

# **SIR Corp.**

Interim Consolidated Financial Statements

**For the 12-week and 36-week periods ended May 4, 2008**

(Unaudited)

These interim consolidated financial statements have not been reviewed by the Company's auditors.

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**SIR Corp.**  
Consolidated Balance Sheets  
(Unaudited)

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(in thousands of dollars)

**May 4, August 26,**  
**2008 2007**

**Assets**

**Current assets**

Cash and cash equivalents	3,019	3,377
Accounts receivable	2,754	3,100
Inventories	2,568	2,233
Prepays, deposits and other assets	1,464	773
	<u>9,805</u>	<u>9,483</u>

**Investments, loans, advances and notes receivable**

762 772

**Property and equipment**

48,782 41,854

**Goodwill (note 4)**

5,736 5,736

**Intangible and other assets**

3,463 7,978

68,548 65,823

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

**SIR Corp.**Consolidated Balance Sheets...*continued*  
(Unaudited)

(in thousands of dollars)

**May 4, August 26,**  
**2008 2007****Liabilities****Current liabilities**

Bank indebtedness (note 5)	-	308
Trade accounts payable and accrued liabilities	16,392	16,231
Construction accounts payable and accrued liabilities	5,415	1,319
Current portion of long-term debt (note 5)	1,714	1,759
Current portion of other long-term liabilities	1,330	1,067
Amounts due to SIR Royalty Income Fund - net (note 6)	1,355	1,260
Income taxes payable	-	7

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**26,206 21,951****Long-term debt (notes 3 and 5)****4,574 350****Loan payable to SIR Royalty Income Fund (note 6)****35,525 40,000****Non-controlling interest in SIR Royalty Limited Partnership (note 6)****11,167 11,167****Other long-term liabilities****8,789 8,085**

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**86,261 81,553****Non-controlling interest in other subsidiary companies**

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**40 58****Shareholders' Deficiency****Capital stock 17,627 17,627****Accumulated other comprehensive income (note 3) (202) (202)****Deficit (35,178) (33,213)**

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**(17,753) (15,788)**

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**68,548 65,823****Contingencies and commitments (note 7)**

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

**SIR Corp.**Consolidated Statements of Operations and Comprehensive Loss  
(Unaudited)

(in thousands of dollars)

	12-week period ended		36-week period ended	
	May 4, 2008	May 6, 2007	May 4, 2008	May 6, 2007
<b>Corporate restaurant operations</b>				
<b>Food and beverage revenue (note 8)</b>	41,910	38,790	123,067	113,554
<b>Cost of corporate restaurant operations</b>				
Food and beverage	12,860	12,423	38,243	36,070
Labour	13,382	11,932	39,192	35,178
Direct cost of restaurant operations	9,633	8,871	28,905	27,382
Amortization of restaurant assets	1,831	1,637	5,340	4,975
	37,706	34,863	111,680	103,605
<b>Earnings from corporate restaurant operations</b>	4,204	3,927	11,387	9,949
Corporate costs	(2,424)	(2,560)	(7,604)	(7,787)
Other amortization	(74)	(64)	(196)	(203)
	(2,498)	(2,624)	(7,800)	(7,990)
<b>Earnings before the following items</b>	1,706	1,303	3,587	1,959
Interest expense - net	(91)	(41)	(182)	(84)
Interest on loan payable to SIR Royalty Income Fund (note 6)	(690)	(690)	(2,071)	(2,071)
Non-controlling interest in SIR Royalty Limited Partnership (note 6)	(1,177)	(1,095)	(3,348)	(3,022)
Unrealized foreign exchange gain (loss)	(29)	90	71	(3)
Goodwill impairment (note 4)	-	-	(166)	-
Provision for impairment of investments, loans, advances and notes receivable	-	-	-	(100)
Other income (expense)	(1)	56	131	(112)
<b>Loss before income taxes and non-controlling interest in other subsidiary companies</b>	(282)	(377)	(1,978)	(3,433)
<b>Provision for income taxes</b>	(6)	(11)	(5)	(5)
<b>Loss before non-controlling interest in other subsidiary companies</b>	(288)	(388)	(1,983)	(3,438)
Non-controlling interest in other subsidiary companies	-	15	18	16
<b>Net loss from continuing operations for the period</b>	(288)	(373)	(1,965)	(3,422)
<b>Net income from discontinued operation for the period</b>	-	115	-	64
<b>Net loss and comprehensive loss for the period</b>	(288)	(258)	(1,965)	(3,358)

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

**SIR Corp.**  
Consolidated Statements of Deficit  
(Unaudited)

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(in thousands of dollars)

	12-week period ended		36-week period ended	
	May 4, 2008	May 6, 2007	May 4, 2008	May 6, 2007
<b>Deficit - Beginning of period</b>	(34,890)	(32,002)	(33,213)	(28,884)
Net loss for the period	(288)	(258)	(1,965)	(3,358)
Purchase of capital stock for cancellation	-	-	-	(18)
<b>Deficit - End of period</b>	<u>(35,178)</u>	<u>(32,260)</u>	<u>(35,178)</u>	<u>(32,260)</u>

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

**SIR Corp.**Consolidated Statements of Cash Flows  
(Unaudited)

(in thousands of dollars)

	12-week period ended		36-week period ended	
	May 4, 2008	May 6, 2007	May 4, 2008	May 6, 2007
<b>Cash provided by (used in)</b>				
<b>Operating activities</b>				
Net loss from continuing operations for the period	(288)	(373)	(1,965)	(3,422)
Items not affecting cash				
Amortization	1,905	1,701	5,536	5,178
Non-controlling interest in other subsidiary companies	-	(15)	(18)	(16)
Future income taxes	-	-	-	6
Provision for impairment of investments, loans, advances and notes receivable	-	-	-	100
Goodwill impairment (note 4)	-	-	166	-
Non-cash interest expense (income)	(3)	52	2	95
Amortization of leasehold inducements	(178)	(147)	(556)	(446)
Unrealized foreign exchange loss (gain)	29	(90)	(71)	3
Other items	82	(18)	147	256
Landlord inducements received	895	(3)	1,399	1,508
Net change in working capital items (note 9)	(601)	(650)	(329)	418
Net cash provided by continuing operations	1,841	457	4,311	3,680
Net cash provided by discontinued operation	-	323	-	322
	1,841	780	4,311	4,002
<b>Investing activities</b>				
Decrease in due from shareholder	-	712	-	712
Purchase of property and equipment	(2,716)	(3,040)	(7,701)	(7,635)
Proceeds from sale of property and equipment	49	4	94	21
Acquisition of non-controlling interest (note 4)	-	-	(190)	-
Increase in investments, loans, advances and notes receivable	-	46	-	(406)
Restaurant pre-opening costs	(724)	(487)	(1,062)	(613)
Net cash used in investing activities	(3,391)	(2,765)	(8,859)	(7,921)
<b>Financing activities</b>				
Decrease in bank indebtedness	(477)	-	(308)	-
Payments to shareholders	-	-	-	(23)
Payments to non-controlling interest in subsidiary companies	-	-	-	(206)
Proceeds from non-controlling interest in other subsidiary companies	-	111	-	111
Proceeds from issuance of long-term debt	2,470	-	4,770	-
Principal repayment of long-term debt	(103)	(72)	(271)	(566)
Purchase of common shares	-	-	-	(41)
Net cash provided by (used in) financing activities	1,890	39	4,191	(725)
Effect of foreign exchange rates on cash	-	(7)	(1)	(5)
<b>Increase (decrease) in cash during the period</b>	<b>340</b>	<b>(1,953)</b>	<b>(358)</b>	<b>(4,649)</b>
<b>Cash and cash equivalents - Beginning of period</b>	<b>2,679</b>	<b>5,516</b>	<b>3,377</b>	<b>8,212</b>
<b>Cash and cash equivalents - End of period</b>	<b>3,019</b>	<b>3,563</b>	<b>3,019</b>	<b>3,563</b>
<b>Supplemental Information</b>				
Interest paid	886	751	2,470	2,359
Income taxes paid (received)	(4)	13	13	81

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

# **SIR Corp.**

Notes to Interim Consolidated Financial Statements  
(Unaudited)

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## **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 May 4, 2008, the Company operates a total of 41 (2007 – 39) 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.

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”) 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 (see note 6).

### **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 2008 fiscal year consists of 53 weeks while the 2007 fiscal year consisted of 52 weeks.

## **2. Accounting policies**

### **Basis of presentation**

These interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada for interim reporting. Accordingly, these financial statements do not include all of the disclosures required by generally accepted accounting principles for annual financial statements and should be read in conjunction with the annual financial statements of the Company. In the opinion of management, all adjustments considered necessary for fair presentation have been included. All such adjustments are of a normal recurring nature. Operating results for the 36-week period ended May 4, 2008 are not necessarily indicative of the results that may be expected for the 53-week period ended August 31, 2008.

There have been no changes in accounting policies as described in note 2 to the consolidated financial statements for the year ended August 26, 2007 except as described in note 3 below.

# **SIR Corp.**

## Notes to Interim Consolidated Financial Statements (Unaudited)

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### **Seasonality**

The full service restaurant sector of the Canadian foodservice 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.

### **3. Changes in accounting policies and recently issued accounting pronouncements**

#### **Changes in accounting policies**

##### **Financial Instruments – Recognition and Measurement, Handbook Section 3855**

Handbook section 3855 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 notes receivable as loans and receivables which are carried at amortized cost. The Company's trade accounts payable and accrued liabilities, construction accounts payable and accrued liabilities, amounts due to related parties, long-term debt 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 SIR Loan and the long-term debt 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 terms of the loans. Effective August 27, 2007, deferred financing fees are recognized as an offset to the carrying value of the SIR Loan and the long-term debt and amortized using the effective interest rate method.

##### **Comprehensive Income, Handbook Section 1530**

Handbook Section 1530 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 it does not have any comprehensive income items requiring restatement or reclassification, except for the currency translation adjustment. Effective August 27, 2007, the currency translation adjustment is disclosed as an accumulated other comprehensive income item in shareholders' deficiency on the consolidated balance sheets.