SIR Corp.

Consolidated Financial Statements
August 25, 2019 and August 26, 2018
(in thousands of Canadian dollars)

Independent auditor's report

To the Directors of SIR Corp.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of SIR Corp. and its subsidiaries (together, the Company) as at August 25, 2019, August 26, 2018 and August 28, 2017, and its financial performance and its cash flows for the 52-week periods ended August 25, 2019 and August 26, 2018 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited
The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at August 25, 2019, August 26, 2018 and August 28, 2017;
- the consolidated statements of operations and comprehensive income (loss) for the 52-week periods ended August 25, 2019 and August 26, 2018;
- the consolidated statements of changes in shareholders' deficiency for the 52-week periods ended August 25, 2019 and August 26, 2018;
- the consolidated statements of cash flows for the 52-week periods ended August 25, 2019 and August 26, 2018; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence
We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

PricewaterhouseCoopers LLP
PwC Centre, 354 Davis Road, Suite 600, Oakville, Ontario, Canada L6J 0C5
T: +1 905 815 6300, F: +1 905 815 6499

Other information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants, Licensed Public Accountants

Oakville, Ontario
November 21, 2019

SIR Corp.

Consolidated Statements of Financial Position

(in thousands of Canadian dollars)

	August 25, 2019 $	August 26, 2018 $ (restated) (note 3)	August 28, 2017 $ (restated) (note 3)
Assets			
Current assets			
Cash	3,614	4,783	4,550
Trade and other receivables (notes 6, 12(c) and 16)	8,564	8,115	8,391
Inventories	3,022	3,180	2,995
Prepaid expenses, deposits and other assets (note 16)	1,430	1,319	1,109
Current portion of loans and advances (note 7 and 16)	477	372	320
	17,107	17,769	17,365
Non-current assets			
Loans and advances (notes 7, 16 and 21)	295	842	792
Property and equipment (notes 8 and 16)	49,331	51,439	50,691
Goodwill and intangible assets (note 9)	5,002	5,200	4,970
	71,735	75,250	73,818
Liabilities			
Current liabilities			
Bank indebtedness (note 11)	3,037	765	1,943
Trade and other payables (notes 10, 12(a) and 16)	30,955	32,294	31,582
Current portion of long-term debt (note 11)	3,194	2,283	15,838
Current portion of provisions and other long-term liabilities (note 13)	4,203	3,427	3,282
Current portion of Ordinary LP Units and Class A LP Units of the Partnership (note 12(b))	11,358	11,358	9,991
	52,747	50,127	62,636
Non-current liabilities			
Long-term debt (note 11)	22,297	17,427	-
Loan payable to SIR Royalty Income Fund (note 12(a))	35,889	35,842	35,798
Provisions and other long-term liabilities (note 13)	8,395	10,874	9,422
Ordinary LP Units and Class A LP Units of the Partnership (note 12(b))	94,397	126,506	120,816
	213,725	240,776	228,672
Shareholders' Deficiency			
Capital stock (note 14)	20,453	20,484	20,484
Contributed surplus	-	109	109
Deficit (note 3)	(162,443)	(186,119)	(175,447)
	(141,990)	(165,526)	(154,854)
	71,735	75,250	73,818

Contingencies and commitments (note 18)

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 Income (Loss)

(in thousands of Canadian dollars)

	52-week period ended August 25, 2019 $	52-week period ended August 26, 2018 $ (restated) (note 3)
Corporate restaurant operations		
Food and beverage revenue (note 3)	299,305	310,762
Gift card revenue (note 3)	387	531
	299,692	311,293
Costs of corporate restaurant operations (notes 16 and 17)	276,130	283,802
Earnings from corporate restaurant operations	23,562	27,491
Corporate costs (notes 16 and 17)	14,027	15,281
Earnings before interest and income taxes	9,535	12,210
Interest expense	1,768	1,544
Interest on loan payable to SIR Royalty Income Fund (note 12(a))	3,039	3,035
Interest (income) and other expenses (income) - net (note 21)	266	(507)
Change in amortized cost of Ordinary LP Units and Class A LP Units of the Partnership (note 12(b))	(20,287)	18,120
Earnings (loss) before income taxes	24,749	(9,982)
Provision for (recovery of) income taxes (note 20)	1	(310)
Net earnings (loss) and comprehensive income (loss) for the period	24,748	(9,672)

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)

	52-week ended August 25, 2019			
	Capital stock $	Contributed surplus $	Deficit $	Total $
Balance - Beginning of period as at August 26, 2018 as reported	20,484	109	(186,807)	(166,214)
Change in accounting policy – adoption of IFRS 15 (note 3)	-	-	688	688
Restated total deficit as at August 26, 2018	20,484	109	(186,119)	(165,526)
Change in accounting policy – adoption of IFRS 9 (note 3)	-	-	(21)	(21)
Total deficit as at August 27, 2018	20,484	109	(186,140)	(165,547)
Exercise of stock options	35	-	-	35
Purchase of capital stock	(66)	(109)	(51)	(226)
Dividends declared (note 14)	-	-	(1,000)	(1,000)
Net earnings for the period	-	-	24,748	24,748
Balance - End of period	20,453	-	(162,443)	(141,990)

	52-week ended August 26, 2018			
	Capital stock $	Contributed surplus $	Deficit $	Total $
Balance - Beginning of period as at August 28, 2017 as reported	20,484	109	(175,962)	(155,369)
Change in accounting policy – adoption of IFRS 15 (note 3)	-	-	515	515
Restated total deficit as at August 28, 2017	20,484	109	(175,447)	(154,854)
Dividends declared (note 14)	-	-	(1,000)	(1,000)
Net loss for the period (restated)	-	-	(9,672)	(9,672)
Balance - End of period	20,484	109	(186,119)	(165,526)

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 period ended	
	August 25, 2019 $	August 26, 2018 $
Cash provided by (used in)		
Operating activities		
Net earnings (loss) for the period	24,748	(9,672)
Items not affecting cash		
Change in amortized cost of Ordinary LP Units and Class A LP Units of the Partnership (note 12(b))	(20,287)	18,120
Depreciation and amortization	10,517	11,018
Income tax expense (recovery) (note 20)	1	(310)
(Recovery of) provision for impairment of loans and advances (note 7)	181	(270)
Goodwill impairment (note 9)	268	86
Impairment of non-financial assets (note 8)	2,380	937
Interest expense on long-term debt and SIR Loan	4,807	4,579
Non-cash interest income	(141)	(125)
Amortization of leasehold inducements	(559)	(568)
Loss on disposal of property and equipment	102	240
Other (note 19)	(817)	(399)
Leasehold and other inducements received	481	2,108
Distributions paid to Ordinary LP and Class A LP unitholders (note 12(b))	(11,822)	(11,063)
Income taxes (paid) recovered	(1)	540
Net change in working capital items (note 19)	(2,937)	527
Cash provided by operating activities	6,921	15,748
Investing activities		
Purchase of property and equipment and other assets - net	(10,610)	(13,203)
Proceeds on sale of investment (note 16)	-	97
Advance to shareholder (notes 7 and 16)	(176)	-
Payment received on shareholder loan (notes 7 and 16)	21	-
Collection of loans and advances (note 7)	535	293
Cash used in investing activities	(10,230)	(12,813)
Financing activities		
Increase (decrease) in bank indebtedness	2,272	(1,178)
Proceeds from issuance of long-term debt	20,000	11,500
Principal repayment of long-term debt	(14,073)	(9,275)
Proceeds from issuance of lease financing	253	1,947
Principal repayment of lease financing	(519)	(258)
Interest paid (note 11)	(4,602)	(4,137)
Dividends paid	(1,000)	(1,000)
Financing fees	-	(301)
Exercise of stock options (notes 14 and 15)	35	-
Repurchase of capital stock (note 14)	(226)	-
Cash provided by (used in) financing activities	2,140	(2,702)
(Decrease) increase in cash and cash equivalents during the period	(1,169)	233
Cash and cash equivalents - Beginning of period	4,783	4,550
Cash and cash equivalents - End of period	3,614	4,783

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

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 25, 2019, the Company owned a total of 60 (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 considered Signature restaurants, and are not currently part of Royalty Pooled Restaurants (note 12(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 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 19, 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 consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

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 certain assets and liabilities as outlined in Financial Instruments (note 5).

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, SIR West Inc., 1031246 Ontario Limited, and 961471 Ontario Limited.

Effective August 25, 2019, the Company dissolved the following previously wholly owned subsidiaries: Alice Fazooli's (City Centre) Limited Partnership, Jack Astor's (Cary & Las Colinas) Limited, 1914860 Ontario Limited, and 1149691 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 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. Revenue from restaurant operations is recognized when services are rendered. Revenue is recorded net of discounts and delivery fees.

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 consolidated statements of financial position. 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.

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, impairment losses, 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 and cash equivalents

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.

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 income (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	5 to 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 restaurant property and equipment are included in costs of corporate restaurant operations.

Intangible and other assets

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

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 and head office and retail locations are accounted for as operating leases. Operating lease payments are expensed on a straight-line basis over the term of the lease to a maximum of 10 years.

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.

Financial instruments

Financial instruments (IFRS 9) – policy applicable from August 26, 2018

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

i) Financial assets at amortized cost: Financial assets at amortized cost are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's financial assets at amortized cost comprise cash and cash equivalents, 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 statements of financial position. Financial assets at amortized cost 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, financial assets at amortized cost are measured at amortized cost using the effective interest method less a provision for impairment.

ii) 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 in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the consolidated statements of operations and comprehensive income (loss). Gains and losses arising from changes in the fair value are presented in the consolidated statements of operations and comprehensive income (loss) in 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 statements of financial position, which is classified as long-term.

iii) 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.

Financial instruments (IAS 39) – policy applicable before August 26, 2018

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 in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the consolidated statements of operations and comprehensive income (loss). Gains and losses arising from changes in the fair value are presented in the consolidated statements of operations and comprehensive income (loss) in 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 statements of financial position, which is classified as long-term.

ii) Available-for-sale investments: Available-for-sale investments are non-derivative financial assets 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 26, 2018, 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 income (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, 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.

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.

Impairment of financial assets (IFRS 9) – policy applicable from August 26, 2018

i) Credit impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortized cost are credit impaired. A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit impaired includes the following:

i) Significant financial difficulty of the obligor;
ii) Delinquencies in interest or principal payments;
iii) Restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
iv) It becomes probable that the borrower will enter bankruptcy or other financial reorganization; or
v) The disappearance of an active market for a security because of financial difficulties.

ii) Financial instruments and contract assets

The Company recognizes loss allowances for expected credit losses on:

i) Financial assets measured at amortized cost; and
ii) Contracted assets.

The Company measures loss allowances at an amount equal to lifetime expected credit losses.

Loss allowances for trade receivables are measured at an amount equal to lifetime expected credit losses. Expected credit losses are the expected credit losses that result from all possible default events over the expected life of a financial instrument. Expected credit losses are probability-weighted estimate of credit losses, and credit losses are measured as the present value of cash shortfalls from a financial asset.

The Company determines whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating lifetime expected credit losses, by considering reasonably available quantitative and qualitative information based on the Company's credit risk experience, forward looking information, and other reasonable estimates.

Impairment of financial assets (IAS 39) – policy applicable before August 26, 2018

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.

(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 income (loss). This amount represents the loss in accumulated other comprehensive income that is reclassified to the consolidated statements of operations and comprehensive income (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.

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 income (loss).

Income taxes

Income tax comprises current and deferred income taxes. Income taxes are recognized in the consolidated statements of operations and comprehensive income (loss), except to the extent to which 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 statements of financial position dates 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. Each tranche of the award was considered a separate award with its own vesting period and grant date fair value. Compensation expense was 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 a credit to capital stock. Any consideration paid by employees or directors on exercising stock options is credited to capital stock.

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 income (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.

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 income (loss) in the period in which they are incurred.

IFRS adopted during the period

IFRS 9, Financial Instruments - Classification and Measurement (IFRS 9)

In July 2014, the IASB issued an amended IFRS 9. IFRS 9 replaces International Accounting Standard (IAS) 39, Financial Instruments - Recognition and Measurement (IAS 39). 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 (loss). 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 statements of operations and comprehensive income (loss).

IFRS 15, Revenue from Contracts with Customers (IFRS 15)

During May 2014, the IASB issued IFRS 15, 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.

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.

	52-week period ended August 25, 2019 $	**52-week period ended August 26, 2018 $**
	(in thousands of dollars)	
Jack Astor's	206,132	216,080
Canyon Creek	19,637	23,977
Scaddabush	46,939	45,142
Signature restaurants	26,597	25,563
	299,305	310,762

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.

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

	As originally reported August 28, 2017 $	**IFRS 15 adjustments $**	**August 28, 2017** (restated) **$**
	(in thousands of dollars)		
Current portion of provisions and other long-term liabilities	3,797	(515)	3,282
Current liabilities	63,151	(515)	62,636
Total liabilities	229,187	(515)	228,672
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) $
	(in thousands of dollars)		
Current portion of provisions and other long-term liabilities	4,115	(688)	3,427
Current liabilities	50,815	(688)	50,127
Total liabilities	241,464	(688)	240,776
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 consolidated statement of operations and comprehensive loss on the adoption of IFRS 15 is as follows:

	As originally reported 52-week period ended August 26, 2018 $	IFRS 15 adjustments $	52-week period ended August 26, 2018 (restated) $
	(in thousands of dollars)		
Gift card income	-	531	531
Total revenue	310,762	531	311,293
Cost of corporate restaurant operations	283,444	358	283,802
Loss before taxes	(10,155)	173	(9,982)
Net loss and comprehensive loss for the period	(9,845)	173	(9,672)

IFRS issued but not yet effective

IFRS 16, Leases (IFRS 16)

IFRS 16, will replace IAS 17, Leases and related interpretations. 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. IFRS 16 is effective for fiscal years beginning on or after January 1, 2019.

The Company will adopt IFRS 16 using the modified retrospective method. Under this approach, the Company will apply a cumulative adjustment to shareholders' deficiency at August 26, 2019, the date of initial application.

The Company is finalizing a detailed analysis to assess the impact of IFRS 16 and continues to work through a comprehensive plan to guide the implementation. Under IFRS 16, the Company anticipates a material increase to the assets and liabilities on the consolidated statements of financial position, as in certain operating lease agreements the Company is considered the lessee with lease terms of more than 12 months.

Amendments to IFRS 9

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.

International Financial Reporting Interpretations Committee (IFRIC) 23, Uncertainty over Tax Treatments (IFRIC 23)

In June 2017, the IASB issued IFRIC 23 effective for fiscal years beginning on or after January 1, 2019. The interpretations provide guidance on how to value uncertain income tax positions based on the probability of whether the relevant tax authorities will accept the company's tax treatments. A company is to assume that a taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when doing so. IFRIC 23 is to be adopted using the modified retrospective approach, which requires that the adjustment be recorded in the opening deficit and comparatives are not restated. The extent of the impact of the adoption of IFRIC 23 on the consolidated financial statements has not yet been determined.

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 25, 2019, 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. Based on the analysis completed, a provision of $202,000 for the 52-week period ended August 25, 2019 (52-week period ended August 26, 2018 - recovery of $270,000) 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 income (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.

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.

	August 25, 2019		August 26, 2018	
	Carrying value (IFRS 9) $	Fair value (IFRS 9) $	Carrying value (IAS 39) $	Fair value (IAS 39) $
	(in thousands of dollars)		(in thousands of dollars)	
Assets				
Loans and receivables				
Cash and cash equivalents	-	-	4,783	4,783
Trade and other receivables	-	-	8,115	8,115
Loans and advances	-	-	1,214	1,214
Amortized cost				
Cash and cash equivalents	3,614	3,614	-	-
Trade and other receivables	8,564	8,564	-	-
Loans and advances	772	772	-	-
Liabilities				
Amortized cost				
Bank indebtedness	3,037	3,037	765	765
Trade and other payables	30,955	30,955	32,294	32,294
Long-term debt	25,491	25,574	19,710	19,913
Loan payable to SIR Royalty Income Fund (a)	35,889	see below	35,842	see below
Ordinary LP Units and Class A LP Units of the Partnership (b)	105,755	see below	137,864	see below

Carrying and fair values

Cash and cash equivalents, trade and other receivables, bank indebtedness and trade and other payables are short-term financial instruments the fair values of which 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 or, in the case of the finance lease obligations, the effect interest rate approximates current market rates.

(a) 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 fair value of the loan payable to the Fund as at September 30, 2019 is estimated to be $46,500,000 (January 1, 2019 - $36,000,000).

    The fair value of the loan payable to the Fund is estimated by discounting the expected cash flows using a current market interest rate adjusted for the Company's credit risk. In determining the appropriate discount rate, management has estimated the discount rate by considering comparable corporate bond rates, risk free rates and the Company's credit risk.

    During the nine-month period ended September 30, 2019, management adjusted the discount rate from 8.46% at January 1, 2019 to 6.20% at September 30, 2019. The adjustment consists of an estimated decrease in the corporate bond rate and the comparative risk free rate of 1.64%, combined with a decrease of 0.62% in the Canadian risk free rate.

(b) The fair value of the Ordinary LP Units and Class A LP Units of the Partnership could only be determined through the valuation of the financial instruments. The Ordinary LP Units and Class A LP Units of the Partnership are 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.

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 income (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 25, 2019, the Company had $27,189,000 (August 26, 2018 - $18,989,000) in outstanding floating rate debt and bank indebtedness with an effective interest rate of 6.3% (August 26, 2018 - 6.6%). For the 52-week period ended August 25, 2019, the Company incurred interest expense on its floating rate long-term debt and bank indebtedness of $1,418,000 (52-week period ended August 26, 2018 - $1,104,000). Since the long-term debt and bank indebtedness have variable interest rates, 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 25, 2019, would result in a decrease or increase, respectively, in net earnings of $272,000 for the 52-week period ended August 25, 2019 (52-week period ended August 26, 2018 - $190,000).

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 $7,200,000 (August 26, 2018 - $8,800,000).

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 $130,000 during the 52-week period ended August 25, 2019 (52-week period ended August 26, 2018 - $125,000).

Liquidity risk

Liquidity risk is the risk the Company will not be able to meet its financial obligations as they fall due.

As at August 25, 2019, the Company's liquidity was comprised of $3,614,000 in cash on hand and $22,810,000 available to borrow under the Company's credit facility (note 11(a)). Management believes these resources, combined with cash generated by operations, provides sufficient cash resources to fund its working capital requirements, scheduled debt repayments, and current commitments for estimated construction costs for new restaurants. However, availability under the credit facility is subject to certain conditions, including certain financial and non-financial covenants as determined by the Lender. The Company prepares budgets and forecasts to evaluate its ability to meet future cash obligations. The Company continues to assess changes in the marketplace, including economic conditions and consumer confidence, and has adopted a more cautious stance toward new restaurant openings.

The Company consolidates its investment in the Partnership. Included in cash and cash equivalents is $1,628,000 (August 26, 2018 - $2,595,000) 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 25, 2019		
	Less than 1 year $	**2 - 5 years** $	**Over 5 years** $
	(in thousands of dollars)		
Bank indebtedness	3,037	-	-
Trade and other payables	30,955	-	-
Long-term debt*	4,590	23,410	-
Loan payable to SIR Royalty Income Fund*	2,992	11,968	100,427
	41,574	35,378	100,427

	As at August 26, 2018		
	Less than 1 year $	**2 - 5 years** $	**Over 5 years** $
	(in thousands of dollars)		
Bank indebtedness	765	-	-
Trade and other payables	32,294	-	-
Long-term debt*	3,335	19,255	-
Loan payable to SIR Royalty Income Fund*	2,992	11,968	103,427
	39,386	31,223	103,427

* Includes principal repayments and an estimate of interest payable based on current market interest rates or the interest rate per the credit 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 $11,358,000 (August 26, 2018 - $11,358,000).

6 Trade and other receivables

	August 25, 2019 $	August 26, 2018 $
	(in thousands of dollars)	
Trade receivables	3,032	3,204
Receivables from SIR Royalty Income Fund and its subsidiaries (note 12(c))	3,294	3,174
Trade receivables from related parties (note 16)	-	59
Marketing receivables	684	248
Gift card receivables	132	108
Other	1,422	1,322
	8,564	8,115

7 Loans and advances

	August 25, 2019 (IFRS 9) $	August 26, 2018 (IAS 39) $
	(in thousands of dollars)	
Loan receivable from U.S. S.I.R. L.L.C., with interest at 10%, interest 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 bearing, due on demand (a)	1,931	2,106
Advances to and receivables from subsidiaries of U.S. S.I.R. L.L.C., 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 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 demand (a)	265	265
Loan receivable from a company owned by a party related to a director of the Company, with interest at prime plus 2%, due on November 15, 2020 (b)	-	230
Loan receivable from a company owned by a shareholder and director, together with a member of executive management of SIR, non-interest bearing, due on demand	10	10
Loan receivable from a shareholder, with interest at 6.75%, due on August 15, 2020 (note 16)	165	-
	6,233	6,473
Provision for impairment	(5,461)	(5,259)
	772	1,214
Current portion	(477)	(372)
	295	842

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 $597,000 (August 26, 2018 - $974,000). During the 52-week period ended August 25, 2019, the Company received cash payments of $305,000 (52-week period ended August 26, 2018 - $243,000) and recognized interest income of $130,000 (52-week period ended August 26, 2018 - $125,000).

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

	$ (in thousands of dollars)
Balance - August 27, 2017	822
Payments received	(243)
Interest	125
Recovery	270
Balance - August 26, 2018	974
Payments received	(305)
Interest	130
Impairment	(202)
Balance – August 25, 2019	597

b) During the 52-week period ended August 30, 2015, the Company sold substantially all the assets of a 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. During the 52-week period ended August 25, 2019, this loan was paid in full. The Company received payments of $230,000 (52-week period ended August 26, 2018 - $50,000) and wrote-off interest receivable of $21,000 (52-week period ended August 26, 2018 recognized interest income - $14,000).

8 Property and equipment

			Corporate		Restaurants	
	Furniture, fixtures and equipment $	Leasehold improvements $	Computer equipment and software $	Furniture, fixtures and equipment $	Leasehold improvements $	Total $
			(in thousands of dollars)			
As at August 28, 2017						
Cost	682	258	2,309	63,752	98,860	165,861
Accumulated depreciation and impairment losses	(590)	(214)	(1,758)	(41,473)	(71,135)	(115,170)
Net book value as at August 28, 2017	92	44	551	22,279	27,725	50,691
Net book value as at August 28, 2017	92	44	551	22,279	27,725	50,691
Additions	6	32	48	7,164	5,481	12,731
Disposals	-	-	-	(149)	(104)	(253)
Depreciation	(32)	(10)	(165)	(4,725)	(5,861)	(10,793)
Impairment losses	-	-		(14)	(923)	(937)
As at August 26, 2018	66	66	434	24,555	26,318	51,439
As at August 26, 2018						
Cost	688	290	2,357	69,868	103,170	176,373
Accumulated depreciation and impairment losses	(622)	(224)	(1,923)	(45,313)	(76,852)	(124,934)
Net book value as at August 26, 2018	66	66	434	24,555	26,318	51,439
Net book value as at August 26,2018	66	66	434	24,555	26,318	51,439
Additions	-	36	73	5,285	5,254	10,648
Disposals	-	-	-	(100)	(2)	(102)
Depreciation	(30)	(4)	(151)	(4,691)	(5,398)	(10,274)
Impairment losses	-	-	-	-	(2,380)	(2,380)
As at August 25, 2019	36	98	356	25,049	23,792	49,331
As at August 25, 2019						
Cost	688	326	2,430	73,965	106,754	184,163
Accumulated depreciation and impairment losses	(652)	(228)	(2,074)	(48,916)	(82,962)	(134,832)
Net book value as at August 25, 2019	36	98	356	25,049	23,792	49,331

Property and equipment include $98,000 (August 26, 2018 - $217,000) of costs for restaurants under development that were not being depreciated as at August 25, 2019.

As at August 25, 2019, the Company has $1,608,000 (August 26, 2018 - $2,000,000) of computer equipment and software under finance leases.

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 (2018 - three restaurants) was less than the carrying value of the restaurants' non-financial assets (property and equipment).

In fiscal 2019, the Company recorded an impairment loss of $2,380,000 in respect of one Signature restaurant, one Canyon Creek restaurant, and three Jack Astor's restaurants. The recoverable amounts were based on value-in-use using a discounted cash flow model. Significant assumptions used in this model include the estimate of cash flows and a discount rate of 13% for the value-in-use methodology. Management has performed sensitivity testing on the estimates and determined that a reasonable change in the estimates would not result in a material change in the impairment of the property and equipment.

In fiscal 2018, the Company recorded an impairment loss of $937,000 in respect of one Signature restaurant and two Jack Astor's restaurants. The recoverable amount for the Signature restaurant was based on value-in-use using a discounted cash flow model. The recoverable amounts for the Jack Astor's restaurants were based on the discounted cash flow (fair value less cost to sell). Significant assumptions used in these models include the estimate of cash flows and a discount rate of 13% for the value-in-use methodology, and a discount rate of 16% for the fair value less cost to sell methodology. Management has performed sensitivity testing on the estimates and determined that a reasonable change in the estimates would not result in a material change in the impairment of the property and equipment.

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

	52-week period ended August 25, 2019 $	**52-week period ended August 26, 2018 $**
	(in thousands of dollars)	
Jack Astor's	750	433
Canyon Creek	21	-
Signature	1,609	504
	2,380	937

9 Goodwill and intangible assets

	Goodwill $	Computer software $	Total $
As at August 27, 2017			
Cost	5,410	1,340	6,749
Accumulated amortization and impairment losses	(904)	(876)	(1,779)
Net book value	4,506	464	4,970
For the 52-week period ended August 26, 2018			
As at August 27, 2017	4,506	464	4,970
Additions	-	541	541
Amortization	-	(225)	(225)
Impairment losses	(86)	-	(86)
As at August 26, 2018	4,420	780	5,200
As at August 26,2018			
Cost	5,410	1,879	7,289
Accumulated amortization and impairment losses	(990)	(1,099)	(2,089)
Net book value	4,420	780	5,200
For the 52-week period ended August 25, 2019			
As at August 26, 2018	4,420	780	5,200
Additions	-	313	313
Amortization	-	(243)	(243)
Impairment losses	(268)	-	(268)
As at August 25, 2019	4,152	850	5,002
As at August 25, 2019			
Cost	5,410	2,192	7,602
Accumulated amortization and impairment losses	(1,258)	(1,342)	(2,600)
Net book value	4,152	850	5,002

As a result of a decline in sales and earnings from certain restaurants, the Company recognized impairment of goodwill of $268,000 during the 52-week period ended August 25, 2019 (52-week period ended August 26, 2018 - $86,000 as a result of a decision to close one restaurant).

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.

Goodwill has been allocated to the following Concept restaurants:

	August 25, 2019 $	August 26, 2018 $
	(in thousands of dollars)	
Jack Astor's	4,001	4,001
Canyon Creek Chophouse	151	419
	4,152	4,420

10 Trade and other payables

	August 25, 2019 $	August 26, 2018 $
	(in thousands of dollars)	
Trade payables	17,918	18,433
Accrued liabilities	11,409	12,594
Construction payables	1,080	731
Interest payable on long-term debt	3	4
Interest payable on SIR Loan (note 12(a))	459	467
Payables to related parties (note 16)	86	65
	30,955	32,294

11 Bank indebtedness and long-term debt

	52-week period ended August 25, 2019 (in thousands of dollars)			
	Credit Facility 1 (a) $	**Credit Facility 2 (a) $**	**Finance leases $**	**Total $**
Balance - Beginning of period	10,679	8,107	1,689	20,475
Issuance of long-term debt	13,000	7,000	-	20,000
Repayment of long-term debt	(12,000)	(2,073)	-	(14,073)
Increase in bank indebtedness	2,272	-	-	2,272
Proceeds from finance leases	-	-	253	253
Repayment of finance leases	-	-	(519)	(519)
Amortization of finance fees	64	56	-	120
Balance - End of period	14,015	13,090	1,423	28,528
Bank indebtedness	(3,037)	-	-	(3,037)
Current portion of long-term debt	-	(2,648)	(546)	(3,194)
Long-term debt	10,978	10,442	877	22,297

	52-week period ended August 26, 2018 (in thousands of dollars)			
	Credit Facility 1 (a) $	**Credit Facility 2 (a) $**	**Finance leases $**	**Total $**
Balance - Beginning of period	11,813	5,968	-	17,781
Issuance of long-term debt	7,000	4,500	-	11,500
Repayment of long-term debt	(7,000)	(2,275)	-	(9,275)
Decrease in bank indebtedness	(1,178)	-	-	(1,178)
Proceeds from finance leases	-	-	1,947	1,947
Repayment of finance leases	-	-	(258)	(258)
Finance fees paid	(130)	(171)	-	(301)
Amortization of finance fees	174	85	-	259
Balance - End of period	10,679	8,107	1,689	20,475
Bank indebtedness	(765)	-	-	(765)
Current portion of long-term debt	-	(1,823)	(460)	(2,283)
Long-term debt	9,914	6,284	1,229	17,427

Reconciliation of interest expense to interest paid	**52-week period ended August 25, 2019 $**	**52-week period ended August 26, 2018 $**
	(in thousands of dollars)	
Interest expense	4,807	4,579
Amortization of finance fees	(168)	(303)
Interest on equity bonus	(102)	(119)
Asset retirement obligation accretion	(1)	-
Change in prepaid interest	57	(29)
Change in interest payable	9	9
Interest paid	4,602	4,137

a) 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 have 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%.

Subsequent to August 25, 2019, the Company redrew an additional $5,000,000 under Credit Facility 2.

The undrawn balance of Credit Facility 1 as at August 25, 2019 is $5,963,000.

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 August 25, 2019. Subsequent to August 25, 2019, the Company and the Lender updated the financial covenants of the Credit Agreement. These changes will be effective for the first two quarters of the next fiscal year.

As at August 25, 2019, the Company has amounts owing on the purchase card agreement totalling $465,000 (August 26, 2018 - $572,000), which are included in trade and other payables.

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 $120,000 (52-week period ended August 26, 2018 - $259,000) has been charged to interest expense in the consolidated statements of operations and comprehensive income (loss). Unamortized financing fees on the Credit Agreement netted against the debt as at August 25, 2019 were $83,000 (August 26, 2018 - $203,000).

The principal amount of long-term debt outstanding (excluding the bank indebtedness) as at August 25, 2019 is repayable as follows:

	Long-term debt repayments $	Finance lease repayments $	Total $
		(in thousands of dollars)	
2020	2,648	610	3,258
2021	21,504	610	22,114
2022	-	305	305
	24,152	1,525	25,677
Interest on finance lease repayments	-	(102)	(102)
	24,152	1,423	25,575

The effective interest rate on long-term debt as at August 25, 2019 is 6.3% (August 26, 2018 – 6.6%).

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 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 11).

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 revenue, 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 income (loss) for the 52-week period ended August 25, 2019 was $3,039,000 (52-week period ended August 26, 2018 - $3,035,000), which includes interest on the SIR Loan of $2,992,000 (52-week period ended August 26, 2018 - $2,991,000) and amortization of financing fees of $47,000 (52-week period ended August 26, 2018 - $44,000). Interest payable on the SIR Loan as at August 25, 2019 was $459,000 (August 26, 2018 - $467,000) and is recorded in trade and other payables.

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 25, 2019 were $4,111,000 (August 26, 2018 - $4,158,000).

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.

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

	52-week period ended	
	August 25, 2019 $	August 26, 2018 $
	(in thousands of dollars)	
Balance - Beginning of period	137,864	130,807
Change in amortized cost of the Ordinary LP Units and Class A LP Units of the Partnership	(20,287)	18,120
Distributions paid to Ordinary LP and Class A LP unitholders	(11,822)	(11,063)
Balance - End of period	105,755	137,864
Less: Current portion of Ordinary LP Units and Class A LP Units of the Partnership	(11,358)	(11,358)
Ordinary LP Units and Class A LP Units of the Partnership	94,397	126,506
The following is a summary of the results of operations of the Partnership:		
Pooled Revenue*	291,874	294,555
Partnership royalty income*	17,727	17,740
Other income	24	24
Partnership expenses	(83)	(79)
Net earnings of the Partnership	17,668	17,685
The Company's interest in the earnings of the Partnership	(6,574)	(6,281)
Fund's interest in the earnings of the Partnership	11,094	11,404

*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 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 income (loss).

During the 52-week period ended August 25, 2019, distributions of $11,094,000 (52-week period ended August 26, 2018 - $11,404,000) were declared to the Fund through the Partnership. Distributions paid during the 52-week period ended August 25, 2019 were $11,822,000 (52-week period ended August 26, 2018 - $11,063,000). 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 25, 2019 were $4,548,000 (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 revenue of the new SIR Restaurants exceeds 80% of the initial estimated revenue. Conversely, converted Class A GP Units will be returned by the Company if the actual revenue is 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 revenue 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 revenue is 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 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 revenue 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 a result of the permanent closure of two SIR restaurants during the period, Make-Whole payments to the Partnership of $214,600 have been recognized by the Company for the 52-week period ended August 25, 2019 (52-week period ended August 26, 2018 - $67,000).

As at August 25, 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 August 25, 2019 were $3,294,000 (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 52-week period ended August 25, 2019, the Partnership provided these services to the Fund and the Trust for consideration of $24,000 (52-week periods ended August 26, 2018 - $24,000), which was the amount of consideration agreed to by the related parties.

13 Provisions and other long-term liabilities

	August 25, 2019 $	August 26, 2018 $
	(in thousands of dollars)	
Gift cards (deferred revenue) (note 3)	2,902	3,162
Deferred supplier rebates	298	796
Leasehold inducements and straight-line rent liability	6,062	6,343
Long-term management bonus (a)	2,682	4,035
Asset retirement obligations (b)	654	653
	12,598	14,989
Current portion	(4,203)	(4,115)
	8,395	10,874

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.

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

	$ (in thousands of dollars)
As at August 27,2017	3,532
Current service cost and changes in estimates	572
Interest cost	119
Payments	(188)
As at August 26, 2018	4,035
Current service cost and changes in estimates	(978)
Interest cost	102
Payments	(477)
As at August 25, 2019	2,682

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

	52-week period ended August 25, 2019 $	52-week period ended August 26, 2018 $
	(in thousands of dollars)	
Current service cost and change in estimates	(978)	572
Interest cost	102	119
	(876)	691

The discount rate used to estimate the long-term management bonus for the 52-week period ended August 25, 2019 was 2.0% (52-week period ended August 26, 2018 - 3.5%). Other significant estimates include the expected cash flows for the respective restaurant(s).

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 25, 2019	August 26, 2018
Total undiscounted estimated cash flows (in thousands of dollars)	$807	$842
Expected timing of repayments	0.1 to 13.8 years	0.2 to 14.8 years
Discount rate	5.2%	5.1%

14 Capital stock

Authorized
Unlimited common shares

Issued and outstanding

	August 25, 2019		August 26, 2018	
	Number of common shares	$	Number of common shares	$
	(in thousands)		(in thousands)	
Balance - Beginning of period	10,875	20,484	10,875	20,484
Repurchase of capital stock	(35)	(66)	-	-
Exercise of stock options (note 15)	35	35	-	-
Balance - End of period	10,875	20,453	10,875	20,484

During the 52-week period ended August 25, 2019, a dividend in the amount of $1,000,000 was declared and paid to the holders of the issued and outstanding common shares of the Company as at August 25, 2019 (52-week period ended August 26, 2018 - $1,000,000).

15 Stock option plan

During the 52-week period ended August 25, 2019, 35,000 stock options were exercised, and 35,000 common shares were issued, for consideration of $35,000 (52-week period ended August 26, 2018 –nil). During the 52-week period ended August 25, 2019, 35,000 common shares were repurchased for consideration of $226,000 (52-week period ended August 26, 2018 – nil).

As at August 25, 2019 and August 26, 2018, all stock options are fully vested.

There were no stock options granted during the 52-week period ended August 25, 2019 or the 52-week period ended August 26, 2018.

	Number of stock options outstanding (in thousands)	Weighted average exercise price per share $
Balance - August 26, 2018	1,363	1.33
Exercised during 2019	(35)	1.00
Expired during 2019	-	
Balance - August 25, 2019	1,328	1.34

As at August 25, 2019, the outstanding and exercisable stock options to purchase common shares are as follows:

		Stock options outstanding		Stock options exercisable	
Stock option price range	Weighted average remaining life (years)	Number of stock options (in thousands)	Weighted average exercise price per share $	Number of stock options (in thousands)	Weighted average exercise price per share $
$0.01 (a)	1.5	868	0.01	868	0.01
$3.84 (c)	0.3	460	3.84	460	3.84
		1,328		1,328	

As at August 26, 2018, the outstanding and exercisable stock options to purchase common shares are as follows:

Stock option price range	Weighted average remaining life (years)	Stock options outstanding: Number of stock options (in thousands)	Stock options outstanding: Weighted average exercise price per share $	Stock options exercisable: Number of stock options (in thousands)	Stock options exercisable: Weighted average exercise price per share $
$0.01 (a)	2.5	868	0.01	868	0.01
$1.00 (b)	-	35	1.00	35	1.00
$3.84 (c)	1.3	460	3.84	460	3.84
		1,363		1,363	

a) These stock options vested at the date of grant and expire on February 12, 2021.

b) These stock options were granted to certain directors of the Company during the 52-week period ended August 26, 2012. 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.

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. Of the remaining stock options, 200,000 stock options vested on January 1, 2014 and 87,000 stock options vested annually thereafter over the next three years. 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.

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

	August 25, 2019 $	**August 26, 2018 $**
	(in thousands of dollars)	
Corporate costs		
Maintenance services provided by a shareholder of the Company	2	8
Consulting fees provided by a company owned by a director of the Company	63	118
Design fees provided by a company owned by a shareholder of the Company	36	14
Direct costs of restaurant operations		
Occupancy costs provided by a company owned by a party related to a director and shareholder of SIR	37	9
Services provided by a shareholder of the Company	4	11
Property and equipment		
Design and construction management fees and fixtures provided by a company owned by a shareholder of the Company	15	-
Fixtures provided by a shareholder of the Company	57	30
Furniture and equipment provided by a company owned by a shareholder and director, together with a member of executive management of the Company	117	118
Prepaid deposits		
Consulting services provided by a director of the Company	2	2

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 a lease agreement with a company that is owned by a party related to a director of the Company. Rent is payable under the lease agreement based on a percentage of the revenue of the related restaurant. Rent paid under this lease agreement for the 52-week period ended August 25, 2019 was $37,000 (52-week period ended August 26, 2018 - $9,000).

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

	August 25, 2019 $	August 26, 2018 $
	(in thousands of dollars)	
Amounts due from U.S. S.I.R. L.L.C. and its subsidiary	-	6
Amounts due from a company owned by a party related to a director of the Company	-	53
	-	59

Included in loans and advances is the following amount due from related parties:

	August 25, 2019 $	August 26, 2018 $
	(in thousands of dollars)	
Amount due from a shareholder of the Company, with interest at 6.75%, due on August 15, 2020	165	-

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

	August 25, 2019 $	August 26, 2018 $
	(in thousands of dollars)	
Amounts due to companies owned by a shareholder or director of the Company	55	46
Amounts due to a company owned by a party related to a director of the Company	31	19
	86	65

The Company had an investment in common shares of a company owned by a party related to a shareholder of the Company. The Company did not have the ability to significantly influence the operations of this company and, accordingly, had accounted for the investment as a financial asset (amortized cost). During the 52-week period ended August 26, 2018, the Company sold these shares for cash proceeds of $97,000 and recorded a gain of $97,000.

Compensation of key management

	52-week period ended August 25, 2019 $	52-week period ended August 26, 2018 $
	(in thousands of dollars)	
Salaries, short-term employee benefits and director's fees	814	982
Fees paid to companies for management services and director's fees	963	916
	1,777	1,898

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

17 Expenses by nature

	52-week period ended August 25, 2019 $	52-week period ended August 26, 2018 (restated) (note 3) $
	(in thousands of dollars)	
Food and beverage	82,027	86,286
Labour	112,563	117,237
Direct costs of restaurant operations	52,554	52,282
Rent	16,155	16,132
Depreciation and amortization	10,098	10,602
Loss on disposal of property and equipment	86	240
Impairment of non-financial assets	2,380	937
Goodwill impairment	267	86
Cost of corporate restaurant operations	276,130	283,802
Salaries and benefits	9,358	10,120
Advertising and marketing	1,191	1,084
Professional, legal and consulting fees	1,103	1,128
Rent	624	651
Depreciation and amortization	419	416
Other	1,332	1,882
Corporate costs	14,027	15,281

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:

	$ (in thousands of dollars)
Less than 1 year	16,609
2 to 5 years	41,627
Thereafter	33,891
	92,127

Subsequent to August 25, 2019, the Company completed the construction of two restaurants. Costs of approximately $144,000 for one restaurant are included in property and equipment as at August 25, 2019. In addition, the Company has entered into purchasing commitments for the construction of one other new restaurant for $823,000, of which $nil is included in property and equipment as at August 25, 2019.

Subsequent to August 25, 2019, the Company incurred costs of approximately $342,000 for these two restaurants. Items such as finalization of design and final construction quotations could change the total cost of these projects.

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

The net change in working capital items is as follows:

	52-week period ended August 25, 2019 $	52-week period ended August 26, 2018 (restated) (note 3) $
	(in thousands of dollars)	
Trade and other receivables	(449)	(228)
Inventories	158	(185)
Prepaid expenses, deposits and other assets	(53)	(238)
Trade and other payables	(1,681)	967
Provisions and other long-term liabilities	(912)	211
	(2,937)	527

Other non-cash items consist of the following:

	52-week period ended August 25, 2019 $	52-week period ended August 26, 2018 $
	(in thousands of dollars)	
Straight-line rent expense	(112)	36
Supplier rebates	(705)	(338)
Other	-	(97)
	(817)	(399)

20 Income taxes

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

	52-week period ended August 25, 2019 $	52-week period ended August 26, 2018 $
	(in thousands of dollars)	
Current	1	(310)

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 period ended August 25, 2019 $	**52-week period ended August 26, 2018 (restated) (note 3) $**
	(in thousands of dollars)	
Earnings (loss) before income taxes	24,749	(9,982)
Income tax expense (recovery) at Canadian statutory income tax rate of 26.5% (August 26, 2018 - 26.5%)	6,558	(2,645)
Increase (decrease) by the effect of		
Change in amortized cost of Ordinary LP Units and Class A LP Units	(5,376)	4,802
Non-deductible expenses	199	214
Partnership structure	(2,927)	(3,010)
Deferred tax assets not recognized	1,546	685
Other	1	264
Provision for (recovery of) income taxes	1	(310)

Deferred income tax assets not recognized are summarized as follows:

	August 25, 2019 $	**August 26, 2018 $**
	(in thousands of dollars)	
Property and equipment	3,412	2,369
Other non-current assets	321	321
Loss carry-forwards	3,305	3,202
Long-term management bonus	713	1,070
Leasehold inducements	1,603	1,682
Asset retirement obligation	173	173
	9,527	8,817

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

	August 25, 2019 $	August 26, 2018 $
	(in thousands of dollars)	
Property and equipment	(614)	611
Deferred financing fees	(1,019)	(1,006)
Loss carry-forwards	3,864	2,302
Investment in the Partnership	(2,000)	(1,700)
Other	(231)	(207)
	-	-

As at August 25, 2019, the deferred tax liability related to subsidiaries that has not been recognized amounted to $7,700,000 (August 26, 2018 - $7,800,000).

As at August 25, 2019, the Company and its subsidiaries have available non-capital losses of $22,126,000 (August 26, 2018 - $15,758,000) for income tax purposes, which expire as follows:

	$ (in thousands of dollars)
2026	223
2027	884
2028	2,738
2029	473
2030	1,786
2031	804
2032	352
2033	1,196
2034	833
2035	1,080
2036	590
2037	1,674
2038	2,848
2039	6,645
	22,126

In addition, the Company's US subsidiary has loss carry-forwards of $5,331,000 (August 26, 2018 - $5,331,000), which expire from 2024 to 2038.

21 Interest (income) and other expenses (income) - net

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

	52-week period ended August 25, 2019 $	52-week period ended August 26, 2018 $
	(in thousands of dollars)	
Interest income	(145)	(140)
Provision for (recovery of) impairment of loans and advances (note 7)	202	(270)
Restructuring costs	194	-
Foreign exchange loss	15	-
Gain on sale of investment (note 16)	-	(97)
	266	(507)

22 Capital management

The Company's capital consists of its capital stock and deficit of $20,453,000 and $162,443,000, 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 Credit Agreement.

Compliance with the covenants included in the Company's Credit Agreement is monitored by management on a quarterly basis. As at August 25, 2019, the Company was in compliance with the senior leverage ratio and the fixed charge coverage ratio under the Credit Agreement. If the Company were not in compliance with the covenants of the Credit Agreement and unable to remedy this non-compliance, certain security is available to the Lender as described in note 11.

SIR currently holds 2,214,000 Class A GP Units, representing a 20.91% residual interest in the Partnership. The Class A GP Units are exchangeable into units of the Fund on a one for one basis, and, as at August 25, 2019, have a market value of approximately $27,789,000.

Under the Credit Agreement and without prior consent from the Lender, SIR may convert Class A GP Units into Fund Units and promptly sell such units for the purposes of financing construction projects for new and existing restaurants, provided in any year the sale of the units does not exceed 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).