

# **SIR Corp.**

Interim Consolidated Financial Statements

**For the 12-week and 24-week periods ended February 14, 2010**

(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)

	February 14, 2010	August 30, 2009 (see note 3)
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	6,113	8,183
Accounts receivable	2,698	2,787
Inventories	2,702	2,540
Prepays, deposits and other assets	1,304	538
Current portion of loans and advances	300	250
	<hr/> 13,117	<hr/> 14,298
<b>Loans and advances</b>	892	877
<b>Property and equipment</b>	46,427	49,702
<b>Goodwill</b>	5,410	5,410
<b>Intangible and other assets</b>	508	711
	<hr/> 66,354	<hr/> 70,998

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

**SIR Corp.**Consolidated Balance Sheets...*continued*

(Unaudited)

(in thousands of dollars)

	February 14, 2010	August 30, 2009 (see note 3)
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	20,494	19,513
Construction accounts payable and accrued liabilities	212	256
Current portion of long-term debt (note 4)	3,325	2,982
Current portion of other long-term liabilities	1,696	1,483
Amounts due to SIR Royalty Income Fund - net (note 5)	1,350	1,380
	<u>27,077</u>	<u>25,614</u>
<b>Long-term debt (note 4)</b>	22,939	11,550
<b>Loan payable to SIR Royalty Income Fund (note 5)</b>	35,563	35,552
<b>Non-controlling interest in SIR Royalty Limited Partnership (note 5)</b>	11,167	11,167
<b>Other long-term liabilities</b>	8,721	9,006
<b>Future income taxes</b>	54	97
	<u>105,521</u>	<u>92,986</u>
<b>Shareholders' Deficiency</b>		
<b>Capital stock (note 11)</b>	11,571	17,605
<b>Accumulated other comprehensive income</b>	(202)	(202)
<b>Deficit</b>	<u>(50,536)</u>	<u>(39,391)</u>
	<u>(39,167)</u>	<u>(21,988)</u>
	<u>66,354</u>	<u>70,998</u>

**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 Income (Loss)  
(Unaudited)

(in thousands of dollars)

	12-week period ended		24-week period ended	
	February 14, 2010	February 15, 2009 (see note 3)	February 14, 2010	February 15, 2009 (see note 3)
<b>Corporate restaurant operations</b>				
<b>Food and beverage revenue (note 9)</b>	46,213	45,231	90,824	90,310
<b>Cost of corporate restaurant operations</b>				
Food and beverage	13,916	13,854	27,505	27,674
Labour	14,848	14,439	29,592	29,595
Direct cost of restaurant operations	11,087	10,426	21,865	21,620
Amortization of restaurant assets	1,813	2,038	3,669	4,048
	41,664	40,757	82,631	82,937
<b>Earnings from corporate restaurant operations</b>	4,549	4,474	8,193	7,373
Corporate costs	(2,388)	(2,343)	(4,544)	(4,935)
Restructuring costs (note 10)	-	(228)	-	(228)
Other amortization	(65)	(69)	(130)	(141)
	(2,453)	(2,640)	(4,674)	(5,304)
<b>Earnings before the following items</b>	2,096	1,834	3,519	2,069
Interest expense - net	(596)	(138)	(929)	(335)
Interest on loan payable to SIR Royalty Income Fund (note 5)	(691)	(691)	(1,381)	(1,381)
Non-controlling interest in SIR Royalty Limited Partnership (note 5)	(795)	(1,008)	(1,879)	(2,074)
Unrealized foreign exchange gain (loss)	29	52	68	(398)
Recovery of impairment of loans and advances	200	-	200	-
Other income	205	93	209	53
<b>Earnings (loss) before income taxes and non-controlling interest in other subsidiary companies</b>	448	142	(193)	(2,066)
<b>Recovery of (provision for) income taxes</b>	24	(1)	43	16
<b>Earnings (loss) before non-controlling interest in other subsidiary companies</b>	472	141	(150)	(2,050)
Non-controlling interest in other subsidiary companies	-	-	-	32
<b>Net earnings (loss) and comprehensive income (loss) for the period</b>	472	141	(150)	(2,018)

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

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

(in thousands of dollars)

	12-week period ended		24-week period ended	
	February 14, 2010	February 15, 2009 (see note 3)	February 14, 2010	February 15, 2009 (see note 3)
<b>Deficit - Beginning of period, as previously reported</b>	(51,016)	(37,577)	(36,734)	(35,690)
Change in accounting policies				
Goodwill and intangible assets (note 3)	-	(3,312)	(2,657)	(3,040)
<b>Deficit - Beginning of period, as restated</b>	(51,016)	(40,889)	(39,391)	(38,730)
Net earnings (loss) for the period	472	141	(150)	(2,018)
Charge arising from related party transaction (note 11)	-	-	(265)	-
Purchase of capital stock for cancellation (note 11)	8	-	(10,730)	-
<b>Deficit - End of period</b>	<u>(50,536)</u>	<u>(40,748)</u>	<u>(50,536)</u>	<u>(40,748)</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		24-week period ended	
	February 14, 2010	February 15, 2009 (see note 3)	February 14, 2010	February 15, 2009 (see note 3)
<b>Cash provided by (used in)</b>				
<b>Operating activities</b>				
Net earnings (loss) for the period	472	141	(150)	(2,018)
Items not affecting cash				
Amortization	1,878	2,107	3,799	4,189
Non-controlling interest in other subsidiary companies	-	-	-	(32)
Future income taxes	(32)	-	(44)	(9)
Recovery of impairment of loans and advances	(200)	-	(200)	-
Non-cash interest expense (income)	80	(28)	198	1
Amortization of leasehold inducements	(130)	(217)	(261)	(383)
Unrealized foreign exchange loss (gain)	(29)	(52)	(68)	398
Other items	62	66	134	152
Leasehold and other inducements received	50	262	50	912
Net change in working capital items (note 8)	(1,419)	1	177	1,524
Net cash provided by operations	732	2,280	3,635	4,734
<b>Investing activities</b>				
Purchase of property and equipment	(271)	(2,099)	(568)	(6,451)
Proceeds from sale of property and equipment	-	14	1	14
Purchase of loan receivable (note 11)	-	-	(265)	-
Repayment of loans and advances	56	297	199	346
Net cash used in investing activities	(215)	(1,788)	(633)	(6,091)
<b>Financing activities</b>				
Decrease in bank indebtedness	-	(914)	-	(905)
Proceeds from issuance of long-term debt	-	1,000	26,000	3,700
Principal repayment of long-term debt	(400)	(99)	(13,250)	(207)
Financing fees	(438)	-	(1,056)	-
Repurchase of capital stock (note 11)	8	-	(16,764)	-
Net cash provided by (used in) financing activities	(830)	(13)	(5,070)	2,588
Effect of foreign exchange rates on cash	(1)	-	(2)	12
Increase (decrease) in cash during the period	(314)	479	(2,070)	1,243
Cash and cash equivalents - Beginning of period	6,427	2,247	8,183	1,483
Cash and cash equivalents - End of period	6,113	2,726	6,113	2,726
<b>Supplemental Information</b>				
Interest paid	1,165	962	1,847	1,609
Income taxes paid (recovered)	8	1	(8)	1

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 February 14, 2010, the Company operates a total of 45 (February 15, 2009 – 45) 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 5).

### **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 2010 and 2009 consist of 52 weeks each.

## **2. Summary of significant 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 consolidated 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 24-week period ended February 14, 2010 are not necessarily indicative of the results that may be expected for the 52-week period ended August 29, 2010.

There have been no changes in accounting policies as described in note 2 to the consolidated financial statements for the year ended August 30, 2009 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

##### Goodwill and Intangible Assets

CICA Handbook Section 3064, Goodwill and Intangible Assets, replaced 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 adopted this standard effective August 31, 2009.

Management determined that the capitalization of restaurant pre-opening costs is no longer permitted and that certain computer software costs require reclassification from property and equipment to intangible and other assets.

The effect of applying this change in accounting policy on the consolidated balance sheet as at August 30, 2009, is as follows:

	<b>Balance as reported</b>	<b>Impact of new standard</b>	<b>Balance as restated</b>
	<b>(in thousands of dollars)</b>		
<b>Assets</b>			
Property and equipment	49,820	(118)	49,702
Intangible and other assets	3,291	(2,580)	711
<b>Liabilities</b>			
Future income taxes	138	(41)	97
<b>Shareholders' deficiency</b>			
Deficit	(36,734)	(2,657)	(39,391)

# SIR Corp.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

The effect of applying this change in accounting policy on the consolidated statement of operations for the 12-week period ending February 15, 2009, is as follows:

	<b>Balance as reported</b>	<b>Impact of new standard</b>	<b>Balance as restated</b>
	(in thousands of dollars)		
<b>Cost of corporate restaurant operations</b>			
Food and beverage	13,836	18	13,854
Labour	14,442	(3)	14,439
Direct cost of restaurant operations	10,387	39	10,426
Amortization of restaurant assets	2,272	(234)	2,038
<b>Net earnings (loss) for the period</b>	<b>(39)</b>	<b>180</b>	<b>141</b>

The effect of applying this change in accounting policy on the consolidated statement of operations for the 24-week period ending February 15, 2009, is as follows:

	<b>Balance as reported</b>	<b>Impact of new standard</b>	<b>Balance as restated</b>
	(in thousands of dollars)		
<b>Cost of corporate restaurant operations</b>			
Food and beverage	27,637	37	27,674
Labour	29,401	194	29,595
Direct cost of restaurant operations	21,308	312	21,620
Amortization of restaurant assets	4,499	(451)	4,048
<b>Net loss for the period</b>	<b>(1,926)</b>	<b>(92)</b>	<b>(2,018)</b>

### Recently issued accounting pronouncements

#### 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 Interest 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/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 the adoption of this change on the Company's consolidated financial statements.

# SIR Corp.

Notes to Interim Consolidated Financial Statements  
(Unaudited)

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## 4. Long-term debt

On August 9, 2007, the Company entered into a credit agreement for a maximum principal amount of \$16,000,000. The credit agreement consisted of a two-year revolving credit facility 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. The financing arrangement was collateralized by a general security agreement and entitled 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 rights under the License and Royalty Agreement. However, the lender did not have a pledge over the assets of the Partnership. The financing arrangement contained 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.

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. At February 14, 2010, this interest rate was 7.86%. 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, which the Company is in compliance with as at February 14, 2010. 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. These warrant have been pledged to the new senior lender (note 11).

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 construction line. The remaining \$131,000 of deferred financing fees was charged to interest expense in the 12-week period ending November 22, 2009. The Company has incurred estimated financing fees of \$1,213,000 in respect of the new senior term debt facility, which will be amortized over the term of the debt (3 years) using the effective interest rate method.

Long-term debt also includes a loan payable by Jack Astor's Cary, LLC, a subsidiary of Jack Astor's (Cary & Las Colinas) Limited for a total amount of \$1,219,000 (U.S. \$1,157,000) (August 30, 2009 – \$1,342,000; U.S. \$1,228,000) that 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 collateralized by the assets of Jack Astor's (Cary & Las Colinas) Limited.

# SIR Corp.

Notes to Interim Consolidated Financial Statements  
(Unaudited)

## 5. SIR Royalty Income Fund

The following is a summary of the transactions with the Fund and the Partnership:

### (a) SIR Loan

The \$40,000,000 SIR Loan bears interest at 7.5% per annum, is due October 12, 2044 and is collateralized by a general security agreement covering substantially all of the assets of the Company. Interest expense of \$691,000 and \$1,381,000 (2009 - \$691,000 and \$1,381,000) was charged to the consolidated statements of operations for the 12-week and 24-week periods ended February 14, 2010.

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

### (b) Non-controlling interest in SIR Royalty Limited Partnership

	12-week period ended		24-week period ended	
	February 14, 2010	February 15, 2009	February 14, 2010	February 15, 2009
		(in thousands of dollars)		
Initial investment by the Fund	11,167	11,167	11,167	11,167
Non-controlling interest in earnings of the Partnership	795	1,008	1,879	2,074
Distributions declared on the Partnership's Units held by the non-controlling interest	(795)	(1,008)	(1,879)	(2,074)
Non-controlling interest in the Partnership	11,167	11,167	11,167	11,167
Pooled Revenue *	45,613	41,786	89,589	80,715
Partnership royalty income *	2,736	2,507	5,375	4,843
Other income	5	10	11	24
Partnership expenses	(21)	(33)	(41)	(53)
Net earnings of the Partnership	2,720	2,484	5,345	4,814
The Company's interest in the earnings of the Partnership	(1,925)	(1,476)	(3,466)	(2,740)
Non-controlling interest in the earnings of the Partnership	795	1,008	1,879	2,074

\* Includes revenue from the SIR Restaurants subject to the License and Royalty Agreement. 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. Partnership royalty income is 6% of Pooled Revenue in accordance with the License and Royalty Agreement, plus a Make-Whole Payment for the closed restaurants.

On October 12, 2004, the Partnership issued Ordinary LP and GP Units to the Fund for cash consideration 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 Class A GP Units which are held by the Company.

## **SIR Corp.**

### Notes to Interim Consolidated Financial Statements

(Unaudited)

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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 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. The Partnership has granted the Company a 99-year license 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 restaurants included in the Royalty pool (the "License and Royalty Agreement").

Under the terms of the License and Royalty Agreement, the Company may be required to pay a Make-Whole Payment in respect of the reduction in revenues for restaurants closed during a reporting period. The Company is not required to pay any Make-Whole Payments 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 License and Royalty Agreement are adjusted for new SIR Restaurants opened for at least 60 days proceeding such Adjustment Date. At each Adjustment Date, the Company will be entitled to convert its Class B GP Units to Class A GP Units based on a conversion formula defined in the Partnership Agreement. Additional Class B GP Units may be converted to 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 revenues. Conversely, converted Class A GP Units may be returned by the Company if the actual revenues are less than 80% of the initial estimated revenues. 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 revenues.

On January 1, 2010, nil (January 1, 2009 – six) new SIR Restaurants were added to the Royalty Pooled Restaurants in accordance with the License and Royalty Agreement. As consideration for the additional Royalty associated with the addition of nil (January 1, 2009 – six) new restaurants on January 1, 2010, as well as the Second Incremental Adjustment for the six (January 1, 2009 – three) new SIR Restaurants added to the Royalty Pooled Restaurants on January 1, 2009, the Company converted a portion of its Class B GP units into Class A GP units based on the formula defined in the Partnership Agreement. The effect of these adjustments to the Royalty Pooled Restaurants was that the Company converted 244,000 (January 1, 2009 – 1,077,000) Class B GP units into 244,000 (January 1, 2009 – 1,077,000) Class A GP units on January 1, 2010 at an estimated fair value of \$1,237,000 (January 1, 2009 - \$5,972,000). As a result of this exchange, the Company's interest in the Partnership increased to 35.7% effective January 1, 2009.

In addition, the revenues of the six (January 1, 2008 – three) new SIR Restaurants added to the Royalty pool on January 1, 2009 exceeded 80% of the Initial Adjustment's estimated revenues and, as a result, an Additional Distribution of \$337,000 was declared in December 2009 (December 2008 - \$178,000) and paid the following January.

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Notes to Interim Consolidated Financial Statements  
(Unaudited)

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## (c) Amounts due to the SIR Royalty Income Fund

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

	February 14, 2010	August 30, 2009
	(in thousands of dollars)	
Advances receivable	(1,727)	(1,518)
Interest payable on SIR Loan	378	247
Partnership distributions payable	2,699	2,651
	<hr/>	<hr/>
Payable to the Fund and its subsidiaries – net	1,350	1,380

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

During the 12-week and 24-week periods ended February 14, 2010, distributions of \$795,000 and \$1,879,000, respectively were declared to the Fund through the Partnership (\$1,008,000 and \$2,074,000 for the 12-week and 24-week periods ended February 15, 2009, respectively). 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 12-week and 24-week periods ended February 14, 2010, the Partnership provided these services to the Fund and the Trust for consideration of \$5,000 and \$11,000, respectively (2009 – \$5,000 and \$11,000), which was the amount of consideration agreed to by the related parties.

## 6. Capital Management

The Company's capital consists of its capital stock and deficit of \$11,571,000 and \$50,536,000, respectively. The objectives in managing the 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 objectives 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 held by shareholders, directors, and employees.

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## Notes to Interim Consolidated Financial Statements (Unaudited)

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### 7. Contingencies and commitments

As at February 14, 2010, the Company has three commitments to lease properties upon which it plans to build three new restaurants. At the current date, 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 quotes could change the total cost of these projects.

### 8. Supplemental cash flow information

The net change in working capital items is as follows:

	12-week period ended		24-week period ended	
	February 14, 2010	February 15, 2009	February 14, 2010	February 15, 2009
		(see note 3)		(see note 3)
	(in thousands of dollars)			
Accounts receivable and other receivables	191	342	80	241
Inventories	(111)	118	(162)	41
Prepays, deposits and other assets	(221)	(335)	(766)	(563)
Trade accounts payable and accrued liabilities	(534)	148	997	1,344
Due to related parties	(543)	(204)	(30)	178
Accrued management bonus	(201)	(68)	58	283
	<u>(1,419)</u>	<u>1</u>	<u>177</u>	<u>1,524</u>

# SIR Corp.

Notes to Interim Consolidated Financial Statements  
(Unaudited)

## 9. 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 accounting policies contained in the annual consolidated financial statements of the Company. 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:

	12-week period ended		24-week period ended	
	February 15, 2010	February 15, 2009	February 14, 2010	February 15, 2009
	(in thousands of dollars)			
<b>Food and beverage revenue</b>				
Canada				
Jack Astor's	29,958	28,649	59,888	58,097
Canyon Creek	7,157	7,356	13,650	14,242
Alice Fazooli's	4,639	4,527	8,724	8,834
Signature	3,859	3,978	7,327	7,744
	<u>45,613</u>	<u>44,510</u>	<u>89,589</u>	<u>88,917</u>
United States				
Jack Astor's	600	721	1,235	1,393
	<u>46,213</u>	<u>45,231</u>	<u>90,824</u>	<u>90,310</u>

## 10. Restructuring costs

During the 12-week and 24-week periods ended February 15, 2009, the Company restructured their operations and incurred severance costs of \$228,000. All severance costs were paid in fiscal 2009.

## 11. Repurchase of capital stock

On November 13, 2009, the Company entered into a \$26,000,000 new senior term debt facility. A portion of the proceeds from this facility was used to repay \$12,740,000 outstanding on the construction line. 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 the same shareholder of the Company and to pay certain professional fees and transaction costs related to these transactions.

The consideration for the share repurchase was \$16,764,000, including estimated transaction costs of \$29,000 representing the exchange amount between the related party and the shareholder. Of this amount, \$6,034,000 was charged to capital stock and \$10,730,000 was charged to deficit during the 24-week period ending February 14, 2010.

## **SIR Corp.**

### Notes to Interim Consolidated Financial Statements (Unaudited)

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In addition, the shareholder assigned its rights to certain debts owed by U.S. S.I.R. L.L.C. totaling \$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 was 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 was charged to deficit during the 24-week period ending February 14, 2010.

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. No Class S Shares are currently outstanding; however, 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 an event of default by the Company with respect to its senior term debt facility. The warrants, which are a derivative financial instrument, were initially recorded at fair value of \$nil with an offset to the initial carrying value of the senior term debt. The warrants have been marked-to-market, with changes in market value being recorded in the consolidated statements of operations. There was no change in fair value during the 12-week and 24-week periods ended February 14, 2010.

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.