

# **SIR Corp.**

Interim Consolidated Financial Statements  
(Unaudited)

**For the 12-week and 24-week periods  
ended February 10, 2019**

(in thousands of Canadian dollars)

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**SIR Corp.**  
Interim Consolidated Statements of Financial Position  
(Unaudited)

(in thousands of Canadian dollars)

	February 10, 2019 \$	August 26, 2018 \$ (restated) (note 2(a))	August 28, 2017 \$ (restated) (note 2(a))
<b>Assets</b>			
<b>Current assets</b>			
Cash	3,197	4,783	4,550
Trade and other receivables (note 4(c))	8,147	8,115	8,391
Inventories	3,126	3,180	2,995
Prepaid expenses, deposits and other assets	2,797	1,319	1,109
Current portion of loans and advances	483	372	320
	<u>17,750</u>	<u>17,769</u>	<u>17,365</u>
<b>Non-current assets</b>			
Loans and advances	592	842	792
Property and equipment	51,094	51,439	50,691
Goodwill and intangible assets	5,103	5,200	4,970
	<u>74,539</u>	<u>75,250</u>	<u>73,818</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Bank indebtedness (note 3)	5,544	765	1,943
Trade and other payables (note 4(a))	27,040	32,294	31,582
Dividends payable (note 5)	583	-	-
Current portion of long-term debt (note 3)	2,342	2,283	15,838
Current portion of provisions and other long-term liabilities	4,852	3,427	3,282
Current portion of Ordinary LP Units and Class A LP Units of the Partnership (note 4(b))	11,358	11,358	9,991
	<u>51,719</u>	<u>50,127</u>	<u>62,636</u>
<b>Non-current liabilities</b>			
Long-term debt (note 3)	23,426	17,427	-
Loan payable to SIR Royalty Income Fund (note 4(a))	35,864	35,842	35,798
Provisions and other long-term liabilities	8,962	10,874	9,422
Ordinary LP Units and Class A LP Units of the Partnership (note 4(b))	128,082	126,506	120,816
	<u>248,053</u>	<u>240,776</u>	<u>228,672</u>
<b>Shareholders' Deficiency</b>			
<b>Capital stock</b> (note 5)	20,453	20,484	20,484
<b>Contributed surplus</b>	-	109	109
<b>Deficit</b> (note 2(a))	(193,967)	(186,119)	(175,447)
	<u>(173,514)</u>	<u>(165,526)</u>	<u>(154,854)</u>
	<u>74,539</u>	<u>75,250</u>	<u>73,818</u>

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

# SIR Corp.

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

(in thousands of Canadian dollars)

	12-week period ended		24-week period ended	
	February 10, 2019 \$	February 11, 2018 \$ (restated) (note 2(a))	February 10, 2019 \$	February 11, 2018 \$ (restated) (note 2(a))
<b>Corporate restaurant operations</b>				
Food and beverage revenue (note 2(a))	65,590	66,180	134,707	134,558
Gift card revenue (note 2(a))	126	188	173	325
	65,716	66,368	134,880	134,883
Costs of corporate restaurant operations	61,374	62,073	125,063	124,629
<b>Earnings from corporate restaurant operations</b>	4,342	4,295	9,817	10,254
Corporate costs	3,044	3,707	6,782	7,526
<b>Earnings before interest and income taxes</b>	1,298	588	3,035	2,728
Interest expense	417	311	748	607
Interest on loan payable to SIR Royalty Income Fund (note 4(a))	700	700	1,394	1,393
Interest (income) and other expense (income) - net	(73)	(32)	(49)	(64)
Change in amortized cost of Ordinary LP Units and Class A LP Units of the Partnership (note 4(b))	(3,548)	(8,438)	7,717	(2,936)
<b>Earnings (loss) before income taxes</b>	3,802	8,047	(6,775)	3,728
<b>Provision for income taxes</b>	1	-	1	-
<b>Net earnings (loss) and comprehensive income (loss) for the period</b>	3,801	8,047	(6,776)	3,728

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

**SIR Corp.**Interim Consolidated Statements of Changes in Shareholders' Deficiency  
(Unaudited)

(in thousands of Canadian dollars)

	<b>24-week ended February 10, 2019</b>			
	<b>Capital stock \$</b>	<b>Contributed surplus \$</b>	<b>Deficit \$</b>	<b>Total \$</b>
<b>Balance - Beginning of period as at August 26, 2018 as reported</b>	20,484	109	(186,807)	(166,214)
Change in accounting policy – adoption of IFRS 15 (note 2(a))	-	-	688	688
<b>Restated total deficit as at August 26, 2018</b>	20,484	109	(186,119)	(165,526)
Change in accounting policy – adoption of IFRS 9 (note 2(a))	-	-	(21)	(21)
<b>Total deficit as at August 27, 2018</b>	20,484	109	(186,140)	(165,547)
<b>Exercise of stock options</b>	35	-	-	35
<b>Purchase of capital stock</b>	(66)	(109)	(51)	(226)
<b>Dividends declared</b> (note 5)	-	-	(1,000)	(1,000)
<b>Net loss for the period</b>	-	-	(6,776)	(6,776)
<b>Balance - End of period</b>	20,453	-	(193,967)	(173,514)
	<b>24-week ended February 11, 2018</b>			
	<b>Capital stock \$</b>	<b>Contributed surplus \$</b>	<b>Deficit \$</b>	<b>Total \$</b>
<b>Balance - Beginning of period as at August 28, 2017 as reported</b>	20,484	109	(175,962)	(155,369)
Change in accounting policy – adoption of IFRS 15 (note 2(a))	-	-	515	515
<b>Restated total deficit as at August 28, 2017</b>	20,484	109	(175,447)	(154,854)
<b>Dividends declared</b> (note 5)	-	-	(1,000)	(1,000)
<b>Net loss for the period (restated)</b>	-	-	3,728	3,728
<b>Balance - End of period</b>	20,484	109	(172,719)	(152,126)

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

# SIR Corp.

## Interim Consolidated Statements of Cash Flows (Unaudited)

(in thousands of Canadian dollars)

	12-week period ended		24-week period ended	
	February 10, 2019 \$	February 11, 2018 \$	February 10, 2019 \$	February 11, 2018 \$
<b>Cash provided by (used in)</b>				
<b>Operating activities</b>				
Net earnings (loss) for the period	3,801	8,047	(6,776)	3,728
Items not affecting cash				
Change in amortized cost of Ordinary LP Units and Class A LP Units of the Partnership (note 4(b))	(3,548)	(8,438)	7,717	(2,936)
Depreciation and amortization	2,346	2,641	4,732	5,099
Income tax expense	1	-	1	-
(Recovery of) provision for impairment of loans and advances	(38)	-	3	-
Interest expense on long-term debt and SIR Loan	1,117	1,011	2,142	2,000
Non-cash interest income	(36)	(28)	(69)	(57)
Amortization of leasehold inducements	(124)	(134)	(250)	(250)
Loss on disposal of property and equipment	22	28	34	90
Other	(106)	(45)	(222)	(98)
Leasehold and other inducements received	-	-	-	165
Distributions paid to Ordinary LP and Class A LP unitholders (note 4(b))	(3,357)	(3,339)	(6,141)	(5,838)
Net change in working capital items (note 6)	(2,835)	(244)	(7,419)	(2,838)
Cash used in operating activities	(2,757)	(501)	(6,248)	(935)
<b>Investing activities</b>				
Purchase of property and equipment and other assets - net	(1,921)	(5,635)	(3,539)	(9,483)
Advance to shareholder	-	-	(176)	-
Payment received on shareholder loan	-	-	9	-
Collection of loans and advances	271	107	350	141
Cash used in investing activities	(1,650)	(5,528)	(3,356)	(9,342)
<b>Financing activities</b>				
Increase (decrease) in bank indebtedness	1,387	(159)	4,779	1,322
Proceeds from issuance of long-term debt	12,000	6,895	16,000	10,895
Principal repayment of long-term debt	(8,412)	(500)	(9,999)	(1,000)
Proceeds from issuance of lease financing	-	-	253	-
Principal repayment of lease financing	(128)	-	(233)	-
Interest paid	(1,137)	(1,028)	(2,174)	(1,970)
Dividends paid	(250)	(200)	(417)	(300)
Financing fees	-	(171)	-	(171)
Exercise of stock options	-	-	35	-
Repurchase of capital stock	-	-	(226)	-
Cash provided by financing activities	3,460	4,837	8,018	8,776
<b>Decrease in cash and cash equivalents during the period</b>	(947)	(1,192)	(1,586)	(1,501)
<b>Cash and cash equivalents - Beginning of period</b>	4,144	4,241	4,783	4,550
<b>Cash and cash equivalents - End of period</b>	3,197	3,049	3,197	3,049

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

# **SIR Corp.**

## Notes to Interim Consolidated Financial Statements

(Unaudited)

February 10, 2019

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### **1 Nature of operations and fiscal year**

#### **Nature of operations**

SIR Corp. (the Company) is a private company amalgamated under the Business Corporations Act of Ontario. As at February 10, 2019, the Company owned a total of 59 (August 26, 2018 - 61) Concept and Signature restaurants in Canada (in Ontario, Quebec, Alberta, Nova Scotia and Newfoundland) (the SIR Restaurants). The Concept restaurants are Jack Astor's Bar and Grill® (Jack Astor's®), Canyon Creek Chop House® (Canyon Creek®) and Scaddabush Italian Kitchen & Bar® ("Scaddabush") and the Signature restaurants are Reds® Wine Tavern, Reds® Midtown Tavern, Reds® Square One, and Loose Moose Tap & Grill®. The Company also owns a Dukes Refresher® & Bar located in downtown Toronto, and one seasonal restaurant, Abbey's Bakehouse®, which are not currently part of Royalty Pooled Restaurants (note 4(b)).

On October 1, 2004, SIR Royalty Income Fund (the Fund) filed a final prospectus for a public offering of units of the Fund. The net proceeds of the offering of \$51,167,000 were used by the Fund to acquire certain bank debt of the Company (the SIR Loan) (note 4(a)) and, indirectly, through SIR Holdings Trust (the Trust), all of the Ordinary LP Units of SIR Royalty Limited Partnership (the Partnership) (note 4(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 March 21, 2019.

#### **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 2019 and 2018 both consist of 52 weeks.

### **2 Basis of presentation**

The Company prepares its condensed interim consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) for interim financial reporting, including International Accounting Standard (IAS) 34, Interim Financial Reporting. The condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the years ended August 26, 2018 and August 27, 2017, which have been prepared in accordance with IFRS as issued by the IASB.

The note disclosures for these condensed interim consolidated financial statements only present material changes to the disclosure found in the Company's audited consolidated financial statements for the years ended August 26, 2018 and August 27, 2017. Changes to the Company's accounting policies from those disclosed in its consolidated financial statements for the years ended August 26, 2018 and August 27, 2017 are described in note 2(a), recently adopted accounting pronouncements.

# **SIR Corp.**

## Notes to Interim Consolidated Financial Statements

(Unaudited)

February 10, 2019

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### **a) Recently adopted accounting pronouncements**

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

In July 2014, the IASB issued an amended IFRS 9, Financial Instruments - Classification and Measurement of Financial Assets and Financial Liabilities. IFRS 9 replaces IAS 39, Financial Instruments - Recognition and Measurement. In addition, IFRS 7, Financial Instruments - Disclosures is amended to include additional disclosure requirements on transition to IFRS 9. The amendments were effective for annual periods beginning on or after January 1, 2018. The standard uses a single approach based on how an entity manages its financial instruments to determine whether a financial asset is measured at amortized cost or fair value and requires a single impairment method to be used. The standard requires that for financial liabilities measured at fair value, any changes in an entity's own credit risk are generally to be presented in other comprehensive income instead of net earnings. A new hedge accounting model is included in the standard, as well as increased disclosure requirements about risk management activities for entities that apply hedge accounting. The new requirements were adopted effective August 27, 2018 using the modified retrospective method. As at August 27, 2018, the Company recorded a provision of \$21,000 on amounts due from related parties. Subsequent adjustments to the provision on amounts due from related parties will be recorded in the statement of earnings.

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

During May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers, which supersedes IAS 18, Revenue, and IAS 11, Construction Contracts. The Company adopted the requirements of IFRS 15 using the full retrospective method as permitted by IFRS 15, which requires that comparative figures are restated. IFRS 15 is based on the principle that revenue is recognized when control of a good or service is transferred to a customer.

A five-step recognition model is used to apply the standard as follows:

1. Identify the contract(s) with the customer;
2. Identify the separate performance obligations in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to separate performance obligations; and
5. Recognize revenue when (or as) each performance obligation is satisfied.

## SIR Corp.

### Notes to Interim Consolidated Financial Statements

(Unaudited)

February 10, 2019

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Under IFRS 15, the Company must disaggregate revenue from contracts with customers. The Company has determined that a disaggregation of revenue using Concept and Signature restaurants is adequate for its circumstances.

	12-week period ended February 10, 2019 \$	12-week period ended February 11, 2018 \$	24-week period ended February 10, 2019 \$	24-week period ended February 11, 2018 \$
Jack Astor's	44,520	44,538	91,818	92,615
Canyon Creek	4,902	5,733	10,119	11,495
Scaddabush	10,199	10,098	20,704	19,504
Signature Restaurants	5,969	5,811	12,066	10,944
	<u>65,590</u>	<u>66,180</u>	<u>134,707</u>	<u>134,558</u>

Under IFRS 15, revenue is derived from the sale of goods and is recognized at a point in time when the performance obligation is fulfilled. For sales to consumers, the performance obligation is deemed fulfilled when food and beverage is purchased. Gift card revenue represents the estimated revenue that is earned on gift card sales where the gift card will never be redeemed. This breakage amount is estimated based on historical actuals as a percentage of sales. Deferred revenue represents amounts paid by customers in advance of the purchase of products which typically takes the form of pre-loaded gift cards. The amounts received are recorded as a liability within the current portion of provisions and other long-term liabilities on the condensed consolidated balance sheets. Once a gift card is redeemed to make a purchase, the liability is relieved, and revenue is recognized as part of food and beverage revenue.

As at August 26, 2018 and August 28, 2017, the gift card liability decreased by \$688,000 and \$515,000 respectively. Net loss for the 52-week period ended August 26, 2018 decreased by \$173,000.



# SIR Corp.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

February 10, 2019

The impact on the interim consolidated statement of financial position on the adoption of IFRS 15 is as follows:

	As originally reported August 28, 2017 \$	IFRS 15 adjustments \$	August 28, 2017 (restated) \$
Current portion of provisions and other long-term liabilities	3,797	(515)	3,282
Current liabilities	63,151	(515)	62,636
Deficit	(175,962)	515	(175,447)
Shareholders' Deficiency	(155,369)	515	(154,854)
Total liabilities and shareholders' deficiency	73,818	-	73,818

	As originally reported August 26, 2018 \$	IFRS 15 adjustments \$	August 26, 2018 (restated) \$
Current portion of provisions and other long-term liabilities	4,115	(688)	3,427
Current liabilities	50,815	(688)	50,127
Deficit	(186,807)	688	(186,119)
Shareholders' Deficiency	(166,214)	688	(165,526)
Total liabilities and shareholders' deficiency	75,250	-	75,250

The impact on the interim consolidated statement of operations and comprehensive loss on the adoption of IFRS 15 is as follows:

	As originally reported 12-week period ended February 11, 2018 \$	IFRS 15 adjustments \$	12-week period ended February 11, 2018 (restated) \$
Gift card income	-	188	188
Total revenue	66,180	188	66,368
Cost of corporate restaurant operations	61,925	148	62,073

# SIR Corp.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

February 10, 2019

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	As originally reported 24-week period ended February 11, 2018 \$	IFRS 15 adjustments \$	24-week period ended February 11, 2018 (restated) \$
Gift card income	-	325	325
Total revenue	134,558	325	134,883
Cost of corporate restaurant operations	124,384	245	124,629

### b) Recently issued accounting pronouncements

#### IFRS 16, Leases

In January 2016, the IASB issued IFRS 16, Leases, which will replace IAS 17, Leases and related Interpretations. The new standard will be effective for fiscal years beginning on or after January 1, 2019, with early adoption permitted provided the Company has adopted IFRS 15, Revenue from Contracts with Customers. The new standard requires lessees to recognize a lease liability reflecting future lease payments and a “right-of-use asset” for virtually all lease contracts, and record it on the statement of financial position, except with respect to lease contracts that meet limited exception criteria. Given that the Company has significant contractual obligations in the form of operating leases under IAS 17, there will be a material increase to both assets and liabilities on adoption of IFRS 16, and material changes to the timing of recognition of expenses associated with the lease arrangements. The Company is analyzing the new standard to determine the impact of adopting this standard.

#### Amendments to IFRS 9, Financial Instruments

This standard has been amended to enable companies to measure at amortized cost some prepayable financial assets with negative compensation. The assets affected, that include some loans and debt securities, would otherwise have been measured at fair value through profit or loss. Financial assets that would otherwise have contractual cash flows that are solely payments of principal and interest but do not meet that condition only as a result of a prepayment feature with negative compensation, may be measured at amortized cost or at fair value through other comprehensive income when eligibility conditions are met. The amendment to IFRS 9 also clarifies how to account for the modification of a financial liability. Most modifications of financial liabilities will result in immediate recognition of a gain or loss. The amendment is effective for annual periods beginning on or after January 1, 2019. The Company has not yet assessed the impact of the amendment on the consolidated financial statements.

# **SIR Corp.**

## Notes to Interim Consolidated Financial Statements

(Unaudited)

February 10, 2019

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### **3 Bank indebtedness and long-term debt**

The Company has a credit agreement (Credit Agreement) with a Schedule 1 Canadian chartered bank (the Lender). The Credit Agreement, as amended on December 8, 2017 and July 6, 2018, provides for a maximum principal amount of \$50,000,000 consisting of a \$20,000,000 revolving term credit facility (Credit Facility 1), and a \$30,000,000 revolving term loan (Credit Facility 2). The Company and the Lender also has a purchase card agreement providing credit of up to an additional \$5,000,000.

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, 2021. A standby fee of 0.65% is charged on the undrawn balance of Credit Facility 1. Provided the Company is in compliance with the Credit Agreement, the principal amount of Credit Facility 1 can be repaid and reborrowed at any time during the term of the Credit Agreement.

Subsequent advances on Credit Facility 2 may be requested (subject to availability and Lender approval), in minimum multiples of \$1,000,000, to finance capital spending on new and renovated restaurants. Each advance under Credit Facility 2 is repayable in equal quarterly instalments based on a seven year amortization, with the remaining outstanding principal balance due on July 6, 2021. Credit Facility 2 bears interest at the prime rate plus 2.25% and/or the bankers' acceptance rate plus 3.25%.

The undrawn balance of Credit Facility 1 as at February 10, 2019 is \$4,456,000.

The 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 Credit Agreement.

The Credit Agreement contains certain financial and non-financial covenants that the Company is in compliance with as at February 10, 2019.

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. Unamortized financing fees on the Credit Agreement netted against the debt as at February 10, 2019 were \$166,000 (February 11, 2018 - \$267,000).

### **4 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 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 Fund and the Partnership have not guaranteed the Credit Agreement (note 3).

## **SIR Corp.**

### Notes to Interim Consolidated Financial Statements

(Unaudited)

**February 10, 2019**

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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 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 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 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 12-week and 24-week periods ended February 10, 2019 was \$700,000 and \$1,394,000, respectively (12-week and 24-week periods ended February 11, 2018 - \$700,000 and \$1,393,000, respectively), which includes interest on the SIR Loan of \$689,000 and \$1,372,000, respectively (12-week and 24-week periods ended February 11, 2018 - \$690,000 and \$1,373,000, respectively) and amortization of financing fees of \$11,000 and \$22,000, respectively (12-week and 24-week periods ended February 11, 2018 - \$10,000 and \$20,000, respectively). Interest payable on the SIR Loan as at February 10, 2019 was \$339,000 (February 11, 2018 - \$348,000) and is recorded in trade and other payables.

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 Interim Consolidated Financial Statements

(Unaudited)

February 10, 2019

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

	12-week period ended		24-week period ended	
	February 10, 2019 \$	February 11, 2018 \$	February 10, 2019 \$	February 11, 2018 \$
		(in thousands of dollars)		
Balance - Beginning of period	146,345	133,810	137,864	130,807
Change in amortized cost of the Ordinary LP Units and Class A LP Units of the Partnership	(3,548)	(8,438)	7,717	(2,936)
Distributions paid to Ordinary LP and Class A LP unitholders	(3,357)	(3,339)	(6,141)	(5,838)
Balance - End of period	139,440	122,033	139,440	122,033
Less: Current portion of Ordinary LP Units and Class A LP Units of the Partnership	(11,358)	(9,991)	(11,358)	(9,991)
Ordinary LP Units and Class A LP Units of the Partnership	128,082	112,042	128,082	112,042
The following is a summary of the results of operations of the Partnership:				
Pooled Revenue*	63,743	61,468	130,126	125,136
Partnership royalty income*	4,039	3,688	8,022	7,575
Other income	5	5	11	11
Partnership expenses	(19)	1	(36)	(35)
Net earnings of the Partnership	4,025	3,694	7,997	7,551
The Company's interest in the earnings of the Partnership	(1,551)	(1,333)	(2,988)	(2,744)
Fund's interest in the earnings of the Partnership	2,474	2,361	5,009	4,807

\*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

# **SIR Corp.**

## Notes to Interim Consolidated Financial Statements

(Unaudited)

February 10, 2019

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Class A LP Units of the Partnership have been classified as a financial liability in the consolidated statements of financial position. The Ordinary LP Units and the Class A LP Units are accounted for at amortized cost, with changes in the carrying value of Ordinary LP Units and the Class A LP Units of the Partnership recorded in the consolidated statements of operations and comprehensive loss.

During the 12-week and 24-week periods ended February 10, 2019, distributions of \$2,474,000 and \$5,009,000, respectively (12-week and 24-week periods ended February 11, 2018 - \$2,361,000 and \$4,807,000, respectively) were declared to the Fund through the Partnership. Distributions paid during the 12-week and 24-week periods ended February 10, 2019 were \$3,357,000 and \$6,141,000, respectively (12-week and 24-week periods ended February 11, 2018 - \$3,339,000 and \$5,838,000, respectively). 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 February 10, 2019 were \$4,144,000 (August 26, 2018 - \$5,276,000).

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.

The Partnership owns the SIR Rights formerly owned or licensed by the Company or its subsidiaries and used in connection with the operation of the majority of the Company's restaurants in Canada. In 2004, the Partnership granted the Company a 99-year licence to use the SIR Rights in most of Canada in consideration for a Royalty, payable by the Company to the Partnership, equal to 6% of the revenue of the Royalty Pooled Restaurants (the Licence and Royalty Agreement).

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, 2019, two (January 1, 2018 - three) new SIR Restaurants were added to 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, 2019 (January 1, 2018 - three), as well as the Second Incremental Adjustment for three new SIR Restaurant added to Royalty Pooled Restaurants on January 1, 2018 (January 1, 2017 - one), SIR converted its Class B GP Units into Class A GP Units based on the formula defined in the Partnership Agreement. In addition, there was a re-conversion

# **SIR Corp.**

## Notes to Interim Consolidated Financial Statements

(Unaudited)

February 10, 2019

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of Class A GP Units into Class B GP Units for the permanent closure of one (January 1, 2018 – three) SIR Restaurants during 2018. The net effect of these adjustments to Royalty Pooled Restaurants was that SIR converted 197,824 Class B GP Units into 197,824 Class A GP Units (January 1, 2018 – SIR converted 34,810 Class B GP Units into 34,810 Class A GP Units) on January 1, 2019 at a value of \$3,986,264 (January 1, 2018 - \$2,846,999).

In addition, the revenues of the three (January 1, 2017 – one) new SIR Restaurants added to Royalty Pooled Restaurants on January 1, 2018 exceeded 80% of the Initial Adjustment's estimated revenue (January 1, 2017 – revenue of the one new SIR Restaurant was less than 80% of the Initial Adjustment's estimated revenue) and, as a result, a special conversion distribution of \$90,971 was declared on the Class B GP Units in December 2018 and paid in January 2019 (the distributions of the Class A GP Units were reduced by a special conversion refund of \$52,078 in December 2017 and paid in January 2018).

As at February 10, 2019, after the net effect of the adjustments to Royalty Pooled Restaurants on January 1, 2019, the Company's residual interest in the Partnership is 20.91% (August 26, 2018 - 19.4%). The Company continues to maintain control of the Partnership and, therefore, continues to consolidate the Partnership.

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

Advances receivable from SIR Royalty Income Fund as at February 10, 2019 were \$2,836,000 (August 26, 2018 - \$3,174,000). Advances receivable are non-interest bearing and due on demand. Advances receivable are recorded in trade and other receivables.

The Company, through the Partnership, has entered into an arrangement with the Fund and the Trust, whereby the Partnership will provide or arrange for the provision of services required in the administration of the Fund and the Trust. The Partnership has arranged for these services to be provided by SIR GP Inc., in its capacity as the Managing General Partner. For the 12-week and 24-week periods ended February 10, 2019, the Partnership provided these services to the Fund and the Trust for consideration of \$6,000 and \$12,000, respectively (12-week and 24-week periods ended February 11, 2018 - \$6,000 and \$12,000, respectively), which was the amount of consideration agreed to by the related parties.

## **5 Capital stock**

During the 24-week period ended February 10, 2019, a dividend in the amount of \$1,000,000 was declared to the holders of the issued and outstanding common shares of the Company as of August 26, 2018 of which \$417,000 was paid during the period.

During the 12-week and 24-week periods ended February 10, 2019, nil and 35,000 stock options were exercised, respectively, and nil and 35,000 common shares were issued, respectively, for consideration of \$nil and \$35,000, respectively (12-week and 24-week periods ended February 11, 2018 – nil and 146,000 stock options were exercised, respectively, and nil and 146,000 common shares were issued, respectively, for consideration of \$nil and \$128,000, respectively). During the 12-week and 24-week periods ended February 10,

## SIR Corp.

### Notes to Interim Consolidated Financial Statements

(Unaudited)

February 10, 2019

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2019, nil and 35,000 common shares were repurchased, respectively, for consideration of \$nil and \$226,000, respectively (12-week and 24-week periods ended February 11, 2018 – nil).

## 6 Supplemental cash flow information

The net change in working capital items is as follows:

	<u>12-week period ended</u>		<u>24-week period ended</u>	
	<b>February 10, 2019</b>	<b>February 11, 2018</b>	<b>February 10, 2019</b>	<b>February 11, 2018</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
	(in thousands of dollars)			
Trade and other receivables	293	592	97	438
Inventories	132	(421)	53	(534)
Prepaid expenses, deposits and other assets	(741)	(634)	(1,438)	(1,217)
Trade and other payables	(2,385)	(312)	(5,922)	(2,224)
Provisions and other long-term liabilities	(134)	531	(209)	699
	<u>(2,835)</u>	<u>(244)</u>	<u>(7,419)</u>	<u>(2,838)</u>