SIR Corp.

Interim Consolidated Financial Statements
(Unaudited)
For the 12-week period ended
November 23, 2014

SIR Corp.

Interim Consolidated Statements of Financial Position
(Unaudited)

(in thousands of Canadian dollars)

	November 23, 2014 $	August 31, 2014 $
Assets		
Current assets		
Cash and cash equivalents	9,487	4,642
Restricted cash (note 4(b))	2,279	1
Trade and other receivables (note 4(c))	6,930	6,707
Inventories	2,834	2,883
Prepaid expenses, deposits and other assets	986	450
Current portion of loans and advances	400	400
	22,916	15,083
Non-current assets		
Loans and advances	1,044	947
Property and equipment	57,558	58,762
Goodwill and intangible assets	5,175	5,167
	86,693	79,959
Liabilities		
Current liabilities		
Trade and other payables (note 4(a))	26,804	23,372
Current portion of long-term debt (note 3)	4,799	4,729
Current portion of provisions and other long-term liabilities	4,650	4,022
Current portion of Ordinary LP Units and Class A LP Units of the Partnership (note 4(b))	8,827	8,285
	45,080	40,408
Non-current liabilities		
Long-term debt (note 3)	22,116	23,257
Loan Payable to SIR Royalty Income Fund (note 4(a))	35,695	35,687
Provisions and other long-term liabilities	8,827	9,142
Deferred income taxes	7	20
Ordinary LP Units and Class A LP Units of the Partnership (note 4(b))	89,242	85,775
	200,967	194,289
Shareholders' Deficiency		
Capital stock	11,560	11,560
Contributed surplus	500	484
Deficit	(126,334)	(126,374)
	(114,274)	(114,330)
	86,693	79,959

Commitments (note 5)

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

SIR Corp.

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

(in thousands of Canadian dollars)

	12-week period ended November 23, 2014 $	12-week period ended November 17, 2013 $
Corporate restaurant operations		
Food and beverage revenue	60,187	56,054
Costs of corporate restaurant operations	54,969	52,436
Earnings from corporate restaurant operations	5,218	3,618
Corporate costs	2,833	2,892
Earnings before interest and income taxes	2,385	726
Interest expense	569	554
Interest on loan payable to SIR Royalty Income Fund (note 4(a))	698	698
Interest (income) and other expense (income) - net	31	36
Change in amortized cost of Ordinary LP Units and Class A LP Units of the Partnership (note 4(b))	980	11,137
Earnings (Loss) before income taxes	107	(11,699)
Provision for income taxes	67	35
Net earnings (loss) and comprehensive income (loss) for the period	40	(11,734)

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

SIR Corp.

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

(in thousands of Canadian dollars)

	12-week period ended November 23, 2014			
	Capital stock $	Contributed surplus $	SIR Corp.'s deficit $	Total $
Balance - Beginning of period	11,560	484	(126,374)	(114,330)
Stock-based compensation	-	16	-	16
Net earnings for the period	-	-	40	40
Balance - End of period	11,560	500	(126,334)	(114,274)

	12-week period ended November 17, 2013			
	Capital stock $	Contributed surplus $	SIR Corp.'s deficit $	Total $
Balance - Beginning of period	11,560	318	(117,000)	(105,122)
Stock-based compensation	-	38	-	38
Net loss for the period	-	-	(11,734)	(11,734)
Balance - End of period	11,560	356	(128,734)	(116,818)

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

SIR Corp.

Interim Consolidated Statements of Cash Flows
(Unaudited)

(in thousands of Canadian dollars)

	12-week period ended November 23, 2014 $	12-week period ended November 17, 2013 $
Cash provided by (used in)		
Operating activities		
Net earnings (loss) for the period	40	(11,734)
Items not affecting cash		
Change in amortized cost of Ordinary LP Units and Class A LP Units of the Partnership (note 4(b))	980	11,137
Depreciation and amortization	2,616	2,375
Deferred income taxes	(13)	(10)
Current income taxes	80	45
Recovery of loans and advances	(100)	-
Interest expense on long-term debt and SIR Loan	1,267	1,252
Non-cash interest income	(46)	(40)
Amortization of leasehold inducements	(125)	(125)
Stock-based compensation	16	38
Loss on disposal of property and equipment	35	115
Other	111	(28)
Distributions paid to Ordinary LP and Class A LP unitholders (note 4(b))	(1,381)	(1,889)
Income taxes paid	(58)	(45)
Net change in working capital items (note 6)	3,582	(1,020)
Cash provided by operations	7,004	71
Investing activities		
Purchase of property and equipment and other assets - net	(1,973)	(3,272)
Net cash proceeds received from restricted funds (note 4(b))	2,000	3,041
Repayment of loans and advances	49	67
Cash provided by (used in) investing activities	76	(164)
Financing activities		
Proceeds from issuance of long-term debt	-	1,500
Principal repayment of long-term debt	(1,150)	(958)
Interest paid	(1,054)	(1,266)
Financing fees	(31)	(226)
Cash used in financing activities	(2,235)	(950)
Increase (decrease) in cash and cash equivalents during period	4,845	(1,043)
Cash and cash equivalents - Beginning of period	4,642	7,708
Cash and cash equivalents – End of period	9,487	6,665

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

(in Canadian dollars)

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 November 23, 2014, the Company operated a total of 58 (November 17, 2013 - 55) Concept and Signature restaurants in Canada (in Ontario, Quebec, Alberta, Nova Scotia and Newfoundland) (the SIR Restaurants). The Concept restaurants are Jack Astor's Bar and Grill® (Jack Astor's®), Canyon Creek Chop House® (Canyon Creek®) and Alice Fazooli's®/Scaddabush Italian Kitchen & Bar® and the Signature restaurants are Reds® Wine Tavern, Reds® Midtown Tavern, Far Niente®/FOUR®/Petit Four® and the Loose Moose Tap & Grill®. The Company also operates a Duke's Refresher™ & Bar and two seasonal restaurants: Abbey's Bakehouse® and Duke's Refresher™, in addition to one seasonal Abbey's Bakehouse retail outlet, which are not currently part of Royalty Pooled Restaurants (note 4(b)).

On October 1, 2004, SIR Royalty Income Fund (the Fund) filed a final prospectus for a public offering of units of the Fund. The net proceeds of the offering of $51,167,000 were used by the Fund to acquire certain bank debt of the Company (the SIR Loan) (note 4(a)) and, indirectly through SIR Holdings Trust (the Trust), all of the Ordinary LP Units of the 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 4).

The address of the Company's registered office is 5360 South Service Road, Suite 200, Burlington, Ontario. The interim consolidated financial statements were approved by the board of directors on December 22, 2014.

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 2015 and 2014 consist of 52 and 53 weeks, respectively.

2 Summary of significant accounting policies

Basis of presentation

The Company prepares its condensed interim consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) for interim financial reporting, including International Accounting Standard 34, Interim Financial Reporting. The disclosures contained in these interim consolidated financial statements do not include all requirements of IFRS for annual consolidated financial statements and should be read in conjunction with the August 31, 2014 annual consolidated financial statements and notes thereto. The accounting policies as applied in these interim consolidated financial statements are consistent with those followed in the August 31, 2014 audited annual consolidated financial statements, except for the adoption of the following new pronouncements.

(in Canadian dollars)

IAS 24, Related Party Transactions

IAS 24, Related party transactions has been amended to (i) revise the definition of "related party" to include an entity that provides key management personnel services to the reporting entity or its parent, and (ii) clarify related disclosure requirements. Management has determined that the adoption of this standard has no impact on the interim consolidated financial statements.

IAS 36, Impairment of assets - Disclosures

Limited scope amendments have been made to disclosure requirements in IAS 36, Impairment of Assets. Management has determined that the adoption of this standard has no impact on the interim consolidated financial statements.

IFRIC 21, Accounting for levies imposed by governments

IFRIC 21 clarifies that the obligating event giving rise to a liability to pay a levy is the activity described in the relevant legislation that triggers payment of the levy. Management has determined that the adoption of this standard has no impact on the interim consolidated financial statements.

Seasonality

The financial performance of the Company for the interim period is not necessarily indicative of the results that may be expected for the full year due to the seasonality of the Company's business. 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.

(in Canadian dollars)

3 Long-term debt

The Company has a credit facility that consists of a term loan (the Term Loan) and three development loans. On June 23, 2014, the Company entered into a Third Amended and Restated Loan Agreement (the Credit Agreement) that includes the Term Loan and the Tranche A and Tranche B Development Loans which were outstanding as at November 23, 2014 and now provides for contemplated financing of $6.0 million (Tranche C Development Loan). All loans under the Credit Agreement are due on November 13, 2016. The Term Loan and the Tranche A Development Loan have a variable interest rate equal to the greater of 6.0% per annum and the three-month Canadian dollar bankers' acceptance rate plus 5.75% per annum. The Tranche B Development Loan has a variable rate equal to the greater of 5.9% per annum and the three-month Canadian dollar bankers' acceptance rate plus 5.65% per annum. Interest on the Tranche C Development Loan will be calculated as the greater of 5.55% per annum and the three-month Canadian dollar bankers' acceptance rate plus 5.30% per annum. The Company can also elect to fix the interest rate. The amortization periods for the Term Loan is ten years whereas the Tranche A Development Loan, the Tranche B Development Loan and the Tranche C Development Loan are seven years. The Tranche C Development Loan is not to exceed $6.0 million and was intended to be drawn by September 19, 2014, but could be extended to March 19, 2015 at the sole discretion of the lender upon request by the Company. Instead of seeking this extension, at this time, on November 19, 2014, SIR exchanged a portion of the Class A GP Units of the Partnership into Fund units and sold these units (note 4(b)).

The lender has made available the Tranche A, Tranche B and Tranche C Development Loans to the Company only for the purpose of financing: (a) costs incurred in connection with the acquisition of furniture, fixtures, equipment and leasehold improvements relating to new locations; and (b) renovations and capital expenditure costs relating to existing locations. The Tranche A Development Loan and Tranche B Development Loan have been fully drawn and no further advances are permitted. No amounts have been drawn on the Tranche C Development Loan.

The Credit Agreement 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 License and Royalty Agreement. However, the lender does not have a pledge over the assets of the Partnership. The Partnership and the Fund did not guarantee the Credit Agreement. The Credit Agreement contains certain financial and non-financial covenants that the Company is in compliance with as at November 23, 2014. In addition, the debt is guaranteed by a company owned by the majority shareholder of the Company (a related party), for which guarantee fees of $42,000 for the 12-week period ended November 23, 2014 (12-week period ended November 17, 2013 - $87,000) were charged to interest (income) and other expense (income) - net in the consolidated statements of operations and comprehensive income (loss). On November 13, 2009, the Company also issued 26 warrants to the majority shareholder of the Company to acquire Class S Special Shares of the Company. These warrants have been pledged to the senior lender and only exercisable in the event of default.

The Company has recorded its long-term debt at amortized cost. The Company has netted the financing fees against the respective debt and amortizes these costs over the expected life of the long-term debt using the effective interest rate method. Unamortized financing fees netted against the debt as at November 23, 2014 were $597,000 (August 31, 2014 - $676,000).

(in Canadian dollars)

4 SIR Royalty Income Fund

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

a) Loan payable to SIR Royalty Income Fund (the SIR Loan)

The $40,000,000 SIR Loan is payable to the Fund and bears interest at 7.5% per annum and is due October 12, 2044. On August 23, 2013, the Company, the Fund and the Partnership entered into an Amended and Restated Subordination and Postponement Agreement to subordinate and postpone their claims against the Company in favour of the lender. The Fund and the Partnership have not guaranteed the Amended Credit Agreement (note 3).

The long-term debt is permitted indebtedness within the meaning of the agreements between the Fund, the Partnership and the Company and, as a result, the Fund and the Partnership have, as contemplated in the existing agreements, subordinated and postponed their claims against the Company to the claims of the lender. This subordination, which includes a subordination of the Partnership's rights under the License 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 the Amended and Restated Subordination and Postponement Agreement.

Under the Amended and Restated Subordination and Postponement Agreement, absent a default or event of default under the Amended Credit Agreement, ordinary payments to the Fund and the Partnership can continue and the Partnership can exercise any and all of its rights to preserve the trademarks and related intellectual property governed by the License 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 lender is pursuing remedies). The Amended and Restated Subordination and Postponement Agreement also contains various other typical covenants of the Fund and the Partnership. In addition, the Company provided an undertaking to the Fund and the Partnership to restrict the amount of additional debt that the Company can incur without the consent of the Fund and the Partnership (which consent shall not be unreasonably withheld).

Interest expense charged to the consolidated statements of operations and comprehensive income (loss) for the 12-week period ended November 23, 2014 was $698,000 (12-week period ended November 17, 2013 - $698,000), which includes interest on the SIR Loan of $690,000 (12-week period ended November 17, 2013 - $690,000) and amortization of financing fees of $8,000 (12-week period ended November 17, 2013 - $8,000). Interest payable on the SIR Loan as at November 23, 2014 was $440,000 (August 31, 2014 - $250,000).

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 Canadian dollars)

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

	12-week period ended November 23, 2014 $	12-week period ended November 17, 2013 $
	(in thousands of dollars)	
Balance - Beginning of period	94,060	85,718
Conversion of Class A GP Units	4,410	-
Change in amortized cost of the Ordinary LP Units and Class A LP Units of the Partnership	980	11,137
Distributions paid to Ordinary LP and Class A LP unit holders	(1,381)	(1,889)
Balance - End of period	98,069	94,966
Less: Current portion of Ordinary LP Units and Class A LP Units of the Partnership	(8,827)	(7,509)
Ordinary LP Units and Class A LP Units of the Partnership	89,242	87,457

Pooled Revenue*	56,998	52,203
Partnership royalty income*	3,420	3,132
Other income	9	10
Partnership expenses	(17)	(21)
Net earnings of the Partnership	3,412	3,121
The Company's interest in the earnings of the Partnership	(1,540)	(1,431)
Fund's interest in the earnings of the Partnership	1,872	1,690

* 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 Fund has also acquired Class A LP Units upon SIR's conversion of its Class A GP Units into Fund units, through a series of transactions taking place in fiscal years 2013, 2014 and during the 12-week period ended November 23, 2014. The holders of the Ordinary LP Units and the Class A LP Units are entitled to receive a pro rata share of all residual distributions of the Partnership. The distributions are declared by the board of directors of SIR GP Inc., which is controlled by the Fund. Accordingly, the Ordinary LP Units and Class A LP Units of the Partnership have been classified as a financial liability in the consolidated statements of financial position. The Ordinary LP Units and the Class A LP Units are accounted for at amortized cost, with changes in the carrying value of Ordinary LP Units and Class A LP Units of the Partnership recorded in the consolidated statements of operations and comprehensive income (loss).

(in Canadian dollars)

During the 12-week period ended November 23, 2014, distributions of $1,872,000,000 (12-week period ended November 17, 2013 - $1,690,000) were declared to the Fund through the Partnership. Distributions paid during the 12-week period ended November 23, 2014 were $1,381,000 (12-week period ended November 17, 2013 - $1,889,000). The Fund, indirectly through the Trust, is entitled to receive a pro rata share of all residual distributions. Distributions previously declared, but unpaid as at November 23, 2014 of $3,817,000 (August 31, 2014 - $3,326,000) are included in Ordinary LP Units and Class A LP Units of the Partnership in the consolidated statements of financial position.

The Company, as the holder of the Class A GP Units, is entitled to receive a pro rata share of all residual distributions of the Partnership and the Class A GP Units are exchangeable into units of the Fund.

On November 5, 2014, the lender released the security it held on 350,000 Class A GP Units of the Partnership (and any Fund units received upon conversion of Class A GP Units of the Partnership) and required that all sale proceeds be used to fund the costs associated with constructing new restaurants and renovating existing restaurants. On November 19, 2014, the Company converted 350,000 Class A GP Units to Fund units and sold these Fund units for net proceeds of $4,268,000, net of estimated transaction costs of $142,000.

The gross proceeds from the above transactions, net of certain transaction costs were deposited in an account restricted by the lender and accordingly, is classified as restricted cash in the consolidated statements of financial position. During the 12-week period ended November 23, 2014, $2,000,000 (12-week period ended November 17, 2013 - $3,041,000) has been drawn from this restricted account. The funds are released upon the Company's presenting eligible capital expenditures to the lender. As at November 23, 2014, $2,279,000 is held in this account (August 31, 2014 - $1,000).

The Class A LP Units of the Partnership are classified as a financial liability in the consolidated statements of financial position. Accordingly, the gross proceeds received of $4,410,000 (12-week period ended November 17, 2013 - $nil) were added to the carrying value of the Class A LP Units. As the Fund's interest in the Partnership has increased, this transaction is not dilutive to the Fund. The Fund has converted the Class A GP Units received into Class A LP Units. The holders of the Class A LP Units are entitled to receive a pro rata share of all residual distributions of the Partnership. These dispositions of the Fund units are accounted for as non-cash transactions in the consolidated statements of cash flows.

As a result of the November 19, 2014 conversion of the Class A GP Units into Fund units, the Company's residual interest in the Partnership decreased 3.6% from 25.5% to 21.9%. The Company continues to maintain control of the Partnership and, therefore, continues to consolidate the Partnership.

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 License and Royalty Agreement).

(in Canadian dollars)

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 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 License 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 to Class A GP Units based on the 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 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 will be payable to the Class B GP unit holders 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 unit holders if revenues are less than 80% of the initial estimated revenue.

On January 1, 2014, four (January 1, 2013 - four) 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 four new SIR Restaurants on January 1, 2014 (January 1, 2013 - four), as well as the Second Incremental Adjustment for four new SIR Restaurants added to the Royalty Pooled Restaurants on January 1, 2013 (January 1, 2012 - one), 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 permanent closure of nil (January 1, 2013 - two) SIR Restaurants during the prior year. The net effect of these adjustments to the Royalty Pooled Restaurants was that the Company converted 803,000 (January 1, 2013 - 296,000) Class B GP Units into 803,000 (January 1, 2013 - 296,000) Class A GP Units on January 1, 2014 at an estimated fair value of $11,436,000 (January 1, 2013 - $4,326,000).

In addition, the revenues of four (January 1, 2012 - one) new SIR Restaurants added to the Royalty pool on January 1, 2013 exceeded 80% of the Initial Adjustment's estimated revenue and, as a result, an additional distribution of $169,000 was declared in December 2013 (December 2012 - $23,000) and paid to the Company the following January.

(in Canadian dollars)

c) Advances receivable from SIR Royalty Income Fund

Advances receivable from SIR Royalty Income Fund as at November 23, 2014 were $2,585,000 (August 31, 2014 - $2,553,000). Advances receivable are non-interest bearing and due on demand.

The Company, through the Partnership, has entered into an arrangement with the Fund and the Trust, whereby the Partnership will provide or arrange for the provision of services required in the administration of the Fund and the Trust. The Partnership has arranged for these services to be provided by SIR GP Inc., in its capacity as the Managing General Partner. For the 12-week period ended November 23, 2014, the Partnership provided these services to the Fund and the Trust for consideration of $6,000 (12-week period ended November 17, 2013 - $6,000), which was the amount of consideration agreed to by the related parties.

5 Commitments

The Company has three commitments to lease properties, on which it plans to build three new restaurants. The Company has begun the construction of one of these restaurants to be built and has further purchase commitments for the construction of this property of $500,000. As at the current date, the Company has not entered into any construction contracts for the other two restaurants, but expects to do so in the future. Final costs of construction are subject to uncertainties as to their amounts and timing. Items such as finalization of design and final construction quotations could change the total cost of these projects.

6 Supplemental cash flow information

The net change in working capital items is as follows:

	12-week period ended November 23, 2014 $	12-week period ended November 17, 2013 $
	(in thousands of dollars)	
Trade and other receivables	(216)	4
Inventories	49	(3)
Prepaid expenses, deposits and other assets	(536)	(128)
Trade and other payables	3,839	(1,257)
Provisions and other long-term liabilities	446	364
	3,582	(1,020)