxes and non-controlling interests in other subsidiary companies	(1,111)	(2,453)
Provision for (recovery of) income taxes (note 17)	(35)	15
Loss before non-controlling interests in other subsidiary companies	(1,076)	(2,468)
Non-controlling interests in other subsidiary companies	32	27
Net loss and comprehensive loss for the period	(1,044)	(2,441)

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

SIR Corp.

Consolidated Statements of Deficit

(in thousands of dollars)

	52-week period ended August 30, 2009 \$	53-week period ended August 31, 2008 \$
Deficit - Beginning of period	(35,690)	(33,213)
Net loss for the period	(1,044)	(2,441)
Purchase of capital stock for cancellation (note 13)	-	(36)
Deficit - End of period	<u>(36,734)</u>	<u>(35,690)</u>

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

SIR Corp.

Consolidated Statements of Cash Flows

(in thousands of dollars)

	52-week period ended August 30, 2009 \$	53-week period ended August 31, 2008 \$
Cash provided by (used in)		
Operating activities		
Net loss for the period	(1,044)	(2,441)
Items not affecting cash		
Amortization	9,889	8,640
Non-controlling interests in other subsidiary companies	(32)	(27)
Future income taxes (note 17)	35	9
Recovery of impairment of loans and advances (note 6)	(700)	(350)
Goodwill impairment (notes 5 and 8)	237	277
Provision for impairment of long-lived assets (notes 7 and 9)	-	225
Non-cash interest expense	764	41
Amortization of leasehold inducements	(716)	(813)
Unrealized foreign exchange loss	79	16
Other (note 16)	303	169
Leasehold and other inducements received	1,103	2,059
Net change in working capital items (note 16)	2,689	861
Net cash provided by operations	12,607	8,666
Investing activities		
Purchase of property and equipment	(7,731)	(17,806)
Proceeds from sale of property and equipment	11	109
Acquisition of non-controlling interests (note 5)	(250)	(190)
Repayment of loans and advances	541	180
Restaurant pre-opening costs (note 9)	(650)	(2,049)
Net cash used in investing activities	(8,079)	(19,756)
Financing activities		
Increase (decrease) in bank indebtedness (note 10)	(905)	597
Proceeds from issuance of long-term debt	3,700	9,040
Principal repayment of long-term debt	(445)	(383)
Financing fees	(180)	-
Repurchase of capital stock (note 13)	-	(58)
Net cash provided by financing activities	2,170	9,196
Effect of foreign exchange rates on cash	2	-
Increase (decrease) in cash and cash equivalents during the period	6,700	(1,894)
Cash and cash equivalents - Beginning of period	1,483	3,377
Cash and cash equivalents - End of period	8,183	1,483

Supplemental information (note 16)

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

SIR Corp.

Notes to Consolidated Financial Statements August 30, 2009 and August 31, 2008

1 Nature of operations and fiscal year

Nature of operations

SIR Corp. (the Company) is a private company amalgamated under the Business Corporations Act of Ontario. As at August 30, 2009, the Company operates a total of 45 (August 31, 2008 - 43) Concept and Signature restaurants in Canada (in Ontario, Quebec, Alberta and Nova Scotia) (the SIR Restaurants). The Concept restaurants are Jack Astor's Bar and Grill® (Jack Astor's®), Canyon Creek Chop House® (Canyon Creek®) and Alice Fazooli's®, and the Signature restaurants are reds®, Far Niente®/FOUR™/Petit Four™ and the Loose Moose Tap & Grill®. The Company also owns Jack Astor's (Cary & Las Colinas) Limited, which operates one Jack Astor's restaurant in the United States. During fiscal 2009, the Company opened two Jack Astor's restaurants.

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 11) and, indirectly, through SIR Holdings Trust (the Trust), all of the Ordinary LP units of SIR Royalty Limited Partnership (the Partnership). 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 (note 11).

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 accounting periods of 12, 12, 12 and 16 or 17 weeks, respectively. The fiscal years for 2009 and 2008 consisted of 52 and 53 weeks, respectively.

2 Summary of significant accounting policies

Basis of presentation

These consolidated financial statements include the accounts of the Company and its wholly owned, majority owned and other subsidiaries where the Company is exposed to the majority of the expected losses or returns. All intercompany accounts and transactions have been eliminated. During 2009, the Company acquired the non-controlling interest in Jack Astor's Don Mills Limited (note 5) and now owns 100% of its subsidiaries, with the exception of the Partnership (note 11(b)).

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and disclosures applicable to private companies. When public company disclosure provides additional meaningful information, management has incorporated such disclosure in these consolidated financial statements.

SIR Corp.

Notes to Consolidated Financial Statements

August 30, 2009 and August 31, 2008

Seasonality

The full-service restaurant sector of the Canadian food-service industry, in which the Company operates, experiences seasonal fluctuations in revenues. Favourable summer weather generally results in increased revenues during the Company's fourth quarter (ending the last Sunday in August) when patios can be open. Additionally, certain holidays and observances also affect dining patterns both favourably and unfavourably.

A summary of the significant accounting policies followed in the preparation of these consolidated financial statements is as follows.

Use of estimates

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect income and expenses during the reporting periods, in addition to the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the dates of the consolidated financial statements. Actual results could differ materially from those estimates in the near term.

Revenue recognition

Revenue from restaurant operations is recognized when services are rendered.

The Company recognizes gift certificate revenue as gift certificates are redeemed. Gift certificates that are not redeemed within two years of the issuance date are recognized as other income in the consolidated statements of operations based on historical redemption rates.

Cash and cash equivalents

Cash and cash equivalents are defined as cash and short-term investments with original maturities of three months or less.

Inventories

Inventories, which consist of food, beverage and merchandise, are valued at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method.

Property and equipment

Property and equipment are recorded at cost, less accumulated amortization. Amortization is calculated as follows:

Buildings	20 years straight-line
Corporate furniture, fixtures and equipment	5 years straight-line
Computer equipment and software	5 years straight-line
Restaurant furniture, fixtures and equipment	10 years straight-line
Leasehold improvements	over the lease term on a straight-line basis to a maximum of 10 years

SIR Corp.

Notes to Consolidated Financial Statements

August 30, 2009 and August 31, 2008

Intangible and other assets

Intangible lease assets, arising on business combinations, comprise the present value of the amount by which market lease rates exceeded the contractual lease rates on the date of acquisition and are being amortized on a straight-line basis over the remaining life of the respective leases (note 9).

Pre-opening costs, which comprise expenses incurred to bring restaurants to the operational stage, are deferred and amortized on a straight-line basis over five years, commencing with the date of the opening of each location (notes 3 and 9).

Impairment of long-lived assets

An impairment charge is recognized for long-lived assets, including intangible assets with finite lives, when an event or change in circumstances causes an asset's carrying value to exceed the total undiscounted cash flows expected from its use and eventual disposition. The impairment loss is calculated as the difference between the fair value of the asset and its carrying value.

Leases of equipment

Leases of equipment on terms that transfer substantially all of the benefits and risks of ownership to the Company are accounted for as capital leases. All other leases of equipment are accounted for as operating leases. Operating lease payments are expensed on a straight-line basis over the term of the lease.

Goodwill

Goodwill represents the excess of the cost of investments in subsidiaries and businesses acquired over the fair value of the net assets acquired. Goodwill is not amortized. The Company performs an impairment review of goodwill at least annually, or whenever events or changes in circumstances indicate that the carrying amounts may be impaired. The need for any writedown of goodwill due to an impairment in its value is based on the assessment of the fair value of the individual business units and the related goodwill.

Loans and advances

Loans and advances are recorded at cost and are written down to their estimated realizable amount when there is evidence of an impairment. Loans and advances are reviewed for impairment on an individual basis and are reduced to the estimated recoverable amount measured by expected future cash flows. When the amounts and timing of future cash flows cannot be estimated with reasonable reliability, the loans and advances are measured at the fair value of the underlying security, net of expected costs of realization. The accrual of interest is suspended if collection becomes doubtful.

Supplier rebates

Supplier rebates are upfront payments received under supplier agreements, which are recognized as a reduction of the cost of purchases over the term of the supplier agreements.

SIR Corp.

Notes to Consolidated Financial Statements August 30, 2009 and August 31, 2008

Leasehold inducements

Leasehold inducements represent payments received from landlords at the time of construction and are deferred and amortized over the term of the lease.

Financial instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, loans and advances, bank indebtedness, accounts payable and accrued liabilities, construction accounts payable and accrued liabilities, long-term debt, amounts due to SIR Royalty Income Fund and loan payable to SIR Royalty Income Fund. The Company accounts for its cash and cash equivalents at fair value and all other financial instruments are accounted for using amortized cost.

Future income taxes

Future income taxes are provided on the asset and liability method whereby future income tax assets are recognized for deductible temporary differences and operating loss carry-forwards, and future income tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the amounts of assets and liabilities recorded for income tax and financial reporting purposes. Future income tax assets are recognized only to the extent that management determines it is more likely than not that the future income tax assets will be realized. Future income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment or substantive enactment.

Stock-based compensation and other stock-based payments

Effective September 1, 2003, the Company adopted the provisions of The Canadian Institute of Chartered Accountants (CICA) Handbook Section 3870, Stock-Based Compensation and Other Stock-Based Payments, for awards to non-employees and employee awards modified after September 1, 2003. For all other awards, the Company implemented the recommendations of Handbook Section 3870 in fiscal 2006. Compensation expense is recognized based on the fair value method of accounting for stock options granted under the Company's stock option plan, for options issued after September 1, 2003. Any consideration paid by employees or directors on exercising stock options is credited to capital stock.

Foreign currency translation

Until August 29, 2004, the operations of the Company's foreign subsidiary were considered to be self-sustaining and were therefore translated into Canadian dollars using the current rate method. Under this method, assets and liabilities are translated using year-end exchange rates while revenues and expenses are translated at the average rates during the period. Exchange gains and losses on translation are recorded in accumulated other comprehensive loss.

Effective August 30, 2004, the operations of the foreign subsidiary are considered integrated with those of the Company. As a result of the subsidiary's continuing losses from operations, the Company has been financing the subsidiary's operations; therefore, the Company's exposure to risk of fluctuations in foreign exchange has changed. Monetary items are now translated into Canadian dollars at the exchange rate in effect at the dates of

SIR Corp.

Notes to Consolidated Financial Statements

August 30, 2009 and August 31, 2008

the consolidated balance sheets, non-monetary items are translated at historical exchange rates and results of operations are translated at the average exchange rate for the period. Exchange gains and losses on the translation of the integrated foreign subsidiary are included in net loss for the period.

The exchange gains and losses accumulated in the currency translation adjustment account will be realized when there is a reduction in the Company's net investment in the operations that gave rise to the exchange gains and losses.

Asset retirement obligations

CICA Handbook Section 3110, Asset Retirement Obligations, establishes standards for the recognition, measurement and disclosure of liabilities for asset retirement obligations and the associated asset retirement cost. The standard applies to legal obligations associated with the retirement of tangible long-lived assets. The standard applies to obligations for both lessors and lessees in connection with leased assets. The Company has adopted the provisions of this standard with respect to estimated lease-end remediation costs.

Long-term debt and loan payable to SIR Royalty Income Fund

Deferred financing fees represent transaction costs paid to obtain financing and are netted against the related debt. The deferred financing fees are amortized over the term of the related debt using the effective interest rate method.

3 Changes to accounting policies and recently issued accounting pronouncements

Changes to accounting policies

Financial Instruments - Recognition and Measurement

CICA Handbook Section 3855, Financial Instruments - Recognition and Measurement, prescribes when a financial asset, financial liability or non-financial derivative is to be recognized on the balance sheet and at what amount - in certain instances using fair value and in others using cost-based measures. It also specifies how financial instrument gains and losses are to be presented. The Company adopted this standard effective August 27, 2007.

Effective August 27, 2007, the Company elected to classify its cash and cash equivalents as held-for-trading, which are carried at fair value, and to classify its accounts receivable and loans and advances as loans and receivables, which are carried at amortized cost. The Company's accounts payable and accrued liabilities, construction accounts payable and accrued liabilities, long-term debt, amounts due to SIR Royalty Income Fund and loan payable to SIR Royalty Income Fund are classified as other liabilities and are also carried at amortized cost.

Deferred financing fees of \$5,338,000 related to the long-term debt and the SIR Loan prior to August 26, 2007 were presented as a separate asset on the consolidated balance sheet and amortized on a straight-line basis over the term of the loans. Effective August 27, 2007, deferred financing fees are recognized as an offset to the carrying value of the long-term debt and the SIR Loan and amortized using the effective interest rate method.

SIR Corp.

Notes to Consolidated Financial Statements

August 30, 2009 and August 31, 2008

Financial Instruments - Disclosures

CICA Handbook Section 3862, Financial Instruments - Disclosures, increases the disclosures currently required that will enable users to evaluate the significance of financial instruments to an entity's financial position and performance, including disclosures about fair value. In addition, disclosure is required of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about liquidity risk and market risk. The quantitative disclosures must also include a sensitivity analysis for each type of market risk to which an entity is exposed, showing how net income and other comprehensive income would have been affected by reasonably possible changes in the relevant risk variable. The Company adopted this standard effective September 1, 2008 (note 4).

Financial Instruments - Presentation

CICA Handbook Section 3863, Financial Instruments - Presentation, replaces the existing requirements on presentation of financial instruments, which have been carried forward unchanged to this new section. The Company adopted this standard effective September 1, 2008.

Comprehensive Income

CICA Handbook Section 1530, Comprehensive Income, introduces a new requirement to temporarily present certain gains and losses outside net income. The Company adopted this standard effective August 27, 2007. Financial statements of prior periods are required to be restated for certain comprehensive income items. In addition, an enterprise is encouraged, but not required, to present reclassification adjustments in comparative financial statements provided for earlier periods.

The Company has determined that, except for the currency translation adjustment, it does not have any comprehensive income items requiring restatement or reclassification. Effective August 27, 2007, the currency translation adjustment is disclosed as accumulated other comprehensive loss in shareholders' deficiency on the consolidated balance sheets.

Hedges

CICA Handbook Section 3865, Hedges, establishes standards for when and how hedge accounting may be applied. Hedge accounting is optional. Retroactive application is not permitted. The Company adopted this standard effective August 27, 2007. The Company has no arrangements for hedging, and the adoption of this standard did not have any impact on the Company.

Capital Disclosures

CICA Handbook Section 1535, Capital Disclosures, requires disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital, whether the entity has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance. The Company adopted this standard effective September 1, 2008 (note 21).

SIR Corp.

Notes to Consolidated Financial Statements August 30, 2009 and August 31, 2008

Inventories

CICA Handbook Section 3031, Inventories, replaces Handbook Section 3030, Inventories, and provides more guidance on the measurement and disclosure requirements for inventories. The new standard allows the reversal of previous writedowns to net realizable value when there is a subsequent increase in the value of inventories. The Company adopted this standard effective September 1, 2008. The adoption of this standard did not have any impact on the Company.

Recently issued accounting pronouncements

International Financial Reporting Standards

The CICA plans to converge Canadian generally accepted accounting principles with International Financial Reporting Standards (IFRS) over a transition period expected to end in 2011. Management is evaluating whether or not the Company is required to adopt IFRS and therefore has not yet determined the impact.

Goodwill and Intangible Assets

CICA Handbook Section 3064, Goodwill and Intangible Assets, replaces Handbook Section 3062, Goodwill and Other Intangible Assets, and Handbook Section 3450, Research and Development Costs, and establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The provisions relating to the definition and initial recognition of intangible assets, including internally generated intangible assets, are equivalent to the corresponding provisions of International Accounting Standard (IAS) 38, Intangible Assets. The Company plans to adopt this standard effective August 31, 2009. Management has determined that the capitalization of restaurant pre-opening costs will no longer be permitted and that the impact of this retroactive change in accounting policy on the Company's consolidated financial statements will be a reduction to intangible and other assets of \$2,698,000 as at August 30, 2009, a reduction to future income tax liability of \$41,000 as at August 30, 2009, a reduction to net loss and comprehensive loss of \$523,000 for the 52-week period ended August 30, 2009 and an increase to deficit of \$3,180,000 at the beginning of the 52-week period ended August 30, 2009. Management has also determined that certain computer software costs with a net book value of \$118,000 will require reclassification from property and equipment to intangible and other assets.

Business Combinations, Consolidated Financial Statements and Non-Controlling Interests

CICA Handbook Section 1582, Business Combinations, Handbook Section 1601, Consolidated Financial Statements, and Handbook Section 1602, Non-Controlling Interests, replace the former Handbook Section 1581, Business Combinations, and Handbook Section 1600, Consolidated Financial Statements, and establish a new section for accounting for a non-controlling interest in a subsidiary. These sections provide the Canadian equivalent to IFRS 3, Business Combinations, and IAS 27, Consolidated and Separate Financial Statements. Handbook Section 1582 is effective for the Company for business combinations for which the acquisition date is on or after the reporting period beginning on or after August 29, 2011. Handbook Section 1601 and Handbook Section 1602 are effective for the Company for interim and annual consolidated financial statements relating to years beginning on or after August 29, 2011. Management has not yet determined the impact of this change on the Company's consolidated financial statements.

SIR Corp.

Notes to Consolidated Financial Statements August 30, 2009 and August 31, 2008

4 Financial instruments

Classification

As at August 30, 2009, the classifications of the financial instruments, as well as their carrying and fair values, are as follows:

	Classification	Carrying value \$	Fair value \$
		(in thousands of dollars)	
Cash and cash equivalents	Held-for-trading	8,183	8,183
Accounts receivable	Loans and receivables	2,787	2,787
Loans and advances	Loans and receivables	1,127	1,127
Accounts payable and accrued liabilities	Other financial liabilities	19,513	19,513
Construction accounts payable and accrued liabilities	Other financial liabilities	256	256
Long-term debt	Other financial liabilities	14,532	14,663
Amounts due to SIR Royalty Income Fund	Other financial liabilities	1,380	1,380
Loan payable to SIR Royalty Income Fund	Other financial liabilities	35,552	See below

Carrying and fair values

Cash and cash equivalents, accounts receivable, loans and advances, bank indebtedness, accounts payable and accrued liabilities, construction accounts payable and accrued liabilities and amounts due to SIR Royalty Income Fund are short-term financial instruments whose fair values approximate the carrying values, given that they will mature in the short term or, in the case of loans and advances, fair values do not differ significantly from their carrying values. The fair value of long-term debt is determined based on the estimated contractual schedule of payments. The fair value of the loan payable to SIR Royalty Income Fund could only be determined through the valuation of the debt. As a result, the determination of the fair value is not practicable within the constraints of timeliness and cost.

Objectives and policy relating to financial risk management

Financial risk management is carried out by the management of the Company and its Board of Directors. The Company's main financial risk exposure, as well as its risk management policy, is detailed as follows.

Interest rate risk

The loan payable to SIR Royalty Income Fund, the US loan payable, the loans payable to landlords and the capital lease obligations have fixed interest rates. Accordingly, changes in interest rates would not impact the consolidated statements of operations and comprehensive loss or the carrying value of these financial liabilities. However, the fair value of these financial liabilities will vary with changes in interest rates.

SIR Corp.

Notes to Consolidated Financial Statements August 30, 2009 and August 31, 2008

The Company currently has \$12,740,000 in floating rate debt through its bank indebtedness and construction line. The Company incurred \$426,000 of interest expense on these debts during the 52-week period ended August 30, 2009. An increase or decrease of 0.5% in the prime rate would have increased or decreased net loss and comprehensive loss by \$64,000, respectively, for the 52-week period ended August 30, 2009.

The Company's policy is to invest excess cash in short-term investments and it is not the Company's practice to hedge against changes in interest rates.

Credit risk

Credit risk is defined as the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit risk in its cash and cash equivalents, accounts receivable and loans and advances. The Company minimizes the credit risk of cash and cash equivalents by depositing funds with reputable financial institutions. The Company's accounts receivable primarily comprise amounts due from major credit card companies and therefore management believes that the Company's accounts receivable credit risk exposure is limited. The Company monitors the collectibility of its loans and advances, predominantly due from related parties, by reviewing them for impairment on an individual basis and recording the instrument at its net realizable value. The Company has determined that the loans and advances to U.S. S.I.R. L.L.C. are impaired based on estimated future cash flows of the remaining US operations. Accordingly, the carrying values of the loans and advances are recorded at their net realizable values. Due to the improvement in the estimated future cash flows of the US operations, a recovery of impairment of \$700,000 (53-week period ended August 31, 2008 - \$350,000) was recognized in the consolidated statements of operations. In addition, the Company has begun to receive payments on these loans and advances and, accordingly, recognized interest income of \$87,000 during the 52-week period ended August 30, 2009.

Foreign currency exchange risk

The Company is exposed to foreign currency exchange rate risk with respect to its one Jack Astor's restaurant operating in the United States and to its loans and advances from U.S. S.I.R. L.L.C. and its subsidiaries. As at August 30, 2009, the Company had financial assets of US\$264,000 and financial liabilities of US\$2,269,000. A 5% depreciation or appreciation in the Canadian dollar against the US dollar, assuming that all other variables had remained the same, would have resulted in an increase or decrease in net loss and comprehensive loss of \$97,000, respectively, for the 52-week period ended August 30, 2009.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Management believes that there are sufficient cash resources retained in the Company from cash generated by operations to fund its working capital requirements and current commitments for estimated construction costs for new restaurants. The Company prepares budgets and forecasts to evaluate its ability to meet future cash obligations.

SIR Corp.

Notes to Consolidated Financial Statements August 30, 2009 and August 31, 2008

Included in cash and cash equivalents is \$1,591,000 (August 31, 2008 - \$1,295,000) of cash of the Partnership. These funds are consolidated for financial statement reporting purposes due to the Company's ownership of the Partnership. However, these funds can only be utilized by the Partnership and are not available to the Company for other general corporate purposes. The funds are maintained in separate bank accounts of the Partnership.

The estimated contractual payments required for the financial liabilities are as follows:

	2010	2011	2012	2013	2014	Thereafter
	\$	\$	\$	\$	\$	\$
	(in thousands of dollars)					
Accounts payable and accrued liabilities	19,513	-	-	-	-	-
Construction accounts payable and accrued liabilities	256	-	-	-	-	-
Long-term debt (a)	1,800	2,301	2,262	20,951	227	382
Amounts due to SIR Royalty Income Fund	1,380	-	-	-	-	-
Loan payable to SIR Royalty Income Fund	-	-	-	-	-	40,000
	<u>22,949</u>	<u>2,301</u>	<u>2,262</u>	<u>20,951</u>	<u>227</u>	<u>40,382</u>

- a) The scheduled repayments for long-term debt reflect the repayment terms of the senior term debt facility entered into subsequent to year-end (notes 10 and 23).

5 Acquisition of non-controlling interests

Effective April 13, 2009, the Company acquired the non-controlling interest's shares in Jack Astor's Don Mills Limited for cash consideration of \$250,000. The purchase price exceeded the non-controlling interest in the acquired net assets by \$102,000. This amount has been allocated based on the fair value of the assets and liabilities acquired to intangible and other assets, goodwill, future income taxes and other long-term liabilities.

Effective December 17, 2007, the Company acquired the non-controlling interest's share in Jack Astor's (Cary & Las Colinas) Limited for cash consideration of \$190,000. The purchase price exceeded the non-controlling interest in the acquired net assets by \$190,000. This amount has been allocated based on the fair value of the assets and liabilities acquired to goodwill and property and equipment. Jack Astor's (Cary & Las Colinas) Limited has experienced operating losses and therefore management tested the goodwill for impairment, subsequent to the acquisition. Management determined that the carrying value of the net assets exceeded the fair value of the business unit and, accordingly, an impairment charge in fiscal 2008 of \$166,000 was recorded for the goodwill arising upon the acquisition of the non-controlling interest.

SIR Corp.

Notes to Consolidated Financial Statements August 30, 2009 and August 31, 2008

6 Loans and advances

	August 30, 2009 \$	August 31, 2008 \$
	(in thousands of dollars)	
Loan receivable from U.S. S.I.R. L.L.C., with interest at 10%, interest only repayable annually, due August 31, 2003	1,180	1,180
Advances to and receivables from U.S. S.I.R. L.L.C., non-interest bearing, due on demand	4,358	4,904
Advances to and receivables from subsidiaries of U.S. S.I.R. L.L.C., non-interest bearing, due on demand	398	398
	<hr/>	<hr/>
Provision for impairment	5,936 (4,809)	6,482 (5,595)
	<hr/>	<hr/>
Current portion	1,127 (250)	887 (180)
	<hr/>	<hr/>
	877	707
	<hr/>	<hr/>

Loans and advances are reviewed for impairment on an individual basis. The assessment of impairment is based on the expected ability of the payor to make the required payments when due. Interest income is not recorded when a loan becomes impaired.

Prior to 2008, advances were made to U.S. S.I.R. L.L.C. and its subsidiaries to facilitate ongoing operations and the closure of certain restaurant operations. The Company determined that these advances are impaired based on estimated future cash flows of the remaining US operations. Accordingly, the loans and advances have been recorded at their net realizable value of \$1,127,000 (August 31, 2008 - \$887,000). During 2009, the Company received payments of \$541,000 (53-week period ended August 31, 2008 - \$180,000) and, as a result, it recorded a recovery of impairment of \$700,000 (53-week period ended August 31, 2008 - \$350,000) in the current year based on the expected payments to be received from U.S. S.I.R. L.L.C.

Prior to 2008, the Company acquired the rights to certain debt owed by U.S. S.I.R. L.L.C. from certain shareholders. The loan of \$2,284,000 bears interest at 10% and has no set terms of repayment. The Company maintains the carrying value of the U.S. S.I.R. L.L.C. loan at \$nil, which is the carrying value prior to acquisition.

SIR Corp.

Notes to Consolidated Financial Statements August 30, 2009 and August 31, 2008

A continuity of the loans and advances to U.S. S.I.R. L.L.C. and subsidiaries is as follows:

	\$ (in thousands of dollars)
Balance - August 26, 2007	757
Payment received	(180)
Foreign exchange	(40)
Recovery of impairment	350
	<hr/>
Balance - August 31, 2008	887
Payment received	(541)
Foreign exchange	(6)
Interest	87
Recovery of impairment	700
	<hr/>
Balance - August 30, 2009	<u>1,127</u>

7 Property and equipment

	August 30, 2009		
	\$		
	Cost	Accumulated amortization	Net
	(in thousands of dollars)		
Corporate			
Furniture, fixtures and equipment	528	420	108
Leasehold improvements	238	211	27
Computer equipment and software	2,006	1,730	276
Restaurants			
Land	1,238	-	1,238
Buildings	1,713	732	981
Furniture, fixtures and equipment	36,559	17,042	19,517
Leasehold improvements	53,064	25,391	27,673
	<hr/>	<hr/>	<hr/>
	95,346	45,526	49,820
	<hr/>	<hr/>	<hr/>

SIR Corp.

Notes to Consolidated Financial Statements August 30, 2009 and August 31, 2008

		August 31, 2008	
	Cost	Accumulated amortization	Net
		(in thousands of dollars)	
Corporate			
Furniture, fixtures and equipment	522	389	133
Leasehold improvements	237	191	46
Computer equipment and software	1,977	1,617	360
Restaurants			
Land	1,238	-	1,238
Buildings	1,713	646	1,067
Furniture, fixtures and equipment	33,602	13,777	19,825
Leasehold improvements	50,918	20,572	30,346
	<hr/> 90,207	<hr/> 37,192	<hr/> 53,015

Amortization of property and equipment charged to the consolidated statements of operations for the 52-week period ended August 30, 2009 was \$8,783,000 (53-week period ended August 31, 2008 - \$7,823,000).

Property and equipment includes \$250,000 (August 31, 2008 - \$2,672,000) of costs for restaurants under development that are not being amortized as at August 30, 2009.

Property and equipment includes computer equipment held under capital leases with a cost of \$1,101,000 (August 31, 2008 - \$1,105,000) and net book value of \$671,000 (August 31, 2008 - \$895,000).

As a result of a decline in sales and earnings from certain restaurants, the Company conducted an impairment analysis of the restaurants' long-lived assets. No impairments were noted in 2009. In 2008, the analysis indicated that the estimated future cash flow for one restaurant in the Canyon Creek operating segment was not sufficient to recover the carrying value of the restaurant's long-lived assets (property and equipment and pre-opening costs). Accordingly, an impairment loss of \$98,000 was recorded to write down leasehold improvements to their fair values. The fair values were determined using a depreciated replacement cost methodology.

SIR Corp.

Notes to Consolidated Financial Statements August 30, 2009 and August 31, 2008

8 Goodwill

	\$ (in thousands of dollars)
Balance - August 26, 2007	5,736
Goodwill arising upon acquisition of non-controlling interest (note 5)	166
Provision for impairment	<u>(277)</u>
Balance - August 31, 2008	5,625
Goodwill arising upon acquisition of non-controlling interest (note 5)	22
Provision for impairment	<u>(237)</u>
Balance - August 30, 2009	<u>5,410</u>

During the 52-week period ended August 30, 2009, the Company recognized an impairment of goodwill of \$237,000 (53-week period ended August 31, 2008 - \$277,000) relating to one restaurant (53-week period ended August 31, 2008 - two restaurants) in the following segments:

	52-week period ended August 30, 2009 \$	53-week period ended August 31, 2008 \$
	(in thousands of dollars)	
Canada		
Jack Astor's	-	111
Signature	<u>237</u>	<u>-</u>
	237	111
United States		
Jack Astor's	-	166
	<u>237</u>	<u>277</u>

The impairments are a result of declining sales and earnings of these restaurants. The fair values of these restaurants were estimated using a model where the estimated free cash flow was multiplied by an earnings multiple. Based on these fair value estimates and the estimated fair values of the net assets of the restaurants, it was determined that goodwill was impaired and was fully written off.

SIR Corp.

Notes to Consolidated Financial Statements August 30, 2009 and August 31, 2008

9 Intangible and other assets

	August 30, 2009		
	\$		
	Cost	Accumulated amortization (in thousands of dollars)	Net
Deferred transaction costs (note 10)	140	-	140
Restaurant pre-opening costs	5,050	2,352	2,698
Intangible lease assets	1,147	694	453
	6,337	3,046	3,291

	August 31, 2008		
	\$		
	Cost	Accumulated amortization (in thousands of dollars)	Net
Restaurant pre-opening costs	4,590	1,382	3,208
Intangible lease assets	1,278	706	572
	5,868	2,088	3,780

Restaurant pre-opening costs include \$139,000 (August 31, 2008 - \$166,000) of costs that are not being amortized at August 30, 2009 because the pre-operating period has not been completed.

In 2008, the Company recognized an impairment of restaurant pre-opening costs of \$127,000 in one restaurant in the Canyon Creek operating segment. The impairment is a result of an analysis indicating that the estimated future cash flow for this restaurant is not sufficient to recover the carrying value of the restaurant's long-lived assets (property and equipment and pre-opening costs). As a result, the carrying value has been written down to its estimated fair value of \$nil. The Company performed a similar test in 2009 and no impairments were noted.

Amortization of intangible and other assets charged to the consolidated statements of operations for the 52-week period ended August 30, 2009 was \$1,106,000 (53-week period ended August 31, 2008 - \$817,000).

SIR Corp.

Notes to Consolidated Financial Statements August 30, 2009 and August 31, 2008

10 Bank indebtedness and long-term debt

	August 30, 2009 \$	August 31, 2008 \$
	(in thousands of dollars)	
Construction line (a)	12,608	8,194
Loan payable (US\$1,228,000; 2008 - US\$1,362,000), bearing interest at 9.01%, due February 1, 2016, repayable in monthly blended instalments of principal and interest of \$23,000 (US\$21,000) (b)	1,342	1,447
Loans payable to landlords, non-interest bearing, repayable in monthly instalments, maturing June 22, 2010 (August 31, 2008 - maturing between May 31, 2009 and June 22, 2010)	15	45
Capital lease obligations, bearing interest between 9.8% and 10.8%, repayable in monthly instalments, maturing between June 15, 2010 and February 1, 2011	567	824
	<hr/>	<hr/>
Current portion (c)	14,532 (2,982)	10,510 (1,733)
	<hr/>	<hr/>
	11,550	8,777

- a) On August 9, 2007, the Company entered into a \$16,000,000 credit facility. The credit facility consists of a two-year revolving credit facility (operating line) up to \$2,000,000, a two-year revolving construction credit facility (construction line) for up to \$13,000,000 and a treasury management facility for up to \$1,000,000. Outstanding balances under the construction line for completed restaurants convert into a five-year amortizing term loan at the end of the committed period or earlier, to be determined by the Company and the lender. The construction line and the operating line are two-year committed facilities, renewable annually thereafter at the lender's sole discretion for a 364-day period. The structure of the facility may be in the form of direct advances, banker's acceptances, letters of credit or guarantee and a fixed term loan (up to a five-year term). The rates of interest on the financing are banker's acceptance rate plus 1.75% or prime rate plus 0.25%. The financing arrangement is collateralized by a general security agreement and entitles the lender to a first charge on all of the Company's assets, including a pledge of all shares and the investment in the Partnership and a specific assignment of the rights under the Licence and Royalty Agreement. However, the lender does not have a pledge over the assets of the Partnership. The financing arrangement contains certain financial and non-financial covenants.

Effective July 30, 2009, the lender approved the extension of the credit facilities for 364 days, maturing on July 31, 2010, at which time the construction line, if not extended, would be converted into a five-year term loan due in 60 equal monthly instalments. The rates of interest on the financing were revised to banker's acceptance rate plus 3.75% or prime rate plus 2.25%. All other terms and conditions remained the same. The Company has certain debt covenants that it is in compliance with as at August 30, 2009.

SIR Corp.

Notes to Consolidated Financial Statements

August 30, 2009 and August 31, 2008

The unused operating line and construction line as at August 30, 2009 is \$1,924,000 and \$260,000, respectively (August 31, 2008 - \$1,090,000 and \$3,960,000, respectively). As at August 30, 2009, the Company has outstanding letters of credit and a purchasing card totalling \$76,000 (August 31, 2008 - \$5,000).

In compliance with CICA Handbook Section 3855, Financial Instruments - Recognition and Measurement, the Company has recorded its long-term debt at amortized cost. Effective August 27, 2007, the Company reclassified \$850,000 of deferred financing fees and netted these against the long-term debt. During 2009, a further \$107,000 of deferred financing fees was incurred related to the extension of the existing credit facility. The Company amortizes these costs over the expected life of the long-term debt using the effective interest rate method. Amortization of deferred financing fees of \$822,000 (53-week period ended August 31, 2008 - \$4,000) has been charged to interest expense in the consolidated statements of operations. As a result of refinancing the long-term debt on November 13, 2009, the amortization of the deferred financing fees was accelerated to recognize these costs in the consolidated statements of operations over the remaining period of the long-term debt. As at August 30, 2009, \$131,000 of deferred financing fees remains unamortized and netted against the long-term debt and will be recognized in the consolidated statement of operations in the first quarter of fiscal 2010.

Effective November 13, 2009, the Company entered into a new \$26,000,000 senior term debt facility which, in turn, replaced its existing debt facility described above. The credit facility has a three-year term with a 10-year amortization. The rate of interest on the financing is the greater of 7.8% per annum and the three-month Canadian dollar banker's acceptance rate plus 7.55% per annum, calculated monthly, not in advance. The debt is repayable in estimated monthly blended instalments of principal and interest of \$314,000. The bank debt is collateralized by a general security agreement and entitles the lender to a first charge on all of the Company's assets, including a pledge of all shares and the investment in the Partnership and a specific assignment of the rights under the Licence and Royalty Agreement. However, the lender does not have a pledge over the assets of the Partnership. The financing arrangement contains certain financial and non-financial covenants. In addition, the debt is guaranteed by the majority shareholder of the Company. The Company also issued 26 warrants to the majority shareholder of the Company to acquire Class S Special Shares of the Company. This warrant has been pledged to the new senior lender (note 23).

- b) This loan was entered into by Jack Astor's Cary, LLC, a subsidiary of Jack Astor's (Cary & Las Colinas) Limited, in fiscal 2001 and is guaranteed by the Company. This loan is currently non-compliant with respect to certain financial and non-financial covenants; as a result, this loan is presented as a current liability. All payments due on the loan have been made to date and no notices of default have been received by the borrowers. The loan is secured by the assets of Jack Astor's (Cary & Las Colinas) Limited and a pledge of the shares in Jack Astor's (Cary & Las Colinas) Limited.
- c) The current portion of long-term debt reflects the repayment terms of the new senior term debt facility entered into subsequent to year-end.

SIR Corp.

Notes to Consolidated Financial Statements August 30, 2009 and August 31, 2008

The principal amount of long-term debt reflecting the new debt facility is repayable as follows:

	\$ (in thousands of dollars)
2010	1,800
2011	2,301
2012	2,262
2013	20,951
2014	228
Thereafter	382
	<u>27,924</u>

A summary of the effective interest rate on long-term debt and interest expense, in thousands of dollars, is as follows:

	August 30, 2009	August 31, 2008
Weighted average interest rate on long-term debt	4.4%	5.8%
Interest expense relating to long-term debt	\$633	\$390
Interest expense on capital lease obligation	\$77	\$61

11 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 October 12, 2044. On August 9, 2007, the Fund and the Partnership entered into an Interlender Agreement to subordinate and postpone their claims against the Company in favour of the bank. The Partnership and the Fund have not guaranteed the existing or new credit facilities (note 10).

The bank 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 bank. 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 revenues, has been effected pursuant to the terms of an Interlender Agreement.

SIR Corp.

Notes to Consolidated Financial Statements

August 30, 2009 and August 31, 2008

Under the Interlender Agreement, absent a default or event of default under the \$16,000,000 credit facility, ordinary payments to the Partnership and the Fund 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, then payments to the Fund and the Partnership could cease and the related rights of the Fund and the Partnership could be subject to a standstill obligation for a period of up to 120 days (which may be extended if the bank is pursuing remedies). The Interlender Agreement also contains various other typical covenants of the Fund and the Partnership. On November 13, 2009, the Fund and the Partnership entered into a Subordination and Postponement Agreement to subordinate and postpone their claims against the Company in favour of the lender for the \$26,000,000 senior term debt facility. The terms of the Subordination and Postponement Agreement are consistent with the Interlender Agreement.

Interest expense charged to the consolidated statements of operations for the 52-week period ended August 30, 2009 was \$2,992,000 (53-week period ended August 31, 2008 - \$3,049,000).

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.

In compliance with CICA Handbook Section 3855, Financial Instruments - Recognition and Measurement, the Company has recorded the SIR Loan at amortized cost. Effective August 27, 2007, the Company reclassified \$4,488,000 of deferred financing fees and netted these against the SIR Loan. The Company amortizes this cost over the term of the SIR Loan using the effective interest rate method. Amortization of deferred financing fees of \$21,000 (53-week period ended August 31, 2008 - \$19,000) has been charged to interest expense in the consolidated statements of operations.

SIR Corp.

Notes to Consolidated Financial Statements August 30, 2009 and August 31, 2008

b) Non-controlling interest in SIR Royalty Limited Partnership

	52-week period ended August 30, 2009 \$	53-week period ended August 31, 2008 \$
	(in thousands of dollars)	
Initial investment by the Fund	11,167	11,167
Non-controlling interest in earnings of the Partnership	4,679	5,078
Distributions declared on the Partnership units held by the non-controlling interest	(4,679)	(5,078)
	<hr/>	<hr/>
Non-controlling interest in the Partnership	11,167	11,167
	<hr/>	<hr/>
Pooled revenue*	185,422	175,147
	<hr/>	<hr/>
Partnership royalty income*	11,125	10,539
Other income	38	63
Partnership expenses	(123)	(107)
	<hr/>	<hr/>
Net earnings of the Partnership	11,040	10,495
The Company's interest in the Partnership	(6,361)	(5,417)
	<hr/>	<hr/>
Non-controlling interest in the Partnership	4,679	5,078
	<hr/>	<hr/>

*Includes revenue from the SIR Restaurants subject to the Licence and Royalty Agreement. 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 the 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 are entitled to receive a pro rata share of all residual distributions of the Partnership and have the right to receive distributions in priority to the initial 595,185 Class A GP Units that are held by the Company.

The holders of the Class A GP Units are 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).

SIR Corp.

Notes to Consolidated Financial Statements

August 30, 2009 and August 31, 2008

Under the terms of the Licence and Royalty Agreement, the Company may be required to pay a Make-Whole Payment in respect of the reduction in revenue for restaurants closed during a reporting period. The Company is not required to pay any Make-Whole Payment in respect of a closed restaurant following the date on which the number of restaurants in the Royalty pool is equal to or greater than 68 or following October 12, 2019, whichever occurs first. 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 revenues of the new SIR Restaurants exceed 80% of the initial estimated revenue. Conversely, converted Class A GP Units may be returned by the Company if the actual revenues are less than 80% of the initial estimated revenue. In December of each year, an additional distribution may be payable to the Class B GP unitholders based on actual revenues of the new SIR Restaurants exceeding 80% of the initial estimated revenue or there may be a reduction in the distributions to the Class A GP unitholders if revenues are less than 80% of the initial estimated revenue.

On January 1, 2009, six (January 1, 2008 - three) new SIR restaurants were added to the Royalty Pooled Restaurants in accordance with the Partnership Agreement. As consideration for the additional Royalty associated with the addition of six new restaurants on January 1, 2009 (January 1, 2008 - three), as well as the Second Incremental Adjustment for the three new SIR restaurants added to the Royalty Pooled Restaurants on January 1, 2008 (January 1, 2007 - three), the Company converted its Class B GP Units into Class A GP Units based on the formula defined in the Partnership Agreement. The number of Class B GP Units that the Company converted into Class A GP Units was reduced by an adjustment for the closure of nil (2008 - two) SIR Restaurants during the prior calendar year. The net effect of these adjustments to the Royalty Pooled Restaurants was that the Company converted 1,077,000 (January 1, 2008 - 194,000) Class B GP Units into 1,077,000 (January 1, 2008 - 194,000) Class A GP Units on January 1, 2009 at an estimated fair value of \$5,972,000 (January 1, 2008 - \$1,456,000). As a result of this exchange, the Company's interest in the Partnership increased to 33.7% effective January 1, 2009.

In addition, the revenues of three (January 1, 2007 - three) new SIR Restaurants added to the Royalty pool on January 1, 2008 exceeded 80% of the Initial Adjustment's estimated revenue and, as a result, an Additional Distribution of \$178,000 was declared in December 2008 (December 2007 - \$77,000) and paid the following January.

SIR Corp.

Notes to Consolidated Financial Statements August 30, 2009 and August 31, 2008

c) Amounts due to SIR Royalty Income Fund

Amounts due to (from) SIR Royalty Income Fund and its subsidiaries consist of:

	August 30, 2009	August 31, 2008
	\$	\$
	(in thousands of dollars)	
Advances receivable	(1,518)	(1,573)
Interest payable on SIR Loan (note 11(a))	247	283
Partnership distributions payable (note 11(b))	2,651	2,814
	<hr/>	<hr/>
Payable to SIR Royalty Income Fund and its subsidiaries - net	1,380	1,524
	<hr/>	<hr/>

Amounts due to (from) related parties are non-interest bearing and due on demand.

During the 52-week period ended August 30, 2009, distributions of \$4,679,000 (53-week period ended August 31, 2008 - \$5,078,000) were declared to the Fund through the Partnership. The Fund, indirectly through the Trust, is entitled to receive a pro rata share of all residual distributions.

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 of the Partnership. For the 52-week period ended August 30, 2009, the Partnership provided these services to the Fund and the Trust for consideration of \$24,000 (53-week period ended August 31, 2008 - \$24,000), which was the amount of consideration agreed to by the related parties.

12 Other long-term liabilities

	August 30, 2009	August 31, 2008
	\$	\$
	(in thousands of dollars)	
Supplier rebates	397	542
Leasehold inducements and straight-line rent liability	5,700	6,331
Accrued management bonus (a)	3,965	4,402
Asset retirement obligation (b)	427	334
	<hr/>	<hr/>
Current portion	10,489	11,609
	(1,483)	(1,499)
	<hr/>	<hr/>
	9,006	10,110
	<hr/>	<hr/>

SIR Corp.

Notes to Consolidated Financial Statements August 30, 2009 and August 31, 2008

- a) The Company has a management bonus program that provides restaurant managers and area directors with the opportunity to earn a bonus based on the cash flow of the restaurant(s). The percentage of cash flow earned depends on the manager's and area director's years of service and ranges from 0% to 10%. The managers and area directors also have the opportunity to earn a bonus upon leaving the organization if he or she has completed at least five years of service. This bonus is based on a predetermined formula, using cash flows over a three-year period and a percentage that ranges from 2% to 10%. Upon leaving the program, the participant's bonus is paid in three instalments over a two-year period.
- b) The Company has recorded an asset retirement obligation in respect of the estimated lease-end remediation costs. The asset retirement obligation was estimated based on a discounted cash flow analysis using the following key assumptions:

	August 30, 2009	August 31, 2008
Total undiscounted estimated cash flows, in thousands of dollars	\$784	\$622
Expected timing of repayments	1.3 to 13.5 years	0.6 to 13.8 years
Discount rate	4.5% to 7.5%	7.5%

13 Capital stock

Authorized
Unlimited common shares

Issued and outstanding

	August 30, 2009		August 31, 2008	
	Number of shares	\$ (in thousands of dollars)	Number of shares	\$ (in thousands of dollars)
	(in thousands)		(in thousands)	
Balance - Beginning of period	15,775	17,605	15,775	17,627
Issued on exercise of stock options	-	-	20	-
Repurchased	-	-	(20)	(22)
Balance - End of period	15,775	17,605	15,775	17,605

On November 13, 2009, the Company repurchased common shares, issued warrants and certain stock options were forfeited (note 23).

SIR Corp.

Notes to Consolidated Financial Statements

August 30, 2009 and August 31, 2008

During 2008, 20,000 stock options were exercised for \$nil consideration. The Company immediately repurchased 20,000 shares of the Company for total cash consideration of \$58,000. Of this amount, \$22,000 was charged to capital stock and \$36,000 was charged to deficit.

Stock option plan

There were no stock options granted, exercised or forfeited during the 52-week period ended August 30, 2009. A summary of the status of the Company's stock option plan as at August 30, 2009 and August 31, 2008 and changes during the periods is presented below:

	Number of options outstanding	Weighted average exercise price per share \$
Balance - August 26, 2007	2,201,450	0.03
Exercised during 2008	(20,000)	-
	<hr/>	<hr/>
Balance - August 31, 2008 and August 30, 2009	2,181,450	0.03

As at August 30, 2009, the outstanding and exercisable options to purchase common shares are as follows:

Option price range	<u>Options outstanding</u>			<u>Options exercisable</u>	
	Number of options	Weighted average remaining life (years)	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
\$nil (a)	34,000	-	-	34,000	-
\$0.01 (b)	2,112,450	11.5	0.01	2,112,450	0.01
\$1.00 (US) (c)	35,000	-	1.00 (US)	35,000	1.00 (US)
	<hr/>			<hr/>	
	2,181,450			2,181,450	

SIR Corp.

Notes to Consolidated Financial Statements August 30, 2009 and August 31, 2008

As at August 31, 2008, the outstanding and exercisable options to purchase common shares are as follows:

Option price range	Options outstanding			Options exercisable	
	Number of options	Weighted average remaining life (years)	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
\$nil (a)	34,000	-	-	34,000	-
\$0.01 (b)	2,112,450	12.5	0.01	2,112,450	0.01
\$1.00 (US) (c)	<u>35,000</u>	-	1.00 (US)	<u>35,000</u>	1.00 (US)
	<u>2,181,450</u>			<u>2,181,450</u>	

- These options have all vested. Upon death, permanent disability or resignation of employment with the Company, the Company retains the right to purchase the employee's remaining interest at a negotiated price, which shall be paid over three years. These options do not expire.
- The options vested at the date of grant and expire on the 20th anniversary after the date of grant.
- The options vest at the fourth anniversary after the date of grant. In the event of death, disability or resignation or replacement as a director, the Company retains the right to purchase the optionee's remaining interest at a negotiated price, which shall be paid over three years. These options do not expire.

14 Related party transactions

In addition to the transactions disclosed elsewhere in these consolidated financial statements, the Company entered into the following related party transactions:

	August 30, 2009 \$	August 31, 2008 \$
	(in thousands of dollars)	
Corporate costs		
Paid operational services provided by two shareholders of the Company	530	496
Paid rent for its head office premises to certain shareholders of the Company (directly or indirectly)	-	160
Paid consulting fees indirectly to one of the Company's directors	21	-
Paid consulting fees to one shareholder of the Company	-	24
Direct costs of restaurant operations		
Paid consulting fees indirectly to one of the Company's directors	149	135
Property and equipment		
Paid design fees provided by one shareholder of the Company	137	488

SIR Corp.

Notes to Consolidated Financial Statements

August 30, 2009 and August 31, 2008

The above transactions are in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

The Company has a lease commitment related to its head office premises that expires on December 31, 2010. The head office premise was previously owned by certain shareholders of the Company until July 4, 2008, when the leased premises were sold by the related party and, therefore, rental payments ceased to be a related party transaction effective that date.

15 Contingencies and commitments

In the normal course of business the Company is threatened from time to time with, or named as a defendant in, legal proceedings, including those relating to wrongful dismissal or personal injury. Many claims are covered by the Company's insurance policies and none of the current claims are expected to have a material adverse effect on the Company.

The Company and its subsidiaries have entered into operating leases relating to its head office and retail locations with minimum annual payments (excluding occupancy cost and percentage rent) as follows:

	\$ (in thousands of dollars)
2010	10,442
2011	9,918
2012	10,475
2013	10,342
2014	9,557
Thereafter	<u>37,152</u>
	<u>87,886</u>

As at August 30, 2009, the Company has three commitments to lease properties upon which it plans to build three new restaurants. As at August 30, 2009, the Company has not entered into any construction contracts for the three restaurants to be built, but expects to in the future. Final costs of construction are subject to uncertainties as to their amounts and timing. Such things as finalization of design and final construction quotations could change the total cost of these projects.

SIR Corp.

Notes to Consolidated Financial Statements August 30, 2009 and August 31, 2008

16 Supplemental cash flow information

The net change in working capital items is as follows:

	August 30, 2009	August 31, 2008
	\$	\$
	(in thousands of dollars)	
Accounts receivable	220	(386)
Inventories	266	(573)
Prepaid expenses, deposits and other assets	48	189
Accounts payable and accrued liabilities	2,736	442
Amounts due to SIR Royalty Income Fund	(144)	264
Accrued management bonus	(437)	925
	<hr/>	<hr/>
	2,689	861
	<hr/>	<hr/>

Other non-cash items consist of the following:

	August 30, 2009	August 31, 2008
	\$	\$
	(in thousands of dollars)	
Loss on disposal of property and equipment	232	167
Straight-line rent expense	216	251
Supplier rebates	(145)	(260)
Other	-	11
	<hr/>	<hr/>
	303	169
	<hr/>	<hr/>

Supplemental information in respect of the consolidated statements of cash flows has been provided as follows:

	August 30, 2009	August 31, 2008
	\$	\$
	(in thousands of dollars)	
Interest paid	<hr/>	<hr/>
	3,606	3,591
Rent paid	<hr/>	<hr/>
	9,965	9,300
Income taxes paid (recovered)	<hr/>	<hr/>
	(52)	7
Purchase of property and equipment under capital leases	<hr/>	<hr/>
	-	605
Receivable for leasehold inducements	<hr/>	<hr/>
	-	773

SIR Corp.

Notes to Consolidated Financial Statements August 30, 2009 and August 31, 2008

17 Income taxes

The components of the provision for (recovery of) income taxes are as follows:

	August 30, 2009	August 31, 2008
	\$	\$
	(in thousands of dollars)	
Current	(70)	6
Future	35	9
	<hr/>	<hr/>
	(35)	15
	<hr/>	<hr/>

A reconciliation of the Company's effective tax rate to the combined federal and provincial income tax rate is provided as follows:

	August 30, 2009	August 31, 2008
	\$	\$
	(in thousands of dollars)	
Loss before income taxes and non-controlling interests in other subsidiary companies	<hr/>	<hr/>
	(1,111)	(2,453)
Income tax recovery at Canadian statutory rate of 33.2% (August 31, 2008 - 34.4%)	(369)	(843)
Increase (decrease) by the effect of		
Non-controlling interest in SIR Royalty Limited Partnership	1,552	1,745
Non-deductible expenses	103	118
Deductible expenses	(1,617)	(1,433)
Differences in effective tax rates	73	46
Change in valuation allowance	257	75
Change in future tax rates	9	310
Non-taxable foreign exchange loss	(26)	(5)
Other	(17)	2
	<hr/>	<hr/>
	(35)	15
	<hr/>	<hr/>

SIR Corp.

Notes to Consolidated Financial Statements August 30, 2009 and August 31, 2008

Future income tax assets (liabilities) are summarized as follows:

	August 30, 2009 \$	August 31, 2008 \$
	(in thousands of dollars)	
Property and equipment	(769)	(1,758)
Intangible and other assets	(1,442)	(1,582)
Loss carry-forwards	8,380	8,586
Accrued management bonus	1,147	1,278
Leasehold inducements	1,636	1,824
Asset retirement obligation	121	97
Ontario tax harmonization	97	-
	<hr/>	<hr/>
Valuation allowance	9,170	8,445
	(9,308)	(8,454)
	<hr/>	<hr/>
	(138)	(9)
	<hr/>	<hr/>

As at August 30, 2009, the Company and its subsidiaries have available non-capital losses of \$22,472,000 (August 31, 2008 - \$23,367,000) for income tax purposes, which expire as follows:

	\$
	(in thousands of dollars)
2010	1,338
2014	1,746
2015	8,584
2025	1,109
2026	3,084
2027	2,248
2028	3,242
2029	1,121
	<hr/>
	22,472
	<hr/>

In addition, the Company has capital losses of \$5,473,000 (August 31, 2008 - \$5,473,000), which do not expire and are available to reduce future capital gains.

In aggregate, the Company has recognized \$nil (August 31, 2008 - \$141,000) of the benefit of the non-capital losses and \$nil (August 31, 2008 - \$nil) of capital losses. The benefits of non-capital losses have been recognized to the extent that these can be offset by other future income tax liabilities.

SIR Corp.

Notes to Consolidated Financial Statements August 30, 2009 and August 31, 2008

18 Other income (expense)

The composition of other income (expense) is as follows:

	August 30, 2009	August 31, 2008
	\$	\$
	(in thousands of dollars)	
Loss on disposal of property and equipment	(232)	(167)
Income from gift certificates	62	215
Abandoned transaction costs (a)	(610)	-
Other	145	93
	<u>(635)</u>	<u>141</u>

- a) During the 52-week period ended August 30, 2009, the Company expensed \$610,000 (53-week period ended August 31, 2008 - \$nil) of professional fees relating to an abandoned transaction.

19 Segmented operations

The Company operates a portfolio of restaurants in Canada and the United States, which are categorized as Concept or Signature restaurants. Concept restaurants are brands that have been rolled out to multiple locations; Signature restaurants are one-of-a-kind brands. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates the performance of each segment based on earnings (loss) from operations before income taxes, interest, other non-recurring gains and losses, corporate costs and amortization of non-restaurant assets.

Selected information about the Company's operating segments has been provided as follows:

	August 30, 2009	August 31, 2008
	\$	\$
	(in thousands of dollars)	
Food and beverage revenue		
Canada		
Jack Astor's	131,783	117,493
Alice Fazooli's	18,881	20,784
Canyon Creek Chop House	28,220	29,233
Signature	14,740	18,072
	<u>193,624</u>	<u>185,582</u>
United States		
Jack Astor's	3,081	2,783
	<u>196,705</u>	<u>188,365</u>

SIR Corp.

Notes to Consolidated Financial Statements August 30, 2009 and August 31, 2008

20 Restructuring costs

During 2009, the Company restructured its operations and incurred severance costs of \$228,000. As at August 30, 2009, all severance costs have been paid.

21 Capital management

The Company's capital consists of its capital stock and deficit of \$17,605,000 and \$36,734,000, respectively. The objectives in managing capital are to safeguard the Company's ability to continue as a going concern, to provide financial capacity and flexibility to meet its strategic objectives, to allow the Company to respond to changes in economic and/or marketplace conditions and to provide a return to its shareholders. The Company strives to maintain an optimal split between debt and equity with a view to balance its flexibility while minimizing its cost of capital. The Company evaluates cash flow through its budgeting and forecasting process, to help plan and track its capital requirement to meet its strategic plans.

On November 13, 2009, the Company provided an undertaking to the Fund and the Partnership to restrict the amount of the additional debt that the Company can incur without the consent of the Fund and the Partnership (which consent shall not be unreasonably withheld). The Company is required to issue common shares upon the exercising of stock options by shareholders, directors and employees.

22 Comparative figures

Certain of the prior period balances have been reclassified to conform to the current period's financial statement presentation.

23 Subsequent events

On November 13, 2009, the Company entered into a \$26,000,000 new senior term debt facility. Part of the proceeds from this facility was used to repay \$12,740,000 outstanding on the construction line (note 10). The remaining proceeds, as well as a portion of existing cash on hand, were used to repurchase 5,407,000 common shares of the Company from one shareholder, to acquire the rights to certain debts owed by U.S. S.I.R. L.L.C. from one shareholder of the Company and to pay professional fees and transaction costs related to these transactions.

The consideration for the share repurchase was \$16,735,000, representing the exchange amount between the related party and the shareholder. Of this amount, \$6,034,000 will be charged to capital stock and \$10,701,000 will be charged to deficit in the first quarter of fiscal 2010.

In addition, the shareholder assigned its rights to certain debts owed by U.S. S.I.R. L.L.C. totalling \$265,000. The loan bears interest at 10% and has no set terms of repayment. The transfer of the U.S. S.I.R. L.L.C. loan will be recorded at its carrying value, prior to acquisition by the Company, of \$nil and accordingly, the difference between the carrying value and cash consideration of \$265,000 will be charged to deficit in the first quarter of fiscal 2010.

SIR Corp.

Notes to Consolidated Financial Statements

August 30, 2009 and August 31, 2008

The Company also filed Articles of Amendment to authorize unlimited Class S Special Shares. The Class S Special Shares have 1,000,000 votes per share, are redeemable at the option of the holder for a redemption amount as defined in the Articles of Amendment and redeemable at the option of the Company, at any time following the third anniversary of the date of first issuance of any Class S Special Share, at the redemption amount.

As part of the new senior term debt agreement, the Company issued 26 warrants to acquire one Class S Special Share per warrant to one shareholder of the Company. The warrants have an exercise price of \$1.00 that expires on November 11, 2020 and can only be exercised upon the event of default by the Company on the senior term debt facility. The warrants, which are a derivative financial instrument, will be initially recorded at fair value with an offset to the initial carrying value of the senior term debt. The warrants will be marked-to-market, with changes in market value being recorded in the consolidated statement of operations. The Company has not yet determined the fair value of either the warrant or the guarantee.

In addition, as part of this transaction, 836,000 stock options with an exercise price of \$0.01 were forfeited by a shareholder of the Company.