

# **SIR Corp.**

Consolidated Financial Statements  
**August 30, 2015 and August 31, 2014**  
(in thousands of Canadian dollars)

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November 24, 2015

## **Independent Auditor's Report**

**To the Directors of  
SIR Corp.**

We have audited the accompanying consolidated financial statements of SIR Corp. and its subsidiaries, which comprise the consolidated statements of financial position as at August 30, 2015 and August 31, 2014 and the consolidated statements of operations and comprehensive loss, changes in shareholders' deficiency and cash flows for the 52-week period ended August 30, 2015 and 53-week period ended August 31, 2014 and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

### **Management's responsibility for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

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**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of SIR Corp. and its subsidiaries as at August 30, 2015 and August 31, 2014 and their financial performance and their cash flows for the 52-week period ended August 30, 2015 and the 53-week period ended August 31, 2014.

**(Signed) “PricewaterhouseCoopers LLP”**

**Chartered Professional Accountants, Licensed Public Accountants**

Toronto, Ontario

**SIR Corp.**  
**Consolidated Statements of Financial Position**

(in thousands of Canadian dollars)

|   | August 30,<br>2015<br>\$ | August 31,<br>2014<br>\$ |
|---|--------------------------|--------------------------|
| <b>Assets</b>   |                          |                          |
| <b>Current assets</b>   |                          |                          |
| Cash and cash equivalents   | 7,869                    | 4,642                    |
| Restricted cash (note 12)   | -                        | 1                        |
| Trade and other receivables (notes 6, 12(c) and 16)                                       | 7,299                    | 6,707                    |
| Inventories   | 3,005                    | 2,883                    |
| Prepaid expenses, deposits and other assets   | 530                      | 450                      |
| Current portion of loans and advances (note 7)  | 545                      | 400                      |
|   | 19,248                   | 15,083                   |
| <b>Non-current assets</b>   |                          |                          |
| Loans and advances (notes 7 and 21)   | 1,419                    | 947                      |
| Property and equipment (notes 8 and 16)   | 52,681                   | 58,762                   |
| Goodwill and intangible assets (note 9)   | 4,886                    | 5,167                    |
|   | 78,234                   | 79,959                   |
| <b>Liabilities</b>  |                          |                          |
| <b>Current liabilities</b>  |                          |                          |
| Bank indebtedness (note 11)   | 6,681                    | -                        |
| Trade and other payables (notes 10, 12(c) and 16)   | 27,719                   | 23,372                   |
| Current portion of long-term debt (note 11)   | 2,000                    | 4,729                    |
| Current portion of provisions and other long-term liabilities (note 13)                   | 3,900                    | 4,022                    |
| Current portion of Ordinary LP Units and Class A LP Units of the Partnership (note 12(b)) | 8,827                    | 8,285                    |
|   | 49,127                   | 40,408                   |
| <b>Non-current liabilities</b>  |                          |                          |
| Long-term debt (note 11)  | 15,147                   | 23,257                   |
| Loan payable to SIR Royalty Income Fund (note 12(a))                                      | 35,721                   | 35,687                   |
| Provisions and other long-term liabilities (note 13)                                      | 9,489                    | 9,142                    |
| Deferred income taxes (note 20)   | 4                        | 20                       |
| Ordinary LP Units and Class A LP Units of the Partnership (note 12(b))                    | 87,369                   | 85,775                   |
|   | 196,857                  | 194,289                  |
| <b>Shareholders' Deficiency</b>   |                          |                          |
| <b>Capital stock</b> (note 14)  | 20,361                   | 11,560                   |
| <b>Contributed surplus</b>  | -                        | 484                      |
| <b>Deficit</b>  | (138,984)                | (126,374)                |
|   | (118,623)                | (114,330)                |
|   | 78,234                   | 79,959                   |

**Contingencies and commitments** (note 18)

**Subsequent events** (note 15)

**Approved by the Board of Directors**

Director: (signed) Grey Sisson

Director: (signed) Peter Fowler

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

# SIR Corp.

## Consolidated Statements of Operations and Comprehensive Loss

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(in thousands of Canadian dollars)

|  | <b>52-week<br/>period ended<br/>August 30,<br/>2015<br/>\$</b> | <b>53-week<br/>period ended<br/>August 31,<br/>2014<br/>\$</b> |
|--|--|--|
| <b>Corporate restaurant operations</b>   |  |  |
| Food and beverage revenue  | 269,750  | 266,837  |
| Costs of corporate restaurant operations (notes 16 and 17)   | 249,846  | 248,363  |
|  | <hr/>  | <hr/>  |
| <b>Earnings from corporate restaurant operations</b>   | 19,904   | 18,474   |
| Corporate costs (notes 16 and 17)  | 12,204   | 11,712   |
|  | <hr/>  | <hr/>  |
| <b>Earnings before interest and income taxes</b>   | 7,700  | 6,762  |
| Interest expense   | 2,680  | 2,741  |
| Interest on loan payable to SIR Royalty Income Fund (note 12(a))                                   | 3,026  | 3,067  |
| Interest (income) and other expense (income) - net (note 21)                                       | (710)  | (100)  |
| Change in amortized cost of Ordinary LP Units and Class A LP Units of the Partnership (note 12(b)) | 6,622  | 10,214   |
|  | <hr/>  | <hr/>  |
| <b>Loss before income taxes</b>  | (3,918)  | (9,160)  |
| Provision for income taxes (note 20)   | 184  | 214  |
|  | <hr/>  | <hr/>  |
| <b>Net loss and comprehensive loss for the period</b>  | <b>(4,102)</b>   | <b>(9,374)</b>   |

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

**SIR Corp.****Consolidated Statements of Changes in Shareholders' Deficiency**

(in thousands of Canadian dollars)

|   | <b>52-week period ended August 30, 2015</b> |                                       |                       |                     |
|---|---|---------------------------------------|-----------------------|---------------------|
|   | <b>Capital<br/>stock<br/>\$</b>             | <b>Contributed<br/>surplus<br/>\$</b> | <b>Deficit<br/>\$</b> | <b>Total<br/>\$</b> |
| <b>Balance - Beginning of period</b>                  | 11,560                                      | 484                                   | (126,374)             | (114,330)           |
| <b>Stock-based compensation</b> (note 15)             | -   | 52                                    | -                     | 52                  |
| <b>Issue of capital stock</b> (note 14)               | 14,207                                      | -                                     | -                     | 14,207              |
| <b>Repurchase of capital stock</b> (note 14)          | (5,479)                                     | (514)                                 | (8,508)               | (14,501)            |
| <b>Exercise of stock options</b> (notes 14<br>and 15) | 73  | (22)                                  | -                     | 51                  |
| <b>Net loss for the period</b>                        | -   | -                                     | (4,102)               | (4,102)             |
| <b>Balance - End of period</b>                        | 20,361                                      | -                                     | (138,984)             | (118,623)           |

  

|   | <b>53-week period ended August 31, 2014</b> |                                       |                       |                     |
|---|---|---------------------------------------|-----------------------|---------------------|
|   | <b>Capital<br/>stock<br/>\$</b>             | <b>Contributed<br/>surplus<br/>\$</b> | <b>Deficit<br/>\$</b> | <b>Total<br/>\$</b> |
| <b>Balance - Beginning of period</b>      | 11,560                                      | 318                                   | (117,000)             | (105,122)           |
| <b>Stock-based compensation</b> (note 15) | -   | 166                                   | -                     | 166                 |
| <b>Net loss for the period</b>            | -   | -                                     | (9,374)               | (9,374)             |
| <b>Balance - End of period</b>            | 11,560                                      | 484                                   | (126,374)             | (114,330)           |

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

# SIR Corp.

## Consolidated Statements of Cash Flows

(in thousands of Canadian dollars)

|   | 52-week<br>period ended<br>August 30,<br>2015<br>\$ | 53-week<br>period ended<br>August 31,<br>2014<br>\$ |
|---|---|---|
| <b>Cash provided by (used in)</b>   |   |   |
| <b>Operating activities</b>   |   |   |
| Net loss from operations for the period   | (4,102)   | (9,374)   |
| Items not affecting cash  |   |   |
| Change in amortized cost of Ordinary LP Units and Class A LP Units of<br>the Partnership (note 12(b)) | 6,622   | 10,214  |
| Depreciation and amortization   | 11,132  | 11,263  |
| Stock-based compensation  | 52  | 166   |
| Deferred income taxes (note 20)   | (16)  | (23)  |
| Current income taxes (note 20)  | 200   | 237   |
| Recovery of impairment of loans and advances (note 7)   | (1,150)   | (300)   |
| Goodwill impairment (note 9)  | 200   | -   |
| Impairment of non-financial assets (note 8)   | 2,020   | 893   |
| Interest expense on long-term debt and SIR Loan   | 5,706   | 5,808   |
| Non-cash interest income  | (217)   | (191)   |
| Amortization of leasehold inducements   | (552)   | (552)   |
| Loss on disposal of property and equipment  | 150   | 257   |
| Other (note 19)   | 124   | 104   |
| Leasehold and other inducements received  | 279   | 1,346   |
| Distributions paid to Ordinary LP and Class A LP unitholders  | (8,896)   | (8,848)   |
| Income taxes paid   | (144)   | (294)   |
| Net change in working capital items (note 19)   | 4,971   | (2,496)   |
| Cash provided by operating activities   | 16,379  | 8,210   |
| <b>Investing activities</b>   |   |   |
| Purchase of property and equipment and other assets - net   | (7,845)   | (15,523)  |
| Net cash proceeds received from restricted funds (note 12)  | 4,284   | 9,817   |
| Payment received on loans and advances  | 442   | 321   |
| Cash used in investing activities   | (3,119)   | (5,385)   |
| <b>Financing activities</b>   |   |   |
| Increase in bank indebtedness   | 6,681   | -   |
| Proceeds from issuance of long-term debt  | 18,000  | 4,000   |
| Principal repayment of long-term debt   | (28,662)  | (4,236)   |
| Interest paid   | (4,924)   | (5,428)   |
| Financing fees  | (885)   | (227)   |
| Issue of capital stock (note 14)  | 14,207  | -   |
| Exercise of stock options (notes 14 and 15)   | 51  | -   |
| Repurchase of capital stock (note 14)   | (14,501)  | -   |
| Cash used in financing activities   | (10,033)  | (5,891)   |
| <b>Increase (decrease) in cash and cash equivalents during<br/>the period</b>                         | 3,227   | (3,066)   |
| <b>Cash and cash equivalents - Beginning of period</b>  | 4,642   | 7,708   |
| <b>Cash and cash equivalents - End of period</b>  | 7,869   | 4,642   |

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

# **SIR Corp.**

## Notes to Consolidated Financial Statements

**August 30, 2015 and August 31, 2014**

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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 August 30, 2015, the Company operated a total of 58 (August 31, 2014 - 58) 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®, together with Scaddabush Italian Kitchen & Bar® and the Signature restaurants are Reds® Wine Tavern, Reds® Midtown Tavern, Far Niente®/FOUR®/Petit Four® and Loose Moose Tap & Grill®. The Company also operates a Dukes Refresher™ & Bar located in downtown Toronto, and one seasonal restaurant: Abbey's Bakehouse®, in addition to one seasonal Abbey's Bakehouse retail outlet, which are not currently part of Royalty Pooled Restaurants (note 12(b)). On September 8, 2015, the Company opened a new Jack Astor's® restaurant.

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 12(a)) and, indirectly, through SIR Holdings Trust (the Trust), all of the Ordinary LP Units of SIR Royalty Limited Partnership (the Partnership) (note 12(b)). On October 12, 2004, the Partnership acquired from the Company the Canadian trademarks used in connection with the operation of the majority of the Company's restaurants in Canada.

The address of the Company's registered office is 5360 South Service Road, Suite 200, Burlington, Ontario. The consolidated financial statements were approved for issuance by the Board of Directors on November 23, 2015.

#### **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 consisted of 52 and 53 weeks, respectively.

### **2 Basis of presentation**

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board.

### **3 Summary of significant accounting policies**

The significant accounting policies used in the preparation of these consolidated financial statements are as follows:

#### **Basis of measurement**

The consolidated financial statements have been prepared under the historical cost convention with the exception of certain investments, which are recorded at their estimated fair value.



# **SIR Corp.**

## Notes to Consolidated Financial Statements

**August 30, 2015 and August 31, 2014**

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### **Consolidation**

The Company's consolidated financial statements include the accounts of the Company and its subsidiaries. The subsidiaries include one structured entity, being the Partnership and the following wholly owned subsidiaries: Jack Astor's (Dorval) Realty Inc., Jack Astor's (Greenfield) Realty Inc., Jack Astor's (Boisbriand) Realty Inc., Jack Astor's (Laval) Realty Inc., Jack Astor's MacLeod Trail Ltd., Armadillo Burlington Limited Partnership, Alice Fazooli's (City Centre) Limited Partnership, Jack Astor's (Cary & Las Colinas) Limited, SIR West Inc., 1914860 Ontario Limited, 1149691 Ontario Limited, 1031246 Ontario Limited and 961471 Ontario Limited. All intercompany accounts and transactions have been eliminated.

The Company consolidates an investee when it is exposed to or has rights to variable returns from its involvement with the investee and has the ability to affect these returns through its power over the investee. Subsidiaries are fully consolidated from the date on which control is obtained by the Company and are deconsolidated from the date control ceases.

### **Revenue recognition**

Revenue from restaurant operations is recognized when services are rendered.

The Company recognizes revenue as gift certificates are redeemed. Gift certificates that are not redeemed after two years of the issuance date are recognized within costs of corporate restaurant operations in the consolidated statements of operations and comprehensive loss based on historical redemption rates.

### **Costs of corporate restaurant operations**

Costs of corporate restaurant operations include all costs directly attributable to the operations of the restaurants, including food and beverage costs, labour, rent, depreciation and amortization and other direct costs of restaurant operations, including an allocation of costs for information technology, finance and other corporate costs.

### **Corporate costs**

Corporate costs include salaries and benefits, selling and marketing expenses, professional and other fees and other general and administrative expenses.

### **Cash, cash equivalents and restricted cash**

Cash and cash equivalents include cash on hand, deposits with banks and other short-term, highly liquid investments with original maturities of three months or less. Restricted cash was held in a segregated account as required by the agreement between the Company and its previous lender (note 11).

# **SIR Corp.**

## Notes to Consolidated Financial Statements

**August 30, 2015 and August 31, 2014**

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### **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. Net realizable value is the estimated selling price less applicable selling expenses. If the carrying value exceeds the net realizable amount, a writedown is recognized. The writedown may be reversed in a subsequent period if the circumstances which caused it no longer exist.

### **Property and equipment**

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. Repairs and maintenance costs are charged to the consolidated statements of operations and comprehensive loss during the period in which they are incurred.

The major categories of property and equipment are depreciated on a straight-line basis as follows:

|  |   |
|--|---|
| 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 |

The Company allocates the amount initially recognized in respect of an item of property and equipment to its significant parts and depreciates separately each such part. Residual values, methods of amortization and useful lives of the assets are reviewed annually and adjusted, if appropriate.

Impairment losses and gains and losses on disposals of property and equipment are included in costs of corporate restaurant operations.

### **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.

Intangible computer software is recorded at cost, less accumulated amortization, and is amortized over three to five years on a straight-line basis.

# **SIR Corp.**

## Notes to Consolidated Financial Statements

**August 30, 2015 and August 31, 2014**

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### **Goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the identifiable net assets of the acquired subsidiary at the date of acquisition. Goodwill is carried at cost, less accumulated impairment losses. Impairment losses are recognized in the costs of corporate restaurant operations. Goodwill is allocated to each cash-generating unit (CGU) that is expected to benefit from the related business combination. Gains and losses on disposal of an entity include the carrying amount of goodwill relating to the entity sold.

### **Impairment of non-financial assets**

Property and equipment and intangible assets (other than goodwill) are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use (being the present value of the expected future cash flows of the relevant asset or CGU, as determined by management).

Goodwill is reviewed for impairment annually or at any time if an indicator of impairment exists. Management monitors goodwill for internal purposes based on its CGUs, which are the restaurants.

The Company evaluates impairment losses, other than goodwill impairment, for potential reversals when events or circumstances warrant such consideration. Goodwill is assessed for impairment together with the assets and liabilities of the related CGU. Impairment losses are recognized in the costs of corporate restaurant operations.

### **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 finance 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.

### **Leasehold inducements**

Leasehold inducements represent payments received or receivable from landlords at the time of construction and are deferred and amortized on a straight-line basis over the term of the lease.

### **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, 2015 and August 31, 2014**

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### **Financial instruments**

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

At initial recognition, the Company classifies its financial instruments in the following categories:

- i) **Financial assets and liabilities at fair value through profit or loss:** A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short term. Financial instruments included in this category in fiscal 2014 consisted of the warrants, which are a derivative financial instrument. These warrants were cancelled when the Company refinanced its debt on July 6, 2015 (note 14).

Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the consolidated statements of operations and comprehensive loss. Gains and losses arising from changes in the fair value are presented in the consolidated statements of operations and comprehensive loss within interest (income) and other (income) expense in the period in which they arise. Non-derivative financial assets and liabilities at fair value through profit or loss are classified as current, except for the portion expected to be realized or paid beyond 12 months of the date of the consolidated statement of financial position, which is classified as long-term.

- ii) **Available-for-sale investments:** Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. The Company's available-for-sale assets comprise investments in equity securities of companies that are also related parties. As at August 30, 2015 and August 31, 2014, the fair value of these equity securities is not significant.

Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from remeasurement are recognized in interest (income) and other (income) expense. Available-for-sale investments are classified as non-current, unless an investment matures within 12 months, or management expects to dispose of it within 12 months.

Dividends on available-for-sale equity instruments are recognized in the consolidated statements of operations and comprehensive loss as dividend income when the Company's right to receive payment is established.

- iii) **Loans and receivables:** Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise cash and cash equivalents, restricted cash, trade and other receivables and loans and advances, and are included in current assets due to their short-term nature, except for the portion expected to be realized beyond 12 months from the date of the consolidated statement of financial position. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

## **SIR Corp.**

### Notes to Consolidated Financial Statements

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- iv) Financial liabilities at amortized cost: Financial liabilities at amortized cost include bank indebtedness, trade and other payables, long-term debt, loan payable to SIR Royalty Income Fund and the Ordinary LP Units and Class A LP Units of the Partnership. Trade and other payables are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, trade and other payables are measured at amortized cost using the effective interest method. Bank indebtedness, long-term debt, the loan payable to SIR Royalty Income Fund and the Ordinary LP Units and Class A LP Units of the Partnership are recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method. These are classified as current liabilities if payment is due within 12 months. Otherwise, they are presented as non-current liabilities.

#### **Ordinary LP Units and Class A LP Units of the Partnership**

The Ordinary LP Units and Class A LP Units of the Partnership, which are held by the Fund, require the Company to pay distributions to the Fund when declared by the Board of Directors of SIR GP Inc. SIR GP Inc. is controlled by the Fund and, accordingly, the Company is unable to control the declaration of these distributions. As a result, the Ordinary LP Units and Class A LP Units of the Partnership have been classified as a liability in the consolidated statements of financial position. The Ordinary LP Units and Class A LP Units were initially recorded at fair value and subsequently at amortized cost, which requires updating the carrying amount of the financial liability to reflect actual and revised estimates in cash flows. The changes in the estimated cash flows are derived from changes in the value of the underlying Fund units adjusted for taxes and the Company's loan payable to the Fund. Changes in amortized cost are recognized in the consolidated statements of operations and comprehensive loss.

#### **Impairment of financial assets**

At each reporting date, the Company assesses whether there is objective evidence that a financial asset (other than a financial asset classified as fair value through profit or loss) is impaired.

The criteria used to determine if there is objective evidence of an impairment loss include:

- i) significant financial difficulty of the obligor;
- ii) delinquencies in interest or principal payments; and
- iii) it becomes probable that the borrower will enter bankruptcy or other financial reorganization.

For equity securities, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired.

If such evidence exists, the Company recognizes an impairment loss as follows:

- (i) Financial assets carried at amortized cost: The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount indirectly through the use of an allowance account.

## **SIR Corp.**

### Notes to Consolidated Financial Statements

**August 30, 2015 and August 31, 2014**

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- (ii) Available-for-sale financial assets: The impairment loss is the difference between the original cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the consolidated statements of operations and comprehensive loss. This amount represents the loss in accumulated other comprehensive income that is reclassified to the consolidated statements of operations and comprehensive loss.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized. Impairment losses on available-for-sale equity instruments are not reversed.

#### **Income taxes**

Income tax comprises current and deferred income taxes. Income taxes are recognized in the consolidated statements of operations, except to the extent that they relate to items recognized directly in other comprehensive income (OCI) or directly in equity, in which case the income taxes are also recognized directly in OCI or equity, respectively.

Current tax is the expected taxes payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to taxes payable in respect of previous years.

In general, deferred income taxes are recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income taxes are not recognized if they arise from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred income taxes are provided on temporary differences arising on investments in subsidiaries and associates, except, in the case of subsidiaries, where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income taxes are determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the consolidated statement of financial position date and are expected to apply when the deferred tax asset is realized or liability is settled. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized.

Deferred income tax assets and liabilities are presented as non-current.

#### **Stock-based compensation and other stock-based payments**

The Company has a stock option plan. Certain stock options vest equally over five years. Each tranche of the award is considered a separate award with its own vesting period and grant date fair value. Compensation expense is recognized over the tranche's vesting period and a corresponding adjustment to contributed surplus equal to the fair value of the equity instruments granted using the Black-Scholes option pricing model taking into consideration estimates for forfeitures. The contributed surplus is reduced as options are exercised through

# **SIR Corp.**

## Notes to Consolidated Financial Statements

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a credit to capital stock. Any consideration paid by employees or directors on exercising stock options is credited to capital stock.

### **Foreign currency translation**

Items included in the financial statements of each consolidated entity in the Company are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The functional currency of the Company is the Canadian dollar.

### **Long-term management bonus**

The Company has a long-term management bonus plan, which entitles certain employees to earn a bonus based on the cash flows of the restaurants. The long-term management bonus is payable in cash over a two-year period on leaving the program. The cost of the long-term management bonus is determined using the projected unit credit method. The related liability is recognized in the consolidated statements of financial position at the present value of the obligation at the end of the reporting period.

The discount rate applied in arriving at the present value of the liability represents the equivalent yield on high quality corporate bonds denominated in Canadian dollars and having terms to maturity approximating the terms of the related liability. Current service cost and past service costs arising on the liability are included in the costs of corporate restaurant operations and corporate costs in the consolidated statements of operations and comprehensive loss. Interest costs arising on the liability are included in interest expense. Past service costs and changes in estimates are recognized immediately in the period.

### **Asset retirement obligations**

Asset retirement obligations are the legal obligations associated with the retirement of tangible non-financial assets. The Company has determined the lease-end remediation costs based on its best estimate of the required payment to settle the obligation. Accretion of the obligation over time is based on the market rate of interest for maturity dates that coincide with the expected cash flows.

### **Provisions and contingent liabilities**

Provisions are recognized when present (legal or constructive) obligations as a result of a past event will lead to a probable outflow of economic resources and the amounts can be estimated reliably. Provisions are measured at management's best estimate of the expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. The Company performs evaluations to identify onerous contracts and, where applicable, records provisions for such contracts.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. In those cases where the possible outflow of economic resources as a result of present obligations is considered remote, no liability has been recognized.

# **SIR Corp.**

## Notes to Consolidated Financial Statements

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### **Borrowing costs**

Borrowing costs attributable to the acquisition or construction of qualifying assets are added to the cost of those assets until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognized as interest expense in the consolidated statements of operations and comprehensive loss in the period in which they are incurred.

### **IFRS adopted during the period**

#### **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 its 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 its consolidated financial statements.

#### **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. The required disclosures are included in note 16.

### **IFRS issued but not yet effective**

#### **IFRS 9, Financial Instruments - Classification and Measurement**

In July 2014, the International Accounting Standards Board (IASB) issued the final version of IFRS 9, Financial Instruments, bringing together the classification and measurement, impairment and hedge accounting phases of the IASB’s project to replace IAS 39, Financial Instruments - Recognition and Measurement. The mandatory effective date of IFRS 9 would be annual periods beginning on or after January 1, 2018 with early adoption permitted. Management is evaluating the standard and has not yet determined the impact on its consolidated financial statements.

#### **IFRS 7, Financial Instruments - Disclosure**

IFRS 7, Financial Instruments - Disclosure has been amended to require disclosures on transition from IAS 39 to IFRS 9. This amendment is effective on adoption of IFRS 9. Management is evaluating the amendment and has not yet determined the impact on the consolidated financial statements.



# **SIR Corp.**

## Notes to Consolidated Financial Statements

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### **IFRS 15, Revenue from Contracts with Customers**

IFRS 15, Revenue from Contracts with Customers specifies how and when to recognize revenue as well as requiring entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18, Revenue, IAS 11, Construction Contracts, and a number of revenue-related interpretations. Application of the standard is mandatory for all IFRS reporters and it applies to nearly all contracts with customers; the main exceptions are leases, financial instruments and insurance contracts. IFRS 15 must be applied in an entity's first annual IFRS financial statements for periods beginning on or after January 1, 2018 and early adoption is permitted. Management is evaluating this amendment and has not yet determined the impact on the consolidated financial statements.

## **4 Significant accounting estimates and judgments**

The preparation of consolidated financial statements requires management to use judgment in applying its accounting policies and estimates and assumptions about the future. Estimates and other judgments are continuously evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. The following discusses the most significant accounting judgments and estimates that the Company has made in the preparation of its consolidated financial statements:

### **Impairment of non-financial assets**

The Company tests goodwill for impairment at least annually and tests other non-financial assets for impairment when there is any indication that the asset might be impaired. The Company has estimated the recoverable amounts of the CGUs to which goodwill is allocated using discounted cash flow models that required assumptions about future cash flows, margins and discount rates. Refer to notes 8 and 9 for more details about methods and assumptions used in estimating the recoverable amounts.

### **Loans and advances**

Loans and advances are recorded at amortized cost and are written down to their estimated realizable amount when there is evidence of an impairment. As at August 30, 2015, the Company evaluated its loans and advances from U.S. S.I.R. L.L.C. for impairment. The Company determined the estimated recoverable amounts by using a discounted cash flow model. Significant assumptions used in the discounted cash flow model included the expected future cash payments and a discount rate of 15%. Based on the analysis completed, a recovery of \$1,150,000 for the 52-week period ended August 30, 2015 (53-week period ended August 31, 2014 - \$300,000) was recognized related to the loans and advances from U.S. S.I.R. L.L.C. in the consolidated statements of operations and comprehensive loss.

### **Consolidation of the Partnership**

The determination of the entity having the power to govern the financial and operating policies of the Partnership required significant judgments. Based on an evaluation of the activities of the Partnership and the Partnership Agreement, management concluded the substance of the relationships between the Partnership, the Company and the Fund indicates that the Partnership is controlled by the Company. Accordingly, the Company has consolidated the Partnership.

# **SIR Corp.**

## Notes to Consolidated Financial Statements

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### **Ordinary LP Units and Class A LP Units of the Partnership**

The classification of a financial instrument as a liability or equity requires significant judgment. Based on an evaluation of the Partnership Agreement and rights of the Company and SIR GP Inc. under this agreement, management concluded that the Company has an obligation to pay distributions once declared. Accordingly, the Ordinary LP Units and Class A LP Units of the Partnership held by the Fund have been classified as a liability in the consolidated statements of financial position.

In addition, accounting for the Ordinary LP Units and Class A LP Units at amortized cost also requires significant estimates. Management is required to estimate the future cash flows for the distributions on the Ordinary LP Units and Class A LP Units, which are estimated using the changes in the underlying unit price of the Fund units adjusted for taxes and the Company's loan payable to the Fund. Accordingly, the adjustments and methods used to estimate the cash flows are subject to uncertainty due to the fact that the expected cash flows can only be observed indirectly.

The current portion of the Ordinary LP Units and Class A LP Units is estimated based on the expected cash payments in the next fiscal year. The actual cash payments could differ from the estimates due to changes in the Fund's distribution policy, requirements of the Fund to settle its obligations, such as income taxes, and the performance of the Royalty Pooled Restaurants.

### **Income taxes**

The Company has recognized certain deferred tax liabilities related to its investments in subsidiaries, based on management's estimate of the amount of the deferred tax liability that may reverse in the foreseeable future. In estimating the amount of the deferred tax liability, management considered the Company's strategies and its future financing requirements. Changes in the Company's strategic plan or financing requirement could result in a change in the amount of the deferred tax liability recognized.

## **5 Financial instruments**

### **Classification**

The following table summarizes the carrying values, fair values and classification of the financial assets and liabilities as at August 30, 2015 and August 31, 2014.

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## Notes to Consolidated Financial Statements

August 30, 2015 and August 31, 2014

|  | August 30,<br>2015        |                     | August 31,<br>2014        |                     |
|--|---------------------------|---------------------|---------------------------|---------------------|
|  | Carrying<br>Value<br>\$   | Fair<br>Value<br>\$ | Carrying<br>Value<br>\$   | Fair<br>Value<br>\$ |
|  | (in thousands of dollars) |                     | (in thousands of dollars) |                     |
| <b>Assets</b>  |                           |                     |                           |                     |
| <b>Loans and receivables</b>                                 |                           |                     |                           |                     |
| Cash and cash equivalents                                    | 7,869                     | 7,869               | 4,642                     | 4,642               |
| Restricted cash  | -                         | -                   | 1                         | 1                   |
| Trade and other receivables                                  | 7,299                     | 7,299               | 6,707                     | 6,707               |
| Loans and advances   | 1,964                     | 1,964               | 1,347                     | 1,347               |
| <b>Liabilities</b>   |                           |                     |                           |                     |
| <b>Amortized cost</b>  |                           |                     |                           |                     |
| Bank indebtedness  | 6,681                     | 6,681               | -                         | -                   |
| Trade and other payables                                     | 27,719                    | 27,719              | 23,372                    | 23,372              |
| Long-term debt   | 17,147                    | 18,000              | 27,986                    | 28,662              |
| Loan payable to SIR Royalty Income<br>Fund                   | 35,721                    | see below           | 35,687                    | see below           |
| Ordinary LP Units and Class A LP Units<br>of the Partnership | 96,196                    | see below           | 94,060                    | see below           |

### Carrying and fair values

Cash and cash equivalents, restricted cash, trade and other receivables, bank indebtedness and trade and other payables are short-term financial instruments whose fair values approximate their carrying values, given that they will mature in the short term. The carrying value of the loans and advances approximates fair value as the effective interest rate approximates current market rates. The fair value of long-term debt is determined based on the estimated contractual schedule of payments as the interest rate varies with the current market rates. The fair value of the loan payable to the Fund and the Ordinary LP Units and Class A LP Units of the Partnership could only be determined through the valuation of the financial instruments. The loan payable to the Fund is due to a related party (see note 12) and there is no active market for the debt. The Company intends to hold the loan payable to the Fund until its maturity on October 12, 2044. The Ordinary LP Units and Class A LP Units of the Partnership are also held by the Fund and there is no active market for the Ordinary LP Units and Class A LP Units. As a result, the determination of their fair values is not practicable within the constraints of timeliness and cost.

### 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:

# **SIR Corp.**

## **Notes to Consolidated Financial Statements**

**August 30, 2015 and August 31, 2014**

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### **Interest rate risk**

The loan payable to the Fund has a fixed interest rate. 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.

As at August 31, 2014, the Company had \$28,656,000 in outstanding floating rate debt with an effective interest rate of 8.3%. On July 6, 2015, the Company refinanced this long-term debt as disclosed in note 11 and accordingly, as at August 30, 2015, the Company has \$24,681,000 of outstanding floating rate debt and bank indebtedness with an effective interest rate of 6.0%. For the 52-week period ended August 30, 2015, the Company incurred interest expense on its floating rate long-term debt and bank indebtedness of \$1,705,000 (53-week period ended August 31, 2014 - \$2,103,000). Since the long-term debt and bank indebtedness (2014 - long-term debt) has a variable interest rate, changes in market interest rates will have an impact on the Company's net earnings. An increase or decrease in the market rate of interest of 1% on the balances outstanding as at August 30, 2015, would result in a decrease or increase, respectively, in net earnings of \$247,000 for the 52-week period ended August 30, 2015 (53-week period ended August 31, 2014 - \$287,000).

The Company's policy is to invest excess cash in short-term highly liquid investments with original maturity of three months or less. It is not the Company's practice to hedge against changes in interest rates.

### **Other price risk**

The expected cash flows used in the estimate of the amortized cost of the Ordinary LP Units and Class A LP Units are derived from the market price of the Fund units adjusted for taxes and the Company's loan payable to the Fund. Accordingly, the change in the carrying value of the Ordinary LP Units and Class A LP Units changes with changes in the market price of the Fund units. An increase/decrease in the market price of the Fund units of 5% would result in an increase/decrease of the carrying value of Ordinary LP Units and Class A LP Units of the Partnership of \$6,700,000 (August 31, 2014 - \$6,600,000).

### **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, trade and other receivables 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 trade and other receivables primarily comprise amounts due from major credit card companies; therefore, management believes that the Company's trade and other receivables 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 estimated recoverable amount. 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 U.S. S.I.R. L.L.C. Accordingly, the carrying values of the loans and advances are recorded at their estimated recoverable amounts, which were determined by discounting the expected future cash flows. In addition, the Company regularly receives payments on these loans and advances and, accordingly, recognized interest income of \$217,000 during the 52-week period ended August 30, 2015 (53-week period ended August 31, 2014 - \$191,000).

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## Notes to Consolidated Financial Statements

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### Liquidity risk

Liquidity risk is the risk the Company will not be able to meet its financial obligations as they fall due. Management believes there are sufficient cash resources retained in the Company from cash generated by operations and availability under the Company's credit facility (note 11(a)) 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.

The Company consolidates its investment in the Partnership. Included in cash and cash equivalents is \$780,000 (August 31, 2014 - \$421,000) of cash of the Partnership. These funds can only be utilized by the Partnership and are not available to the Company for other general corporate purposes. These funds are maintained in separate bank accounts of the Partnership.

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

|  | As at August 30, 2015                               |  |   |
|--|---|--|---|
|  | Less than 1 year<br>\$<br>(in thousands of dollars) | 2 - 5 years<br>\$<br>(in thousands of dollars) | Over 5 years<br>\$<br>(in thousands of dollars) |
| Bank indebtedness                        | 6,681   | -  | -   |
| Trade and other payables                 | 27,719  | -  | -   |
| Long-term debt*                          | 2,966   | 17,616   | -   |
| Loan payable to SIR Royalty Income Fund* | 2,992   | 11,968   | 109,411   |
|  | <u>40,358</u>                                       | <u>29,584</u>                                  | <u>109,411</u>                                  |
|  | As at August 31, 2014                               |  |   |
|  | Less than 1 year<br>\$<br>(in thousands of dollars) | 2 - 5 years<br>\$<br>(in thousands of dollars) | Over 5 years<br>\$<br>(in thousands of dollars) |
| Trade and other payables                 | 23,372  | -  | -   |
| Long-term debt*                          | 6,556   | 25,741   | -   |
| Loan payable to SIR Royalty Income Fund* | 2,992   | 11,968   | 112,395   |
|  | <u>32,920</u>                                       | <u>37,709</u>                                  | <u>112,395</u>                                  |

\* Includes principal repayments and an estimate of interest payable based on current market interest rates or the interest rate per the agreement.

The above table excludes the cash flows relating to the Ordinary LP Units and Class A LP Units of the Partnership, as these are not contractual obligations until declared. The estimated amount expected to be paid in the next fiscal year is \$8,827,000 (August 31, 2014 - \$8,285,000).

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### 6 Trade and other receivables

|   | August 30,<br>2015<br>\$  | August 31,<br>2014<br>\$ |
|---|---------------------------|--------------------------|
|   | (in thousands of dollars) |                          |
| Trade receivables   | 2,102                     | 2,101                    |
| Receivables from landlords  | 676                       | -                        |
| Receivables from SIR Royalty Income Fund and its subsidiaries<br>(note 12(c)) | 2,743                     | 2,553                    |
| Trade receivables from related parties (note 16)                              | 14                        | 386                      |
| Other   | 1,764                     | 1,667                    |
|   | <u>7,299</u>              | <u>6,707</u>             |

### 7 Loans and advances

|  | August 30,<br>2015<br>\$  | August 31,<br>2014<br>\$ |
|--|---------------------------|--------------------------|
|  | (in thousands of dollars) |                          |
| Loan receivable from U.S. S.I.R. L.L.C., with interest at 10%, interest<br>only repayable annually, due on August 31, 2003 (a)                           | 1,180                     | 1,180                    |
| Advances to and receivables from U.S. S.I.R. L.L.C., non-interest<br>bearing, due on demand (a)  | 2,385                     | 3,318                    |
| Advances to and receivables from subsidiaries of U.S. S.I.R. L.L.C.,<br>non-interest bearing, due on demand (a)  | 398                       | 398                      |
| Loan receivable from U.S. S.I.R. L.L.C., with interest at 10% and no<br>set terms of repayment (a)   | 2,284                     | 2,284                    |
| Loan receivable from U.S. S.I.R. L.L.C., non-interest bearing, due on<br>demand (a)  | 265                       | 265                      |
| Loan receivable from a company owned by a party related to a<br>director of the company, with interest at prime plus 2%, due on<br>November 15, 2020 (b) | 400                       | -                        |
|  | <u>6,912</u>              | <u>7,445</u>             |
| Provision for impairment   | <u>(4,948)</u>            | <u>(6,098)</u>           |
|  | 1,964                     | 1,347                    |
| Current portion  | <u>(545)</u>              | <u>(400)</u>             |
|  | <u>1,419</u>              | <u>947</u>               |

- a) U.S. S.I.R. L.L.C. is owned by shareholders of the Company and, accordingly, is a related party. 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.

Prior to 2008, loans and 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 loans and advances are impaired based on estimated future cash flows of the remaining US operations. Accordingly, the loans and advances to U.S. S.I.R. L.L.C. have been recorded at their estimated net realizable value of

## SIR Corp.

### Notes to Consolidated Financial Statements

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\$1,564,000 (August 31, 2014 - \$1,347,000). During 2015, the Company received cash payments of \$442,000 (53-week period ended August 31, 2014 - \$321,000) and recognized interest income of \$217,000 (53-week period ended August 31, 2014 - \$191,000) in the current year. Also during 2015, certain liabilities totalling \$708,000, owed by the Company to U.S. S.I.R. L.L.C., were settled against the outstanding loan and advances.

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

|   | \$<br>(in thousands<br>of dollars) |
|---|------------------------------------|
| Balance - August 25, 2013                         | 1,177                              |
| Payment received                                  | (321)                              |
| Interest  | 191                                |
| Recovery of impairment                            | 300                                |
|   | <hr/>                              |
| Balance - August 31, 2014                         | 1,347                              |
| Payment received                                  | (442)                              |
| Settlement of accounts payable with related party | (708)                              |
| Interest  | 217                                |
| Recovery of impairment                            | 1,150                              |
|   | <hr/>                              |
| Balance - August 30, 2015                         | 1,564                              |

- b) During the 52-week period ending August 30, 2015, the Company sold substantially all the assets of Dukes Refresher to a company owned by a party related to a director of the Company for consideration of a \$400,000 loan receivable. Annual principal payments of \$50,000 or 6% of gross revenue from any restaurant located and operating on the leased premise, whichever is greater, are payable in monthly instalments beginning on June 15 to November 15 for each of the five years commencing May 1, 2015, with the balance of the amounts owing due on November 15, 2020.

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### 8 Property and equipment

|   | Corporate  |                                 |  | Restaurants                                      |                                 | Total<br>\$ |
|---|--|---------------------------------|--|--|---------------------------------|-------------|
|   | Furniture,<br>fixtures<br>and<br>equipment<br>\$ | Leasehold<br>improvements<br>\$ | Computer<br>equipment<br>and<br>software<br>\$ | Furniture,<br>fixtures<br>and<br>equipment<br>\$ | Leasehold<br>improvements<br>\$ |             |
|   | (in thousands of dollars)                        |                                 |  |  |                                 |             |
| As at August 25, 2013                             |  |                                 |  |  |                                 |             |
| Cost  | 582  | 202                             | 1,597  | 47,976   | 75,286                          | 125,643     |
| Accumulated depreciation and<br>impairment losses | (535)  | (202)                           | (1,250)  | (26,705)   | (41,894)                        | (70,586)    |
| Net book value as at August 25, 2013              | 47   | -                               | 347  | 21,271   | 33,392                          | 55,057      |
| Additions   | -  | -                               | 83   | 6,129  | 9,818                           | 16,030      |
| Disposals   | -  | -                               | (2)  | (197)  | (54)                            | (253)       |
| Depreciation                                      | (13)   | -                               | (127)  | (4,372)  | (6,667)                         | (11,179)    |
| Impairment losses                                 | -  | -                               | -  | -  | (893)                           | (893)       |
| As at August 31, 2014                             | 34   | -                               | 301  | 22,831   | 35,596                          | 58,762      |
| As at August 31, 2014                             |  |                                 |  |  |                                 |             |
| Cost  | 580  | 202                             | 1,683  | 53,536   | 84,700                          | 140,701     |
| Accumulated depreciation and<br>impairment losses | 546  | 202                             | 1,382  | 30,705   | 49,104                          | 81,939      |
| Net book value as at August 31, 2014              | 34   | -                               | 301  | 22,831   | 35,596                          | 58,762      |
| Net book value as at August 31, 2014              | 34   | -                               | 301  | 22,831   | 35,596                          | 58,762      |
| Additions   | 4  | 12                              | 63   | 2,680  | 4,811                           | 7,570       |
| Disposals   | -  | -                               | (1)  | (225)  | (369)                           | (595)       |
| Depreciation                                      | (12)   | (1)                             | (135)  | (4,305)  | (6,583)                         | (11,036)    |
| Impairment losses                                 | -  | -                               | -  | (40)   | (1,980)                         | (2,020)     |
| As at August 30, 2015                             | 26   | 11                              | 228  | 20,941   | 31,475                          | 52,681      |
| As at August 30, 2015                             |  |                                 |  |  |                                 |             |
| Cost  | 584  | 214                             | 1,741  | 55,387   | 88,361                          | 146,287     |
| Accumulated depreciation and<br>impairment losses | 558  | 203                             | 1,513  | 34,446   | 56,886                          | 93,606      |
| Net book value as at August 30, 2015              | 26   | 11                              | 228  | 20,941   | 31,475                          | 52,681      |

Property and equipment include \$4,085,000 (August 31, 2014 - \$1,974,000) of costs for restaurants under development that were not being depreciated as at August 30, 2015.

As a result of a decline in sales and earnings from certain restaurants, the Company conducted an impairment analysis of these restaurants' non-financial assets. The analysis indicated that the estimated recoverable amounts for five restaurants (2014 - four restaurants) was less than the carrying value of the restaurants' non-financial assets (property and equipment).

In fiscal 2015, the recoverable amount for the impairment of two restaurants (one Jack Astor's and one Signature restaurants) (2014 - two Jack Astor's and one Canyon Creek restaurants) was based on fair value less costs to sell. The fair value less costs to sell for the Jack Astor's restaurant was estimated using a real estate appraisal and depreciated replacement cost. The fair value less costs to sell for the Signature restaurant was estimated using a depreciated replacement cost methodology.



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The recoverable amount for the fiscal 2015 impairment of the remaining restaurants (one Alice Fazooli's/Scaddabush and two Signature restaurants) (fiscal 2014 - one Signature restaurant) was based on value-in-use, which was estimated using a discounted cash flow model. Significant assumptions used in the model include the estimate of cash flows and a discount rate of 18% (fiscal 2014 - 15%). Management has performed sensitivity testing on the estimates and determined that a reasonable change in assumptions would not result in a material change in the impairment of the property and equipment.

In fiscal 2015, certain costs incurred for design of new restaurants were abandoned. Accordingly, these costs were written off during the 52-week period ended August 30, 2015.

Accordingly, in total, an impairment loss of \$2,020,000 (August 31, 2014 - \$893,000) was recorded to write down the assets to their recoverable amounts.

Restaurant furniture, fixtures and equipment and leasehold improvements were written down to reflect their impairment in the following Concept and Signature restaurants:

|                            | <b>52-week<br/>period<br/>ended<br/>August 30,<br/>2015<br/>\$</b> | <b>53-week<br/>period<br/>ended<br/>August 31,<br/>2014<br/>\$</b> |
|----------------------------|--|--|
|                            | (in thousands of dollars)  |  |
| Jack Astor's               | 509  | 469  |
| Alice Fazooli's/Scaddabush | 200  | -  |
| Canyon Creek Chophouse     | -  | 224  |
| Signature                  | 1,311  | 200  |
|                            | <hr/> 2,020  | <hr/> 893  |

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### 9 Goodwill and intangible assets

|  | Goodwill<br>\$ | Computer<br>software<br>\$ | Intangible<br>lease<br>assets<br>\$ | Financing<br>fees<br>\$<br>(note 11) | Total<br>\$ |
|--|----------------|----------------------------|-------------------------------------|--------------------------------------|-------------|
| (in thousands of dollars)                      |                |                            |                                     |                                      |             |
| As at August 25, 2013                          |                |                            |                                     |                                      |             |
| Cost   | 5,410          | 955                        | 837                                 | 298                                  | 7,500       |
| Accumulated amortization and impairment losses | (539)          | (823)                      | (715)                               | -                                    | (2,077)     |
| Net book value                                 | 4,871          | 132                        | 122                                 | 298                                  | 5,423       |
| For the 53-week period ended August 31, 2014   |                |                            |                                     |                                      |             |
| As at August 25, 2013                          | 4,871          | 132                        | 122                                 | 298                                  | 5,423       |
| Additions                                      | -              | 135                        | -                                   | -                                    | 135         |
| Disposals                                      | -              | (9)                        | -                                   | -                                    | (9)         |
| Amortization                                   | -              | (37)                       | (47)                                | -                                    | (84)        |
| Reclassified to long-term debt                 | -              | -                          | -                                   | (298)                                | (298)       |
| As at August 31, 2014                          | 4,871          | 221                        | 75                                  | -                                    | 5,167       |
| As at August 31, 2014                          |                |                            |                                     |                                      |             |
| Cost   | 5,410          | 895                        | 549                                 | -                                    | 6,854       |
| Accumulated amortization and impairment losses | (539)          | (674)                      | (474)                               | -                                    | (1,687)     |
| Net book value                                 | 4,871          | 221                        | 75                                  | -                                    | 5,167       |
| For the 52-week period ended August 30, 2015   |                |                            |                                     |                                      |             |
| As at August 31, 2014                          | 4,871          | 221                        | 75                                  | -                                    | 5,167       |
| Additions                                      | -              | 16                         | -                                   | -                                    | 16          |
| Disposals                                      | -              | (1)                        | -                                   | -                                    | (1)         |
| Amortization                                   | -              | (55)                       | (41)                                | -                                    | (96)        |
| Impairment losses                              | (200)          | -                          | -                                   | -                                    | (200)       |
| As at August 30, 2015                          | 4,671          | 181                        | 34                                  | -                                    | 4,886       |
| As at August 30, 2015                          |                |                            |                                     |                                      |             |
| Cost   | 5,410          | 910                        | 549                                 | -                                    | 6,869       |
| Accumulated amortization and impairment losses | (739)          | (729)                      | (515)                               | -                                    | (1,983)     |
| Net book value                                 | 4,671          | 181                        | 34                                  | -                                    | 4,886       |

Goodwill has been allocated to the following Concept restaurants:

|                           | August 30,<br>2015<br>\$ | August 31,<br>2014<br>\$ |
|---------------------------|--------------------------|--------------------------|
| (in thousands of dollars) |                          |                          |
| Jack Astor's              | 4,166                    | 4,166                    |
| Canyon Creek Chophouse    | 505                      | 705                      |
|                           | 4,671                    | 4,871                    |

# SIR Corp.

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As a result of declining sales and earnings of one restaurant, the Company recognized an impairment of goodwill of \$200,000 during the 52-week period ended August 30, 2015 (53-week period ended August 31, 2014 - \$nil).

The recoverable amount was based on value-in-use. Significant assumptions used in the discounted cash flow model included estimated cash flows for the restaurant, the duration of the estimated cash flows, the discount rate of 13% and the estimated proceeds to dispose of the assets at the end of the lease term. Management has performed sensitivity testing and has determined that a reasonable change in the assumptions would not result in a material change to the goodwill impairment.

### 10 Trade and other payables

|   | August 30,<br>2015<br>\$  | August 31,<br>2014<br>\$ |
|---|---------------------------|--------------------------|
|   | (in thousands of dollars) |                          |
| Trade payables                            | 15,071                    | 12,170                   |
| Accrued liabilities                       | 10,660                    | 8,054                    |
| Construction payables                     | 1,434                     | 1,739                    |
| Interest payable on long-term debt        | 9                         | 99                       |
| Interest payable on SIR Loan (note 12(a)) | 242                       | 250                      |
| Payables to related parties (note 16)     | 303                       | 1,060                    |
|   | <u>27,719</u>             | <u>23,372</u>            |

### 11 Bank indebtedness and long-term debt

|  | August 30,<br>2015<br>\$  | August 31,<br>2014<br>\$ |
|--|---------------------------|--------------------------|
|  | (in thousands of dollars) |                          |
| Revolving term loan (Credit Facility 1) (a)  | 14,104                    | -                        |
| Revolving term loan (Credit Facility 2) (a)  | 9,724                     | -                        |
| Term Loan (b)  | -                         | 15,974                   |
| Tranche A Development Loan (b)   | -                         | 8,511                    |
| Tranche B Development Loan (b)   | -                         | 3,495                    |
| Finance lease obligations, bearing interest at 4.75%, repayable in monthly instalments, maturing on August 1, 2015 | -                         | 6                        |
|  | <u>23,828</u>             | <u>27,986</u>            |
| Current portion of long-term debt  | (2,000)                   | (4,729)                  |
| Bank indebtedness  | <u>(6,681)</u>            | <u>-</u>                 |
|  | <u>15,147</u>             | <u>23,257</u>            |

- a) On July 6, 2015, the Company entered into a credit agreement (New Credit Agreement) with a Schedule 1 Canadian chartered bank (the Lender) to refinance its previous credit facility (see note 11(b)). The New Credit Agreement provides for a three-year facility for a maximum principal amount of \$30,000,000 consisting of a \$20,000,000 revolving term credit facility (Credit Facility 1), and a \$10,000,000 revolving

## **SIR Corp.**

### **Notes to Consolidated Financial Statements**

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term loan (Credit Facility 2). The Company and the Lender have also entered into a purchase card agreement providing credit of up to an additional \$5,000,000. The previous term debt, consisting of a term loan and three development loans, was repaid by a full draw down of Credit Facility 2 and a partial draw down of Credit Facility 1.

Credit Facility 1 is for general corporate and operating purposes, including capital spending on new and renovated restaurants, bearing interest at the prime rate plus 2.25% and/or the bankers' acceptance rate plus 3.25%, principal repaid in one bullet repayment on July 6, 2018. A standby fee of 0.65% is charged on the undrawn balance of Credit Facility 1. Credit Facility 1 can be repaid and reborrowed at any time during the term of the New Credit Agreement. Credit Facility 2 bears interest at the prime rate plus 2.25% and/or the bankers' acceptance rate plus 3.25%. The initial advance on Credit Facility 2 is repayable in quarterly instalments of \$500,000, with the remaining outstanding principal balance due on July 6, 2018.

Subsequent advances on Credit Facility 2 may be requested (subject to availability and lender approval), in minimum multiples of \$1,000,000, annually on the anniversary of the closing date of the New Credit Agreement (July 6), to finance capital spending on new and renovated restaurants. Each subsequent advance will be repayable in equal quarterly instalments based on a five-year amortization, with the remaining outstanding principal balance due on July 6, 2018.

The undrawn balance of Credit Facility 1 as at August 30, 2015 is \$5,319,000.

The New Credit Agreement is secured by substantially all of the assets of the Company and most of its subsidiaries, which are also guarantors. The Partnership and the Fund have not guaranteed the New Credit Agreement.

The New Credit Agreement contains certain financial and non-financial covenants that the Company is in compliance with as at August 30, 2015.

- b) Prior to entering into the New Credit Agreement, the Company's long-term debt outstanding included term debt consisting of a term loan (the Term Loan) and two development loans (the Tranche A and B Development Loans) resulting from the Third Amended and Restated Loan Agreement (the Previous Credit Agreement), entered into on June 23, 2014. All loans under the Previous Credit Agreement were due on November 13, 2016. The Term Loan and the Tranche A Development Loan had 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 had 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. The Company could also elect to fix the interest rate. The amortization period for the Term Loan was ten years whereas for the Tranche A and B Development Loans, the amortization period was seven years.

The previous lender had made available the Tranche A and Tranche B 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.

## SIR Corp.

### Notes to Consolidated Financial Statements

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The debt, under the Previous Credit Agreement, was guaranteed by a company owned by the majority shareholder of the Company (a related party), for which guarantee fees of \$153,000 for the 52-week period ended August 30, 2015 (53-week period ended August 31, 2014 - \$225,000) were expensed (note 21). 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 were pledged to the previous lender and were only exercisable in the event of default. These warrants were cancelled and the Class S Special Shares were removed from authorized capital upon entering into the New Credit Agreement.

- c) As at August 30, 2015, the Company has amounts owing on the purchase card agreement totalling \$87,000 (August 31, 2014 - \$9,000), which are included in trade and other payables.
- d) The Company has recorded its long-term debt at amortized cost. The Company has netted the financing fees paid against its long-term debt and amortizes these costs over the expected life of the long-term debt using the effective interest method. Amortization of financing fees of \$718,000 (53-week period ended August 31, 2014 - \$324,000) has been charged to interest expense in the consolidated statements of operations and comprehensive loss. Amortization of financing fees for the 52-week period ended August 30, 2015, includes amortization of \$42,000 on the financing fees related to the New Credit Agreement and \$676,000 related to the amortization and write-off of the financing fees related to the Previous Credit Agreement. Unamortized financing fees on the New Credit Agreement netted against the debt as at August 30, 2015 were \$853,000.
- e) The principal amount of long-term debt outstanding (excluding the bank indebtedness) as at August 30, 2015 is repayable as follows:

|      | \$<br>(in thousands<br>of dollars) |
|------|------------------------------------|
| 2016 | 2,000                              |
| 2017 | 2,000                              |
| 2018 | 14,000                             |
|      | <hr/>                              |
|      | 18,000                             |
|      | <hr/>                              |

- f) The effective interest rate on long-term debt as at August 30, 2015 is 6.0% (August 31, 2014 - 8.3%).

## 12 SIR Royalty Income Fund

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

The \$40,000,000 SIR Loan bears interest at 7.5% per annum and is due on October 12, 2044. In conjunction with the New Credit Agreement, on July 6, 2015, the Company, the Fund and the Partnership entered into an Intercreditor Agreement to subordinate and postpone their claims against the Company in favour of the Lender. The Intercreditor Agreement replaced the Amended and Restated Subordination and Postponement Agreement entered into on August 23, 2013. The Fund and the Partnership have not guaranteed the New Credit Facility (note 11).

## **SIR Corp.**

### Notes to Consolidated Financial Statements

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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 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 the Intercreditor Agreement.

Under the Intercreditor Agreement, absent a default or event of default under the New 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 Licence and Royalty Agreement. However, if a default or an event of default were to occur, the Lender to the Fund and the Partnership agree not to take actions on their security until the Lender has been repaid in full. However, payments by the Company to the Fund and the Partnership are permitted for such amounts as are required to fund their monthly operating expenses, up to an annual limit. In addition, the Company, the Fund and the Partnership have the right, acting cooperatively, to reduce payments of Royalties and/or interest on the SIR Loan by up to 50% without triggering a cross default under the New Credit Agreement for a period of up to nine consecutive months. The Company and each obligor provided an undertaking to cooperate and explore all options with the Fund to maximize value to the Fund's unitholders and the Company and its shareholders in exchange for the subordinating parties not demanding repayment or enforcing security as a result of any such related party obligation default. The Intercreditor Agreement also contains various other typical covenants of the Fund and the Partnership.

Interest expense charged to the consolidated statements of operations and comprehensive loss for the 52-week ended August 30, 2015 was \$3,026,000 (53-week period ended August 31, 2014 - \$3,067,000), which includes interest on the SIR Loan of \$2,992,000 (53-week period ended August 31, 2014 - \$3,035,000) and amortization of financing fees of \$34,000 (53-week period ended August 31, 2014 - \$32,000). Interest payable on the SIR Loan as at August 30, 2015 was \$242,000 (August 31, 2014 - \$250,000).

The Company has recorded the SIR Loan at amortized cost. The Company has netted the financing fees against the SIR Loan and amortizes this cost over the term of the SIR Loan using the effective interest method. Unamortized financing fees netted against the SIR Loan as at August 30, 2015 were \$4,279,000 (August 31, 2014 - \$4,313,000).

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.

# SIR Corp.

## Notes to Consolidated Financial Statements

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

|  | 52-week<br>period ended<br>August 30,<br>2015<br>\$ | 53-week<br>period ended<br>August 31,<br>2014<br>\$ |
|--|---|---|
|  | (in thousands of dollars)                           |   |
| Balance - Beginning of period  | 94,060  | 85,718  |
| Conversion of Class A GP Units   | 4,410   | 6,976   |
| Change in amortized cost of Ordinary LP Units and Class A LP<br>Units of the Partnership | 6,622   | 10,214  |
| Distributions paid to Ordinary LP and Class A LP unitholders                             | (8,896)   | (8,848)   |
| Balance - End of period  | 96,196  | 94,060  |
| Less: Current portion of Ordinary LP Units and Class A LP Units<br>of the Partnership    | (8,827)   | (8,285)   |
| Ordinary LP Units and Class A LP Units of the Partnership                                | 87,369  | 85,775  |

The following is a summary of the results of operations of the Partnership:

|   | 52-week<br>period ended<br>August 30,<br>2015<br>\$ | 53-week<br>period ended<br>August 31,<br>2014<br>\$ |
|---|---|---|
|   | (in thousands of dollars)                           |   |
| Pooled revenue*   | 261,936   | 253,847   |
| Partnership royalty income*                               | 15,716  | 15,231  |
| Other income  | 32  | 42  |
| Partnership expenses                                      | (68)  | (92)  |
| Net earnings of the Partnership                           | 15,680  | 15,181  |
| The Company's interest in the earnings of the Partnership | (6,727)   | (6,953)   |
| Fund's interest in the earnings of the Partnership        | 8,953   | 8,228   |

\*Includes revenue from the Royalty Pooled Restaurants. The Partnership owns the Canadian trademarks (the SIR Rights) formerly owned or licensed by the Company or its subsidiaries and used in connection with the operation of the majority of the Company's restaurants in Canada. Partnership royalty income is 6% of pooled revenue in accordance with the Licence and Royalty Agreement, plus a Make-Whole Payment for 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 and the Class A LP Units are entitled to receive a pro rata share of all residual distributions of the Partnership. The distributions are declared by the Board of Directors of SIR GP Inc., which is controlled by the Fund. Accordingly, the Ordinary LP Units and the Class A LP Units of the Partnership have been classified as a financial liability in the consolidated statements of financial position. The Ordinary LP Units and the Class A LP Units are accounted for at

## **SIR Corp.**

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amortized cost, with changes in the carrying value of Ordinary LP Units and the Class A LP Units of the Partnership recorded in the consolidated statements of operations and comprehensive loss.

During the 52-week period ended August 30, 2015, distributions of \$8,953,000 (53-week period ended August 31, 2014 - \$8,228,000) were declared to the Fund through the Partnership. Distributions paid during the 52-week period ended August 30, 2015 were \$8,896,000 (53-week period ended August 31, 2014 - \$8,848,000). The Fund, indirectly through the Trust, is entitled to receive a pro rata share of all residual distributions. Distributions payable to SIR Royalty Income Fund as at August 30, 2015 were \$3,383,000 (August 31, 2014 - \$3,326,000).

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

On November 5, 2014, the previous 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 transaction costs of \$142,000.

On January 28, 2014, the previous lender released the security it held on 500,000 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 February 10, 2014, the Company converted 500,000 Class A GP Units to Fund units and sold these Fund units for net proceeds of \$6,757,000, net of transaction costs of \$219,000.

The gross proceeds from the above transactions, net of certain transaction costs were deposited in an account restricted by the previous lender and accordingly, were classified as restricted cash in the consolidated statements of financial position. During the 52-week period ended August 30, 2015, \$4,284,000 (53-week period ended August 31, 2014 - \$9,817,000) was drawn from this restricted account. The funds were released upon the Company presenting eligible capital expenditures to the previous lender. As at August 30, 2015, \$nil 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 (53-week period ended August 31, 2014 - \$6,976,000) 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.

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,



## **SIR Corp.**

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the Partnership granted the Company a 99-year licence to use the SIR Rights in most of Canada in consideration for a Royalty, payable by the Company to the Partnership, equal to 6% of the revenue of the Royalty Pooled Restaurants (the Licence and Royalty Agreement).

Under the terms of the Licence and Royalty Agreement, 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 will 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 unitholders based on actual revenues of the new SIR Restaurants exceeding 80% of the initial estimated revenue or there will be a reduction in the distributions to the Class A GP unitholders if revenues are less than 80% of the initial estimated revenue.

On January 1, 2015, two (January 1, 2014 - 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 two new SIR Restaurants on January 1, 2015 (January 1, 2014 - four), as well as the Second Incremental Adjustment for four new SIR Restaurants added to the Royalty Pooled Restaurants on January 1, 2014 (January 1, 2013 - four), the Company converted its Class B GP Units into Class A GP Units based on the formula defined in the Partnership Agreement. The net effect of these adjustments to the Royalty Pooled Restaurants was that the Company converted 347,000 (January 1, 2014 - 803,000) Class B GP Units into 347,000 (January 1, 2014 - 803,000) Class A GP Units on January 1, 2015 at an estimated fair value of \$4,454,000 (January 1, 2014 - \$11,436,000).

In addition, the revenues of four new SIR Restaurants added to the Royalty Pooled Restaurants on January 1, 2014 were less than 80% of the Initial Adjustment's estimated revenue (January 1, 2013 - four new SIR Restaurants exceeded 80% of the Initial Adjustment's estimated revenue) and, as a result, the distributions on the Class A GP Units were reduced by a special conversion refund of \$5,000 in December 2014 and paid in January 2015 (a special conversion distribution of \$169,000 was declared in December 2013 and paid in January 2014).

As at August 30, 2015, after the effect of the November 19, 2014 conversion of the Class A GP Units into Fund units and after the net effect of the adjustments to Royalty Pooled Restaurants on January 1, 2015, the Company's residual interest in the Partnership is 24.6% (August 31, 2014 - 25.5%). The Company continues to maintain control of the Partnership and, therefore, continues to consolidate the Partnership.

# SIR Corp.

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### c) Advances receivable from SIR Royalty Income Fund

Advances receivable from SIR Royalty Income Fund as at August 30, 2015 were \$2,743,000 (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 52-week period ended August 30, 2015, the Partnership provided these services to the Fund and the Trust for consideration of \$24,000 (53-week period ended August 31, 2014 - \$24,000), which was the amount of consideration agreed to by the related parties.

### 13 Provisions and other long-term liabilities

|  | August 30,<br>2015<br>\$  | August 31,<br>2014<br>\$ |
|--|---------------------------|--------------------------|
|  | (in thousands of dollars) |                          |
| Gift certificates (deferred revenue)                   | 2,838                     | 2,768                    |
| Deferred supplier rebates                              | 915                       | 1,076                    |
| Leasehold inducements and straight-line rent liability | 5,651                     | 5,239                    |
| Long-term management bonus (a)                         | 3,308                     | 3,527                    |
| Asset retirement obligation (b)                        | 677                       | 554                      |
|  | <hr/>                     | <hr/>                    |
|  | 13,389                    | 13,164                   |
| Current portion  | (3,900)                   | (4,022)                  |
|  | <hr/>                     | <hr/>                    |
|  | 9,489                     | 9,142                    |

- 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 up to 10%. The managers and area directors also have the opportunity to earn a bonus on 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 up to 10%. On leaving the program, the participant's bonus is paid in three instalments over a two-year period.

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Movement in the long-term management bonus is as follows:

|   | \$<br>(in thousands<br>of dollars) |
|---|------------------------------------|
| As at August 25, 2013                         | 3,837                              |
| Current service cost and changes in estimates | 123                                |
| Interest cost                                 | 126                                |
| Payments                                      | <u>(559)</u>                       |
| As at August 31, 2014                         | 3,527                              |
| Current service cost and changes in estimates | 228                                |
| Interest cost                                 | 104                                |
| Payments                                      | <u>(551)</u>                       |
| As at August 30, 2015                         | <u>3,308</u>                       |

The amounts recognized in the consolidated statements of operations and comprehensive loss are as follows:

|  | 52-week<br>period ended<br>August 31,<br>2015<br>\$<br>(in thousands of dollars) | 53-week<br>period ended<br>August 25,<br>2014<br>\$ |
|--|--|---|
| Current service cost and change in estimates | 228  | 123   |
| Interest cost                                | 104  | 126   |
|  | <u>332</u>   | <u>249</u>  |

The discount rate used to estimate the long-term management bonus for the 52-week period ended August 30, 2015 was 3.1% (53-week period ended August 31, 2014 - 3.6%). Other significant estimates include the expected cash flows for the respective restaurant(s).

- 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,<br>2015 | August 31,<br>2014 |
|---|--------------------|--------------------|
| Total undiscounted estimated cash flows (in thousands of dollars) | \$880              | \$882              |
| Expected timing of repayments                                     | 1.4 to 17.8 years  | 1.2 to 18.8 years  |
| Discount rate   | 4.0%               | 7.0%               |

# SIR Corp.

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### 14 Capital stock

Authorized

Unlimited common shares

Issued and outstanding

The issued and outstanding common shares are as follows:

|                                     | August 30, 2015               |         | August 31, 2014               |        |
|-------------------------------------|-------------------------------|---------|-------------------------------|--------|
|                                     | Number of<br>common<br>shares | \$      | Number of<br>common<br>shares | \$     |
|                                     | (in thousands)                |         | (in thousands)                |        |
| Balance - Beginning of period       | 10,368                        | 11,560  | 10,368                        | 11,560 |
| Issue of capital stock              | 2,871                         | 14,207  | -                             | -      |
| Repurchase of capital stock         | (2,871)                       | (5,479) | -                             | -      |
| Exercise of stock options (note 15) | 302                           | 73      | -                             | -      |
| Balance - End of period             | 10,670                        | 20,361  | 10,368                        | 11,560 |

On July 6, 2015, the Class S Special Shares were removed from the authorized capital of the Company, together with the rights, privileges, restriction and conditions attached thereto. No Class S Special Shares are issued or outstanding as at August 31, 2014.

On July 6, 2015, the Company issued 2,871,000 common shares to a third party for cash proceeds of \$14,207,000 and immediately repurchased 2,871,000 common shares from certain minority common shareholders for cash proceeds of \$14,207,000 plus transaction costs of \$294,000. The excess proceeds paid to repurchase the 2,871,000 common shares over the weighted average company value of the common shares was charged to contributed surplus and deficit. The third party also acquired 320,000 common shares directly from certain of the existing minority common shareholders and common share option holders of the Company.

### 15 Stock option plan

During the 52-week period ended August 30, 2015, there were 302,000 options exercised (53-week period ended August 31, 2014 - nil) for net proceeds of \$51,000 (53-week period ended August 31, 2014 - \$nil) and 24,000 (53-week period ended August 31, 2014 - 40,000) stock options were forfeited.

During the 52-week period ended August 30, 2015, compensation expense of \$52,000 (53-week period ended August 31, 2014 - \$166,000) was recognized in the consolidated statements of operations and comprehensive loss. Compensation expense for options not yet vested of \$37,000 will be recognized in the consolidated statements of operations and comprehensive loss over the vesting period of the stock options.

There were no stock options granted during the 52-week period ended August 30, 2015 or the 53-week period ended August 31, 2014.

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## Notes to Consolidated Financial Statements

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|                           | Number<br>of stock<br>options<br>outstanding | Weighted<br>average<br>exercise<br>price<br>per share<br>\$ |
|---------------------------|--|---|
|                           | (in thousands)                               |   |
| Balance - August 25, 2013 | 1,966  | 1.14  |
| Forfeited during 2014     | (40)   | 3.84  |
| Balance - August 31, 2014 | 1,926  | 1.08  |
| Exercised during 2015     | (302)  | 0.17  |
| Forfeited during 2015     | (24)   | 2.00  |
| Balance - August 30, 2015 | <u>1,600</u>                                 | 1.24  |

As at August 30, 2015, the outstanding and exercisable stock options to purchase common shares are as follows:

| Stock option price range | Weighted<br>average<br>remaining<br>life<br>(years) | Stock options outstanding                       |   | Stock options exercisable                       |   |
|--------------------------|---|---|---|---|---|
|                          |   | Number<br>of stock<br>options<br>(in thousands) | Weighted<br>average<br>exercise<br>price<br>per share<br>\$ | Number<br>of stock<br>options<br>(in thousands) | Weighted<br>average<br>exercise<br>price<br>per share<br>\$ |
| \$0.01 (a)               | 5.5   | 998   | 0.01  | 998   | 0.01  |
| \$1.00 (b)               | 1.0   | 70  | 1.00  | 63  | 1.00  |
| \$2.00 (b)               | 1.0   | 72  | 2.00  | 60  | 2.00  |
| \$3.84 (c)               | 4.3   | 460   | 3.84  | 287   | 3.84  |
|                          |   | <u>1,600</u>                                    |   | <u>1,408</u>                                    |   |

As at August 31, 2014, the outstanding and exercisable stock options to purchase common shares are as follows:

| Stock option price range | Weighted<br>average<br>remaining<br>life<br>(years) | Stock options outstanding                       |   | Stock options exercisable                       |   |
|--------------------------|---|---|---|---|---|
|                          |   | Number<br>of stock<br>options<br>(in thousands) | Weighted<br>average<br>exercise<br>price<br>per share<br>\$ | Number<br>of stock<br>options<br>(in thousands) | Weighted<br>average<br>exercise<br>price<br>per share<br>\$ |
| \$0.01 (a)               | 6.5   | 1,276   | 0.01  | 1,276   | 0.01  |
| \$1.00 (b)               | 2.0   | 70  | 1.00  | 56  | 1.00  |
| \$2.00 (b)               | 2.0   | 120   | 2.00  | 72  | 2.00  |
| \$3.84 (c)               | 5.3   | 460   | 3.84  | 200   | 3.84  |
|                          |   | <u>1,926</u>                                    |   | <u>1,604</u>                                    |   |

- a) These stock options vested at the date of grant and expire on February 12, 2021. During the 52-week period ended August 30, 2015, 278,000 stock options were exercised for proceeds of \$3,000.

## **SIR Corp.**

### Notes to Consolidated Financial Statements

**August 30, 2015 and August 31, 2014**

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- b) These stock options were granted to certain directors of the Company during the 52-week period ended August 26, 2012. During the 52-week period ended August 30, 2015, 24,000 stock options were exercised for proceeds of \$48,000 and 24,000 stock options were forfeited. Of the total stock options remaining, 35,000 stock options vested at the date of grant and have an exercise price of \$1.00 per share. Of the remaining outstanding stock options, one-fifth vest annually, commencing on August 30, 2012, with 35,000 having an exercise price of \$1.00 per share and 72,000 having an exercise price of \$2.00 per share. All stock options have an expiry date of August 30, 2016. On death, permanent disability, resignation or replacement by the shareholders of the Company, the Company retains the right to purchase the directors' remaining interest, being all outstanding shares plus any remaining stock options, at a negotiated price, which shall be paid over three years. Subsequent to August 30, 2015, 28,000 stock options were exercised for net proceeds of \$28,000.
- c) These stock options were granted to key management of the Company during the 52-week period ended August 25, 2013, with an exercise price of \$3.84 and an expiry date of January 1, 2020. During the 53-week period ended August 31, 2014, 40,000 stock options were forfeited. Of the remaining stock options, 200,000 stock options vested on January 1, 2014 and 87,000 stock options vest annually thereafter over the next three years. On death or early retirement, participants of this plan have the right to exercise vested options up to and including the earlier of: (i) one year following the date of death or early retirement; or (ii) January 1, 2017. On resignation or termination without cause, participants of this plan have the right to exercise vested options up to and including the earlier of: (i) 90 days following the date of resignation or termination without cause; or (ii) January 1, 2017. All unvested options expire on the date of death, early retirement, resignation or termination without cause. On disability or normal retirement, participants of this plan have the right to exercise vested options up to and including January 1, 2017. On termination with cause, all vested and unvested options of the participant immediately expire and are cancelled.

## **16 Related party transactions**

Transactions with U.S. S.I.R. L.L.C. and the Fund are related party transactions and are disclosed in notes 7 and 12, respectively.

## SIR Corp.

### Notes to Consolidated Financial Statements

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

|  | August 30,<br>2015<br>\$  | August 31,<br>2014<br>\$ |
|--|---------------------------|--------------------------|
|  | (in thousands of dollars) |                          |
| Corporate costs  |                           |                          |
| Occupancy costs and maintenance services provided by a company owned by a party related to a shareholder of the Company  | 69                        | 165                      |
| Occupancy costs provided by a company owned by a director and shareholder of the Company                                 | -                         | 4                        |
| Maintenance services provided by a shareholder of the Company  | 10                        | 14                       |
| Maintenance services provided by a company owned by a shareholder of the Company   | 8                         | -                        |
| Consulting fees provided by a company owned by a director and shareholder of the Company                                 | 56                        | -                        |
| Direct costs of restaurant operations  |                           |                          |
| Maintenance services provided by a company owned by a party related to a shareholder of the Company                      | 126                       | 88                       |
| Consulting fees provided by a company owned by a director and shareholder of the Company                                 | 55                        | -                        |
| Maintenance services provided by a shareholder of the Company  | 22                        | -                        |
| Property and equipment   |                           |                          |
| Design and construction management fees and fixtures provided by a company owned by a shareholder of the Company         | 145                       | 882                      |
| Construction management fees and fixtures provided by a company owned by a party related to a shareholder of the Company | 1,128                     | 1,151                    |
| Fixtures provided by a shareholder of the Company  | 8                         | 35                       |
| Capital stock  |                           |                          |
| Consulting fees provided by a company owned by a director and shareholder of the Company                                 | 83                        | -                        |

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.

During the 52-week period ended August 26, 2012, the Company entered into two lease agreements with a company that is owned by a party related to a director of the Company. During the 52-week period ended August 30, 2015, one of these lease agreements was surrendered. Rent is payable under these lease agreements based on a percentage of the revenues of the related restaurant. Rent paid under one lease agreement (2014 - two) for the 52-week period ended August 30, 2015 was \$17,000 (53-week period ended August 31, 2014 - \$12,000).

## SIR Corp.

### Notes to Consolidated Financial Statements

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Included in trade and other receivables are the following amounts due from related parties:

|  | August 30,<br>2015<br>\$  | August 31,<br>2014<br>\$ |
|--|---------------------------|--------------------------|
|  | (in thousands of dollars) |                          |
| Amounts due from U.S. S.I.R. L.L.C. and its subsidiary                           | 7                         | 206                      |
| Amounts due from a company owned by a party related to a director of the Company | 7                         | 180                      |
|  | <u>14</u>                 | <u>386</u>               |

Included in trade and other payables are the following amounts due to related parties:

|   | August 30,<br>2015<br>\$  | August 31,<br>2014<br>\$ |
|---|---------------------------|--------------------------|
|   | (in thousands of dollars) |                          |
| Amounts due to companies owned by a shareholder of the Company                    | 63                        | 12                       |
| Amounts due to a company owned by a party related to a shareholder of the Company | 223                       | 91                       |
| Amounts due to a company owned by a party related to a director of the Company    | 17                        | 174                      |
| Amounts due to U.S. S.I.R. L.L.C.   | -                         | 783                      |
|   | <u>303</u>                | <u>1,060</u>             |

The Company has an investment in common shares of a company owned by a party related to a shareholder of the Company. The Company does not have the ability to significantly influence the operations of this company and, accordingly, has accounted for the investment as a financial asset (available for sale), and is carried at nominal value.

#### Compensation of key management

|  | 52-week<br>period ended<br>August 30,<br>2015<br>\$ | 53-week<br>period ended<br>August 31,<br>2014<br>\$ |
|--|---|---|
|  | (in thousands of dollars)                           |   |
| Salaries, short-term employee benefits and director's fees | 902   | 811   |
| Fees paid to companies for management services             | 814   | 702   |
| Stock-based compensation                                   | 52  | 166   |
|  | <u>1,768</u>  | <u>1,679</u>  |

Key management includes the Company's directors and members of executive management.



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## Notes to Consolidated Financial Statements

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### 17 Expenses by nature

|  | 52-week<br>period ended<br>August 30,<br>2015<br>\$ | 53-week<br>period ended<br>August 31,<br>2014<br>\$ |
|--|---|---|
|  | (in thousands of dollars)                           |   |
| Food and beverage                          | 79,506  | 79,363  |
| Labour                                     | 97,165  | 95,416  |
| Direct costs of restaurant operations      | 45,838  | 47,788  |
| Rent                                       | 14,062  | 13,591  |
| Depreciation and amortization              | 10,905  | 11,055  |
| Loss on disposal of property and equipment | 150   | 257   |
| Impairment of non-financial assets         | 2,020   | 893   |
| Goodwill impairment                        | 200   | -   |
|  | <hr/>   | <hr/>   |
| Cost of corporate restaurant operations    | 249,846   | 248,363   |
|  | <hr/>   | <hr/>   |
| Salaries and benefits                      | 8,134   | 7,885   |
| Advertising and marketing                  | 742   | 589   |
| Professional, legal and consulting fees    | 777   | 683   |
| Rent                                       | 390   | 393   |
| Depreciation and amortization              | 227   | 208   |
| Other                                      | 1,934   | 1,954   |
|  | <hr/>   | <hr/>   |
| Corporate costs                            | 12,204  | 11,712  |
|  | <hr/>   | <hr/>   |

### 18 Contingencies and commitments

#### a) Contingencies

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.

#### b) Commitments

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:

|                  | \$<br>(in thousands<br>of dollars) |
|------------------|------------------------------------|
| Less than 1 year | 15,218                             |
| 2 to 5 years     | 55,065                             |
| Thereafter       | 42,363                             |
|                  | <hr/>                              |
|                  | 112,646                            |
|                  | <hr/>                              |

# SIR Corp.

## Notes to Consolidated Financial Statements

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Subsequent to August 30, 2015, the Company completed the construction of one restaurant for which it incurred costs of approximately \$200,000 during the subsequent period. In addition, the Company has two commitments to lease properties, on which it plans to build two new restaurants. The Company has incurred costs for the construction of one of these restaurants of \$118,000 in the subsequent period. As at the current date, the Company has not entered into any other construction contracts for either restaurant, but expects to do so in the future. In addition, the Company incurred costs for renovations of restaurants of approximately \$1,400,000 in the subsequent period and has approximately \$2,400,000 in additional purchase commitments for renovations of restaurants. 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.

### 19 Supplemental information to the consolidated statements of cash flows

The net change in working capital items is as follows:

|   | 52-week<br>period ended<br>August 30,<br>2015<br>\$ | 53-week<br>period ended<br>August 31,<br>2014<br>\$ |
|---|---|---|
|   | (in thousands of dollars)                           |   |
| Trade and other receivables                 | 103   | (647)   |
| Inventories                                 | (122)   | (52)  |
| Prepaid expenses, deposits and other assets | (32)  | 719   |
| Trade and other payables                    | 5,275   | (2,074)   |
| Provisions and other long-term liabilities  | (253)   | (442)   |
|   | <hr/> 4,971   | <hr/> (2,496)                                       |

Other non-cash items consist of the following:

|   | 52-week<br>period ended<br>August 30,<br>2015<br>\$ | 53-week<br>period ended<br>August 31,<br>2014<br>\$ |
|---|---|---|
|   | (in thousands of dollars)                           |   |
| Straight-line rent expense              | 139   | 66  |
| Supplier rebates                        | (266)   | (159)   |
| Transaction costs on sale of Fund units | 132   | 209   |
| Other                                   | 119   | (12)  |
|   | <hr/> 124   | <hr/> 104   |

# SIR Corp.

## Notes to Consolidated Financial Statements

August 30, 2015 and August 31, 2014

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### 20 Income taxes

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

|          | 52-week<br>period ended<br>August 30,<br>2015<br>\$ | 53-week<br>period ended<br>August 31,<br>2014<br>\$ |
|----------|---|---|
|          | (in thousands of dollars)                           |   |
| Current  | 200   | 237   |
| Deferred | (16)  | (23)  |
|          | <u>184</u>  | <u>214</u>  |

The reconciliation of the Company's effective tax rate to the combined Canadian federal and provincial statutory income tax rate is as follows:

|   | 52-week<br>period ended<br>August 30,<br>2015<br>\$ | 53-week<br>period ended<br>August 31,<br>2014<br>\$ |
|---|---|---|
|   | (in thousands of dollars)                           |   |
| Loss before income taxes  | <u>(3,918)</u>                                      | <u>(9,160)</u>                                      |
| Income tax recovery at Canadian statutory income tax rate of<br>26.5% (August 31, 2014 - 26.5%) | (1,038)   | (2,427)   |
| Increase (decrease) by the effect of  |   |   |
| Change in amortized cost of Ordinary LP Units and<br>Class A LP Units                           | 1,755   | 2,707   |
| Non-deductible expenses   | 375   | 384   |
| Deductible expenses - eliminated on consolidation   | (3,315)   | (3,010)   |
| Deferred tax assets and deferred tax liabilities not<br>previously recognized                   | 2,326   | 2,310   |
| Corporate minimum tax   | 200   | 237   |
| Other   | (119)   | 13  |
| Provision for income taxes  | <u>184</u>  | <u>214</u>  |

# SIR Corp.

## Notes to Consolidated Financial Statements

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Deferred income tax assets not recognized are summarized as follows:

|                             | August 30,<br>2015<br>\$  | August 31,<br>2014<br>\$ |
|-----------------------------|---------------------------|--------------------------|
|                             | (in thousands of dollars) |                          |
| Property and equipment      | 437                       | 2                        |
| Other non-current assets    | 274                       | 383                      |
| Loss carry-forwards         | 4,302                     | 4,189                    |
| Long-term management bonus  | 876                       | 914                      |
| Leasehold inducements       | 1,499                     | 886                      |
| Asset retirement obligation | 177                       | 147                      |
| Ontario tax harmonization   | -                         | 80                       |
|                             | <hr/> 7,565               | <hr/> 6,601              |

Deferred income tax assets (liabilities) recognized are as follows:

|                               | August 30,<br>2015<br>\$  | August 31,<br>2014<br>\$ |
|-------------------------------|---------------------------|--------------------------|
|                               | (in thousands of dollars) |                          |
| Property and equipment        | 1,225                     | 1,364                    |
| Deferred financing fees       | (1,068)                   | (1,189)                  |
| Loss carry-forwards           | 2,211                     | 1,853                    |
| Leasehold inducements         | -                         | 504                      |
| Income of the Partnership     | (319)                     | (574)                    |
| Investment in the Partnership | (2,000)                   | (2,000)                  |
| Other                         | (53)                      | 22                       |
|                               | <hr/> (4)                 | <hr/> (20)               |

As at August 30, 2015, the deferred tax liability related to subsidiaries that has not been recognized amounted to \$7,500,000 (August 31, 2014 - \$7,500,000).

# SIR Corp.

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As at August 30, 2015, the Company and its subsidiaries have available non-capital losses of \$15,184,000 (August 31, 2014 - \$13,955,000) for income tax purposes, which expire as follows:

|      | \$<br>(in thousands<br>of dollars) |
|------|------------------------------------|
| 2026 | 2,720                              |
| 2027 | 1,441                              |
| 2028 | 2,725                              |
| 2029 | 430                                |
| 2030 | 1,719                              |
| 2031 | 1,638                              |
| 2032 | 594                                |
| 2033 | 1,275                              |
| 2034 | 723                                |
| 2035 | 1,919                              |
|      | <hr/>                              |
|      | 15,184                             |

In addition, the Company's US subsidiary has loss carry-forwards of \$5,331,000 (August 31, 2014 - \$5,221,000), which expire in years varying from 2024 to 2034.

### 21 Interest (income) and other expense (income) - net

Interest (income) and other expense (income) - net comprise the following:

|   | 52-week<br>period ended<br>August 30,<br>2015<br>\$<br>(in thousands of dollars) | 53-week<br>period ended<br>August 31,<br>2014<br>\$ |
|---|--|---|
| Interest income                                       | (279)  | (244)   |
| Recovery of impairment of loans and advances (note 7) | (1,150)  | (300)   |
| Transaction costs on sale of Fund units (note 12(b))  | 142  | 219   |
| Guarantee fee (a)                                     | 153  | 225   |
| Termination fees on settlement of debt                | 424  | -   |
|   | <hr/>  | <hr/>   |
|   | (710)  | (100)   |

- a) During the 52-week period ended August 30, 2015, the Company expensed \$153,000 (53-week period ended August 31, 2014 - \$225,000) relating to a guarantee fee to the majority shareholder of the Company associated with the Company's Previous Credit Agreement. Under the guarantee agreement, the Company paid a fee of \$90,000 for the first three-month period of fiscal 2014 and \$45,000 per three-month period, for the remainder of the year. The Company continued to pay \$45,000 per three-month period until the long-term debt, associated with the Previous Credit Agreement, was repaid in full on July 6, 2015. There is no guarantee fee associated with the New Credit Agreement.

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## Notes to Consolidated Financial Statements

**August 30, 2015 and August 31, 2014**

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### **22 Capital management**

The Company's capital consists of its capital stock and deficit of \$20,361,000 and \$138,984,000, 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 senior debt and equity with a view to balancing 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 requirements to meet its strategic plans and to monitor compliance with its New Credit Agreement.

Compliance with the covenants included in the Company's New Credit Agreement is monitored by management on a quarterly basis. As at August 30, 2015, the Company was in compliance with the senior leverage ratio and the fixed charge coverage ratio under the New Credit Agreement. If the Company were not in compliance with the covenants of the New Credit Agreement and unable to remedy this non-compliance, certain security is available to the lender as described in note 11.

The Company has in the past converted a portion of the Class A GP Units and sold the Fund units received. Under the New Credit Agreement, the Company may convert Class A GP Units, without prior consent from the Lender, provided such Units are promptly sold by the Company for the purposes of financing the construction of new restaurants and renovations to existing restaurants, in each case not to exceed in any year the lower of \$7,000,000 and 400,000 units.

The Company is required to issue common shares on the exercise of stock options by shareholders, directors and employees (note 15).