SIR Corp.

Consolidated Financial Statements
August 28, 2016 and August 30, 2015
(in thousands of Canadian dollars)

November 21, 2016

Independent Auditor's Report

To the Directors of
SIR Corp.

We have audited the accompanying consolidated financial statements of SIR Corp. and its subsidiaries, which comprise the consolidated statements of financial position as at August 28, 2016 and August 30, 2015 and the consolidated statements of operations and comprehensive loss, changes in shareholders' deficiency and cash flows for the 52-week periods then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

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

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

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of SIR Corp. and its subsidiaries as at August 28, 2016 and August 30, 2015 and their financial performance and their cash flows for the 52-week periods then ended in accordance with International Financial Reporting Standards.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants, Licensed Public Accountants

Oakville, Ontario

SIR Corp.

Consolidated Statements of Financial Position

(in thousands of Canadian dollars)

	August 28, 2016 $	August 30, 2015 $
Assets		
Current assets		
Cash and cash equivalents	3,888	7,869
Trade and other receivables (notes 6, 12(c) and 16)	7,084	7,299
Inventories	2,934	3,005
Prepaid expenses, deposits and other assets	703	530
Current portion of loans and advances (note 7)	350	545
	14,959	19,248
Non-current assets		
Loans and advances (notes 7 and 21)	940	1,419
Property and equipment (notes 8 and 16)	50,523	52,681
Goodwill and intangible assets (note 9)	4,649	4,886
	71,071	78,234
Liabilities		
Current liabilities		
Bank indebtedness (note 11)	1,779	6,681
Trade and other payables (notes 10, 12(c) and 16)	29,396	27,719
Current portion of long-term debt (note 11)	2,000	2,000
Current portion of provisions and other long-term liabilities (note 13)	3,798	3,900
Current portion of Ordinary LP Units and Class A LP Units of the Partnership (note 12(b))	9,991	8,827
	46,964	49,127
Non-current liabilities		
Long-term debt (note 11)	7,599	15,147
Loan payable to SIR Royalty Income Fund (note 12(a))	35,758	35,721
Provisions and other long-term liabilities (note 13)	9,100	9,489
Deferred income taxes (note 20)	-	4
Ordinary LP Units and Class A LP Units of the Partnership (note 12(b))	113,830	87,369
	213,251	196,857
Shareholders' Deficiency		
Capital stock (note 14)	20,390	20,361
Contributed surplus	31	-
Deficit	(162,601)	(138,984)
	(142,180)	(118,623)
	71,071	78,234

Contingencies and commitments (note 18)

Subsequent events (note 15)

Approved by the Board of Directors

Director: (Signed) Grey Sisson

Director: (Signed) Peter Fowler

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

SIR Corp.
Consolidated Statements of Operations and Comprehensive Loss

(in thousands of Canadian dollars)

	52-week period ended August 28, 2016 $	52-week period ended August 30, 2015 $
Corporate restaurant operations		
Food and beverage revenue	280,818	269,750
Costs of corporate restaurant operations (notes 16 and 17)	260,219	249,846
Earnings from corporate restaurant operations	20,599	19,904
Corporate costs (notes 16 and 17)	13,490	12,204
Earnings before interest and income taxes	7,109	7,700
Interest expense	1,587	2,680
Interest on loan payable to SIR Royalty Income Fund (note 12(a))	3,029	3,026
Interest (income) and other expense (income) - net (note 21)	612	(710)
Change in amortized cost of Ordinary LP Units and Class A LP Units of the Partnership (note 12(b))	25,283	6,622
Loss before income taxes	(23,402)	(3,918)
Provision for income taxes (note 20)	271	184
Net loss and comprehensive loss for the period	(23,673)	(4,102)

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 period ended August 28, 2016			
	Capital stock $	Contributed surplus $	Deficit $	Total $
Balance - Beginning of period	20,361	-	(138,984)	(118,623)
Stock-based compensation (note 15)	-	31	-	31
Repurchase of capital stock (note 14)	-	-	56	56
Exercise of stock options (notes 14 and 15)	29	-	-	29
Net loss for the period	-	-	(23,673)	(23,673)
Balance - End of period	20,390	31	(162,601)	(142,180)

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

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 28, 2016 $	52-week period ended August 30, 2015 $
Cash provided by (used in)		
Operating activities		
Net loss from operations for the period	(23,673)	(4,102)
Items not affecting cash		
Change in amortized cost of Ordinary LP Units and Class A LP Units of the Partnership (note 12(b))	25,283	6,622
Depreciation and amortization	11,263	11,132
Stock-based compensation	31	52
Deferred income taxes (note 20)	(4)	(16)
Current income taxes (note 20)	275	200
Provision for (recovery of) impairment of loans and advances (note 7)	500	(1,150)
Goodwill impairment (note 9)	165	200
Impairment of non-financial assets (note 8)	1,295	2,020
Interest expense on long-term debt and SIR Loan	4,616	5,706
Non-cash interest income	(192)	(217)
Amortization of leasehold inducements	(580)	(552)
Loss on disposal of property and equipment	97	150
Other (note 19)	212	124
Leasehold and other inducements received	701	279
Distributions paid to Ordinary LP and Class A LP unitholders (note 12)	(8,271)	(8,896)
Income taxes paid	(187)	(144)
Net change in working capital items (note 19)	429	4,971
Cash provided by operating activities	11,960	16,379
Investing activities		
Purchase of property and equipment and other assets - net	(10,026)	(7,845)
Net cash proceeds received from restricted funds (note 12)	-	4,284
Payment received on loans and advances - net (note 7)	366	442
Cash used in investing activities	(9,660)	(3,119)
Financing activities		
Increase (decrease) in bank indebtedness	(4,902)	6,681
Proceeds from issuance of long-term debt	-	18,000
Principal repayment of long-term debt	(8,000)	(28,662)
Interest paid	(3,738)	(4,924)
Financing fees	(10)	(885)
Issue of capital stock (note 14)	-	14,207
Exercise of stock options (notes 14 and 15)	29	51
Repurchase of capital stock (note 14)	56	(14,501)
Proceeds on sale of SIR Royalty Income Fund units (note 12)	10,284	-
Cash used in financing activities	(6,281)	(10,033)
Increase (decrease) in cash and cash equivalents during the period	(3,981)	3,227
Cash and cash equivalents - Beginning of period	7,869	4,642
Cash and cash equivalents - End of period	3,888	7,869

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 28, 2016, the Company owned a total of 60 (August 30, 2015 - 58) 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") together with Alice Fazooli's ("Scaddabush/Alice Fazooli's") and the Signature restaurants are Reds® Wine Tavern, Reds® Midtown Tavern, Far Niente®/FOUR®/Petit Four® and Loose Moose Tap & Grill®. The Company also owns a Dukes Refresher™ & Bar located in downtown Toronto, and one seasonal restaurant, Abbey's Bakehouse®, in addition to one seasonal Abbey's Bakehouse retail outlet, which are not currently part of Royalty Pooled Restaurants (note 12(b)). Neither of the Abbey's locations were open for operation during the 2016 season. Effective October 15, 2016, the Company closed Far Niente®/FOUR®/Petit Four®. On November 3, 2016, the Company opened a new Scaddabush restaurant.

On October 1, 2004, SIR Royalty Income Fund (the Fund) filed a final prospectus for a public offering of units of the Fund. The net proceeds of the offering of $51,167,000 were used by the Fund to acquire certain bank debt of the Company (the SIR Loan) (note 12(a)) and, indirectly, through SIR Holdings Trust (the Trust), all of the Ordinary LP Units of SIR Royalty Limited Partnership (the Partnership) (note 12(b)). On October 12, 2004, the Partnership acquired from the Company the Canadian trademarks used in connection with the operation of the majority of the Company's restaurants in Canada.

The address of the Company's registered office is 5360 South Service Road, Suite 200, Burlington, Ontario. The consolidated financial statements were approved for issuance by the Board of Directors on November 21, 2016.

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 2016 and 2015 both consisted of 52 weeks.

2 Basis of presentation

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

3 Summary of significant accounting policies

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

Basis of measurement

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

Consolidation

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

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

Revenue recognition

Revenue from restaurant operations is recognized when services are rendered.

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

Costs of corporate restaurant operations

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

Corporate costs

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

Cash, cash equivalents and restricted cash

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

Inventories

Inventories, which consist of food, beverage and merchandise, are valued at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method. Net realizable value is the estimated selling price less applicable selling expenses. If the carrying value exceeds the net realizable amount, a writedown is recognized. The writedown may be reversed in a subsequent period if the circumstances which caused it no longer exist.

Property and equipment

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

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

Corporate furniture, fixtures and equipment	5 years straight-line
Computer equipment and software	5 years straight-line
Restaurant furniture, fixtures and equipment	10 years straight-line
Leasehold improvements	over the lease term on a straight-line basis to a maximum of 10 years

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

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

Intangible and other assets

Intangible lease assets arising on business combinations comprise the present value of the amount by which market lease rates exceeded the contractual lease rates on the date of acquisition and are being amortized on a straight-line basis over the remaining life of the respective leases.

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

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.

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

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

i) Financial assets and liabilities at fair value through profit or loss: A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short term.

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

ii) Available-for-sale investments: Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. The Company's available-for-sale assets comprise investments in equity securities of companies that are also related parties. As at August 28, 2016 and August 30, 2015, the fair value of these equity securities is not significant.

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

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

iii) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise cash and cash equivalents, 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.

Ordinary LP Units and Class A LP Units of the Partnership

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

Impairment of financial assets

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

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

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

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

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

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

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

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

Income taxes

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

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

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

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

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

Stock-based compensation and other stock-based payments

The Company has a stock option plan. 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 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 loss in the period in which they are incurred.

IFRS issued but not yet effective

IFRS 9, Financial Instruments - Classification and Measurement

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

IFRS 7, Financial Instruments - Disclosure

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

IFRS 15, Revenue from Contracts with Customers

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

IFRS 16, Leases

On January 13, 2016, the International Accounting Standards Board (IASB) issued IFRS 16, Leases, which replaces the current guidance in IAS 17, Leases. IFRS 16 requires lessees to recognize a lease liability reflecting future lease payments and a right of use asset for virtually all lease contracts. A depreciation charge for the right of use asset will be recorded within cost of corporate restaurant operations and corporate costs and an interest expense will be recorded within interest expense. IFRS 16 must be applied to an entity's first annual IFRS financial statements for periods beginning on or after January 1, 2019, with early adoption permitted if the entity has adopted IFRS 15. The Company has contractual obligations in the form of operating leases under IAS 17, which may result in a material increase to both assets and liabilities upon adoption of IFRS 16, and material changes to the timing of recognition of expenses associated with the lease arrangements. Management is evaluating the standard and has not yet determined the impact on its consolidated financial statements.

IAS 7, Statement of Cash Flows

The IASB issued an amendment to require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendment is effective for annual periods beginning on or after January 1, 2017. Management is evaluating the standard and has not yet determined the impact on its consolidated financial statements.

IAS 12, Income Taxes

IAS 12, Income Taxes, was amended to clarify the requirements for: (a) recognizing deferred tax assets on unrealized losses, (b) deferred tax where an asset is measured at a fair value below the asset's tax base, and (c) certain other aspects of accounting for deferred tax assets. The amendment is effective for years beginning on or after January 1, 2017. Management is evaluating this amendment and has not yet determined the impact on the consolidated financial statements.

4 Significant accounting estimates and judgments

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

Impairment of non-financial assets

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

Loans and advances

Loans and advances are recorded at amortized cost and are written down to their estimated realizable amount when there is evidence of an impairment. As at August 28, 2016, the Company evaluated its loans and advances from U.S. S.I.R. L.L.C. for impairment. The Company determined the estimated recoverable amounts by using a discounted cash flow model. Significant assumptions used in the discounted cash flow model included the expected future cash payments and a discount rate of 15%. Based on the analysis completed, a provision of $500,000 for the 52-week period ended August 28, 2016 (52-week period ended August 30, 2015 - recovery of $1,150,000) was recognized related to the loans and advances from U.S. S.I.R. L.L.C. in the consolidated statements of operations and comprehensive loss.

Consolidation of the Partnership

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

Ordinary LP Units and Class A LP Units of the Partnership

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

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

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

Income taxes

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

5 Financial instruments

Classification

The following table summarizes the carrying values, fair values and classification of the financial assets and liabilities as at August 28, 2016 and August 30, 2015.

	August 28, 2016		August 30, 2015	
	Carrying value $	Fair value $	Carrying value $	Fair value $
	(in thousands of dollars)		(in thousands of dollars)	
Assets				
Loans and receivables				
Cash and cash equivalents	3,888	3,888	7,869	7,869
Trade and other receivables	7,084	7,084	7,299	7,299
Loans and advances	1,290	1,290	1,964	1,964
Liabilities				
Amortized cost				
Bank indebtedness	1,779	1,779	6,681	6,681
Trade and other payables	29,396	29,396	27,719	27,719
Long-term debt	9,599	10,000	17,147	18,000
Loan payable to SIR Royalty Income Fund	35,758	see below	35,721	see below
Ordinary LP Units and Class A LP Units of the Partnership	123,821	see below	96,196	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 whose fair values approximate their carrying values, given that they will mature in the short term. The carrying value of the loans and advances approximates fair value as the effective interest rate approximates current market rates. The fair value of long-term debt is determined based on the estimated contractual schedule of payments as the interest rate varies with the current market rates. The fair value of the loan payable to the Fund and the Ordinary LP Units and Class A LP Units of the Partnership could only be determined through the valuation of the financial instruments. The loan payable to the Fund is due to a related party (see note 12) and there is no active market for the debt. The Company intends to hold the loan payable to the Fund until its maturity on October 12, 2044. The Ordinary LP Units and Class A LP Units of the Partnership are also held by the Fund and there is no active market for the Ordinary LP Units and Class A LP Units. As a result, the determination of their fair values is not practicable within the constraints of timeliness and cost.

Financial risk management

Financial risk management is carried out by the management of the Company and its Board of Directors. The Company's main financial risk exposure, as well as its risk management policy, is detailed as follows:

Interest rate risk

The loan payable to the Fund has a fixed interest rate. Accordingly, changes in interest rates would not impact the consolidated statements of operations and comprehensive loss or the carrying value of these financial liabilities. However, the fair value of these financial liabilities will vary with changes in interest rates.

As at August 28, 2016, the Company had $11,779,000 (August 30, 2015 - $24,681,000) in outstanding floating rate debt and bank indebtedness with an effective interest rate of 6.1% (August 30, 2015 - 6.0%). For the 52-week period ended August 28, 2016, the Company incurred interest expense on its floating rate long-term debt and bank indebtedness of $1,011,000 (52-week period ended August 30, 2015 - $1,705,000). Since the long-term debt and bank indebtedness has a variable interest rate, changes in market interest rates will have an impact on the Company's net earnings. An increase or decrease in the market rate of interest of 1% on the balances outstanding as at August 28, 2016, would result in a decrease or increase, respectively, in net earnings of $118,000 for the 52-week period ended August 28, 2016 (52-week period ended August 30, 2015 - $247,000).

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 $8,100,000 (August 30, 2015 - $6,700,000).

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 $192,000 during the 52-week period ended August 28, 2016 (52-week period ended August 30, 2015 - $217,000).

Liquidity risk

Liquidity risk is the risk the Company will not be able to meet its financial obligations as they fall due. Management believes there are sufficient cash resources retained in the Company from cash generated by operations and availability under the Company's credit facility (note 11(a)) to fund its working capital requirements and current commitments for estimated construction costs for new restaurants. The Company prepares budgets and forecasts to evaluate its ability to meet future cash obligations.

The Company consolidates its investment in the Partnership. Included in cash and cash equivalents is $1,701,000 (August 30, 2015 - $780,000) 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 28, 2016
	Less than 1 year $	2 - 5 years $	Over 5 years $
	(in thousands of dollars)		
Bank indebtedness	1,779	-	-
Trade and other payables	29,396	-	-
Long-term debt*	2,696	8,633	-
Loan payable to SIR Royalty Income Fund*	2,992	11,968	106,419
	36,863	20,601	106,419

			As at August 30, 2015
	Less than 1 year $	2 - 5 years $	Over 5 years $
	(in thousands of dollars)		
Bank indebtedness	6,681	-	-
Trade and other payables	27,719	-	-
Long-term debt*	2,966	17,616	-
Loan payable to SIR Royalty Income Fund*	2,992	11,968	109,411
	40,358	29,584	109,411

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

The above table excludes the cash flows relating to the Ordinary LP Units and Class A LP Units of the Partnership, as these are not contractual obligations until declared. The estimated amount expected to be paid in the next fiscal year is $9,991,000 (August 30, 2015 - $8,827,000).

6 Trade and other receivables

	August 28, 2016 $	August 30, 2015 $
	(in thousands of dollars)	
Trade receivables	2,521	2,102
Receivables from landlords	-	676
Receivables from SIR Royalty Income Fund and its subsidiaries (note 12(c))	3,213	2,743
Trade receivables from related parties (note 16)	30	14
Other	1,320	1,764
	7,084	7,299

7 Loans and advances

	August 28, 2016 $	August 30, 2015 $
	(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)	2,291	2,385
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)	320	400
	6,738	6,912
Provision for impairment	(5,448)	(4,948)
	1,290	1,964
Current portion	(350)	(545)
	940	1,419

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 $970,000 (August 30, 2015 - $1,564,000). During the 52-week period ended August 28, 2016, the Company received cash payments of $286,000 (52-week period ended August 30, 2015 - $442,000) and recognized interest income of $192,000 (52-week period ended August 30, 2015 - $217,000). Also during 2015, certain liabilities totalling $708,000, owed by the Company to U.S. S.I.R. L.L.C., were settled against the outstanding loan and advances.

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

	$ (in thousands of dollars)
Balance - August 31, 2014	1,347
Payment received	(442)
Settlement of accounts payable with related party	(708)
Interest	217
Recovery of impairment	1,150
Balance - August 30, 2015	1,564
Payment received	(286)
Interest	192
Impairment	(500)
Balance - August 28, 2016	970

b) During the 52-week period ending 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 28, 2016, the Company received payments of $80,000 (52-week period ended August 30, 2015 - $nil) and recognized interest income of $17,000 (52-week period ended August 30, 2015 - $6,000).

c) During the 52-week period ended August 28, 2016, the Company advanced $146,000 to a shareholder of the Company (52-week period ended August 30, 2015 - $250,000). These advances were to different shareholders and, in each case, were repaid prior to the end of the fiscal year in which they were advanced. During the 52-week period ended August 28, 2016, the Company recognized interest income on these advances of $6,000 (52-week period ended August 30, 2015 - $7,000).

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 31, 2014						
Cost	580	202	1,683	53,536	84,700	140,701
Accumulated depreciation and impairment losses	(546)	(202)	(1,382)	(30,705)	(49,104)	(81,939)
Net book value as at August 31, 2014	34	-	301	22,831	35,596	58,762
Net book value as at August 31, 2014	34	-	301	22,831	35,596	58,762
Additions	4	12	63	2,680	4,811	7,570
Disposals	-	-	(1)	(225)	(369)	(595)
Depreciation	(12)	(1)	(135)	(4,305)	(6,583)	(11,036)
Impairment losses	-	-	-	(40)	(1,980)	(2,020)
As at August 30, 2015	26	11	228	20,941	31,475	52,681
As at August 30, 2015						
Cost	584	214	1,741	55,387	88,361	146,287
Accumulated depreciation and impairment losses	(558)	(203)	(1,513)	(34,446)	(56,886)	(93,606)
Net book value as at August 30, 2015	26	11	228	20,941	31,475	52,681
Net book value as at August 30, 2015	26	11	228	20,941	31,475	52,681
Additions	4	28	68	4,101	6,212	10,413
Disposals	-	-	-	(92)	(12)	(104)
Depreciation	(12)	(5)	(98)	(4,272)	(6,785)	(11,172)
Impairment losses	-	-	-	(6)	(1,289)	(1,295)
As at August 28, 2016	18	34	198	20,672	29,601	50,523
As at August 28, 2016						
Cost	588	242	1,809	58,824	94,181	155,644
Accumulated depreciation and impairment losses	(570)	(208)	(1,611)	(38,152)	(64,580)	(105,121)
Net book value as at August 28, 2016	18	34	198	20,672	29,601	50,523

Property and equipment include $2,759,000 (August 30, 2015 - $4,085,000) of costs for restaurants under development that were not being depreciated as at August 28, 2016.

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 three restaurants (2015 - five restaurants) was less than the carrying value of the restaurants' non-financial assets (property and equipment).

In fiscal 2016, the recoverable amount for the impairment of one Signature restaurant (2015 - one Jack Astor's and one Signature restaurant) was based on fair value less costs to sell and was estimated using a depreciated replacement cost methodology. In fiscal 2015, the fair value less costs to sell for the Jack Astor's restaurant was estimated using a real estate appraisal and depreciated replacement cost and the fair value less costs to sell for the Signature restaurant was estimated using a depreciated replacement cost methodology.

The recoverable amount for the fiscal 2016 impairment of the remaining restaurants (two Jack Astor's restaurants) (2015 - one Alice Fazooli's/Scaddabush and two Signature restaurants) was based on value-in-use, which was estimated using a discounted cash flow model. Significant assumptions used in the model include the estimate of cash flows and a discount rate of 13% (fiscal 2015 - 18%). Management has performed sensitivity testing on the estimates and determined that a reasonable change in assumptions would not result in a material change in the impairment of the property and equipment.

In fiscal 2016 and 2015, certain costs incurred for design of new restaurants were abandoned. Accordingly, these costs were written off during the 52-week periods ended August 28, 2016 and August 30, 2015.

Accordingly, in total, an impairment loss of $1,295,000 (August 30, 2015 - $2,020,000) was recorded to write down the assets to their recoverable amounts.

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

	52-week period ended August 28, 2016 $	52-week period ended August 30, 2015 $
	(in thousands of dollars)	
Jack Astor's	1,173	509
Alice Fazooli's/Scaddabush	-	200
Signature	122	1,311
	1,295	2,020

9 Goodwill and intangible assets

	Goodwill $	Computer software $	Intangible lease assets $	Total $
	(in thousands of dollars)			
As at August 31, 2014				
Cost	5,410	895	549	6,854
Accumulated amortization and impairment losses	(539)	(674)	(474)	(1,687)
Net book value	4,871	221	75	5,167
For the 52-week period ended August 30, 2015				
As at August 31, 2014	4,871	221	75	5,167
Additions	-	16	-	16
Disposals	-	(1)	-	(1)
Amortization	-	(55)	(41)	(96)
Impairment losses	(200)	-	-	(200)
As at August 30, 2015	4,671	181	34	4,886

	Goodwill $	Computer software $	Intangible lease assets $	Total $
		(in thousands of dollars)		
As at August 30, 2015				
Cost	5,410	910	549	6,869
Accumulated amortization and impairment losses	(739)	(729)	(515)	(1,983)
Net book value	4,671	181	34	4,886
For the 52-week period ended August 28, 2016				
As at August 30, 2015	4,671	181	34	4,886
Additions	-	19	-	19
Amortization	-	(57)	(34)	(91)
Impairment losses	(165)	-	-	(165)
As at August 28, 2016	4,506	143	-	4,649
As at August 28, 2016				
Cost	5,410	930	-	6,340
Accumulated amortization and impairment losses	(904)	(787)	-	(1,691)
Net book value	4,506	143	-	4,649

Goodwill has been allocated to the following Concept restaurants:

	August 28, 2016 $	August 30, 2015 $
	(in thousands of dollars)	
Jack Astor's	4,001	4,166
Canyon Creek Chophouse	505	505
	4,506	4,671

As a result of declining sales and earnings of one restaurant (2015 – one restaurant), the Company recognized an impairment of goodwill of $165,000 during the 52-week period ended August 28, 2016 (52-week period ended August 30, 2015 - $200,000).

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

10 Trade and other payables

	August 28, 2016 $	August 30, 2015 $
	(in thousands of dollars)	
Trade payables	16,317	15,071
Accrued liabilities	10,575	10,660
Construction payables	1,829	1,434
Interest payable on long-term debt	7	9
Interest payable on SIR Loan (note 12(a))	484	242
Payables to related parties (note 16)	184	303
	29,396	27,719

11 Bank indebtedness and long-term debt

	August 28, 2016 $	August 30, 2015 $
	(in thousands of dollars)	
Revolving term loan (Credit Facility 1) (a)	3,515	14,104
Revolving term loan (Credit Facility 2) (a)	7,863	9,724
	11,378	23,828
Current portion of long-term debt	(2,000)	(2,000)
Bank indebtedness	(1,779)	(6,681)
	7,599	15,147

a) On July 6, 2015, the Company entered into a credit agreement (New Credit Agreement) with a Schedule 1 Canadian chartered bank (the Lender) to refinance its previous credit facility (see note 11(b)). The New Credit Agreement provides for a three-year facility for a maximum principal amount of $30,000,000 consisting of a $20,000,000 revolving term credit facility (Credit Facility 1), and a $10,000,000 revolving term loan (Credit Facility 2). The Company and the Lender have also entered into a purchase card agreement providing credit of up to an additional $5,000,000. The previous term debt, consisting of a term loan and three development loans, was repaid in fiscal 2015 by a full draw down of Credit Facility 2 and a partial draw down of Credit Facility 1.

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

Subsequent advances on Credit Facility 2 may be requested (subject to availability and Lender approval), in minimum multiples of $1,000,000, annually on the anniversary of the closing date of the New Credit Agreement (July 6), to finance capital spending on new and renovated restaurants. Each subsequent advance will be repayable in equal quarterly instalments based on a five-year amortization, with the remaining outstanding principal balance due on July 6, 2018. During fiscal 2016, the Lender approved the Company's request for an advance of $2,000,000 on Credit Facility 2. The Company has not yet drawn on this advance.

The undrawn balance of Credit Facility 1 as at August 28, 2016 is $16,221,000.

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

The New Credit Agreement contains certain financial and non-financial covenants that the Company is in compliance with as at August 28, 2016.

Prior to entering into the New Credit Agreement, the Company's long-term debt outstanding included term debt consisting of a term loan (the Term Loan) and two development loans (the Tranche A and B Development Loans) resulting from the Third Amended and Restated Loan Agreement (the Previous Credit Agreement), entered into on June 23, 2014. All loans under the Previous Credit Agreement were due on November 13, 2016. The Term Loan and the Tranche A Development Loan had a variable interest rate equal to the greater of 6.0% per annum and the three-month Canadian dollar bankers' acceptance rate plus 5.75% per annum. The Tranche B Development Loan had a variable rate equal to the greater of 5.9% per annum and the three-month Canadian dollar bankers' acceptance rate plus 5.65% per annum. The Company could also elect to fix the interest rate. The amortization period for the Term Loan was ten years whereas for the Tranche A and B Development Loans, the amortization period was seven years.

The debt, under the Previous Credit Agreement, was guaranteed by a company owned by the majority shareholder of the Company (a related party), for which guarantee fees of $153,000 for the 52-week period ended August 30, 2015 were expensed (note 21). On November 13, 2009, the Company also issued 26 warrants to the majority shareholder of the Company to acquire Class S Special Shares of the Company. These warrants were pledged to the previous lender and were only exercisable in the event of default. These warrants were cancelled and the Class S Special Shares were removed from authorized capital upon entering into the New Credit Agreement.

b) As at August 28, 2016, the Company has amounts owing on the purchase card agreement totalling $558,000 (August 30, 2015 - $87,000), which are included in trade and other payables.

c) 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 $452,000 (52-week period ended August 30, 2015 - $718,000) has been charged to interest expense in the consolidated statements of operations and comprehensive loss. Amortization of financing fees for the 52-week period ended August 30, 2015, includes amortization of $42,000 on the financing fees related to the New Credit Agreement and $676,000 related to the amortization and write-off of the financing fees related to the

Previous Credit Agreement. Unamortized financing fees on the New Credit Agreement netted against the debt as at August 28, 2016 were $401,000 (August 30, 2015 - $853,000).

d) The principal amount of long-term debt outstanding (excluding the bank indebtedness) as at August 28, 2016 is repayable as follows:

	$ (in thousands of dollars)
2017	2,000
2018	8,000
	10,000

e) The effective interest rate on long-term debt as at August 28, 2016 is 6.1% (August 30, 2015 - 6.0%).

12 SIR Royalty Income Fund

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

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

The long-term debt is permitted indebtedness within the meaning of the agreements between the Fund, the Partnership and the Company and, as a result, the Fund and the Partnership have, as contemplated in the existing agreements, subordinated and postponed their claims against the Company to the claims of the Lender. This subordination, which includes a subordination of the Partnership's rights under the Licence and Royalty Agreement between the Partnership and the Company, whereby the Partnership licenses to the Company the right to use the trademarks and related intellectual property in return for royalty payments based on revenues, has been effected pursuant to the terms of the Intercreditor Agreement.

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

Interest expense charged to the consolidated statements of operations and comprehensive loss for the 52-week ended August 28, 2016 was $3,029,000 (52-week period ended August 30, 2015 - $3,026,000), which includes interest on the SIR Loan of $2,992,000 (52-week period ended August 30, 2015 - $2,992,000) and amortization of financing fees of $37,000 (52-week period ended August 30, 2015 - $34,000). Interest payable on the SIR Loan as at August 28, 2016 was $484,000 (August 30, 2015 - $242,000).

The Company has recorded the SIR Loan at amortized cost. The Company has netted the financing fees against the SIR Loan and amortizes this cost over the term of the SIR Loan using the effective interest method. Unamortized financing fees netted against the SIR Loan as at August 28, 2016 were $4,242,000 (August 30, 2015 - $4,279,000).

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 28, 2016 $	**52-week period ended August 30, 2015 $**
	(in thousands of dollars)	
Balance - Beginning of period	96,196	94,060
Conversion of Class A GP Units	10,613	4,410
Change in amortized cost of Ordinary LP Units and Class A LP Units of the Partnership	25,283	6,622
Distributions paid to Ordinary LP and Class A LP unitholders	(8,271)	(8,896)
Balance - End of period	123,821	96,196
Less: Current portion of Ordinary LP Units and Class A LP Units of the Partnership	(9,991)	(8,827)
Ordinary LP Units and Class A LP Units of the Partnership	113,830	87,369

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

	52-week period ended August 28, 2016 $	52-week period ended August 30, 2015 $
	(in thousands of dollars)	
Pooled revenue*	275,609	261,936
Partnership royalty income*	16,537	15,716
Other income	24	32
Partnership expenses	(72)	(68)
Net earnings of the Partnership	16,489	15,680
The Company's interest in the earnings of the Partnership	(7,267)	(6,727)
Fund's interest in the earnings of the Partnership	9,222	8,953

*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 loss.

During the 52-week period ended August 28, 2016, distributions of $9,222,000 (52-week period ended August 30, 2015 - $8,953,000) were declared to the Fund through the Partnership. Distributions paid during the 52-week period ended August 28, 2016 were $8,271,000 (52-week period ended August 30, 2015 - $8,896,000). 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 28, 2016 were $4,334,000 (August 30, 2015 - $3,383,000).

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.

During fiscal 2016, the Company received consent from its Lender to convert 750,000 Class A GP Units of the Partnership to Fund units and sell these Fund units. On August 24, 2016, the Company converted all 750,000 Class A GP Units to Fund units and sold these Fund units for net proceeds of $10,284,000, net of transaction costs of $329,000.

On November 5, 2014, the previous lender released the security it held on 350,000 Class A GP Units of the Partnership (and any Fund units received upon conversion of Class A GP Units of the Partnership) and required that all sale proceeds be used to fund the costs associated with constructing new restaurants and renovating existing restaurants. On November 19, 2014, the Company converted 350,000 Class A GP Units to Fund units and sold these Fund units for net proceeds of $4,268,000, net of transaction costs of $142,000. The gross proceeds from this transaction, net of certain transaction costs, were deposited in an account restricted by the previous lender and accordingly, were classified as restricted cash in the consolidated statements of financial position. During the 52-week period ended August 30, 2015, $4,284,000 was drawn from this restricted account. The funds were released upon the Company presenting eligible capital expenditures to the previous lender. All funds have now been fully drawn from this account.

The Class A LP Units of the Partnership are classified as a financial liability in the consolidated statements of financial position. Accordingly, the gross proceeds received of $10,613,000 (52-week period ended August 30, 2015 - $4,410,000) were added to the carrying value of the Class A LP Units. As the Fund's interest in the Partnership has increased, this transaction is not dilutive to the Fund. The Fund has converted the Class A GP Units received into Class A LP Units. The holders of the Class A LP Units are entitled to receive a pro rata share of all residual distributions of the Partnership.

The fiscal 2015 disposition of the Fund units was accounted for as non-cash transactions in the consolidated statements of cash flows.

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

Under the terms of the Licence and Royalty Agreement, the Company may be required to pay a Make-Whole Payment in respect of the reduction in revenue for restaurants closed during a reporting period. The Company is not required to pay any Make-Whole Payment in respect of a closed restaurant following the date on which the number of restaurants in the Royalty pool is equal to or greater than 68 or following October 12, 2019, whichever occurs first. On January 1 of each year (the Adjustment Date), the restaurants subject to the Licence and Royalty Agreement are adjusted for new SIR Restaurants opened for at least 60 days preceding such Adjustment Date. At each Adjustment Date, the Company will be entitled to convert its Class B GP Units into Class A GP Units based on the formula defined in the Partnership Agreement. Additional Class B GP Units may be converted into Class A GP Units in respect of these new SIR Restaurants if actual revenues of the new SIR Restaurants exceed 80% of the initial estimated revenue. Conversely, converted Class A GP Units will be returned by the Company if the actual revenues are less than 80% of the initial estimated revenue. In December of each year, an additional distribution will be payable to the Class B GP unitholders based on actual revenues of the new SIR Restaurants exceeding 80% of the initial estimated revenue or there will be a reduction in the distributions to the Class A GP unitholders if revenues are less than 80% of the initial estimated revenue.

On January 1, 2016, two (January 1, 2015 - two) new SIR Restaurants were added to the Royalty Pooled Restaurants in accordance with the Partnership Agreement. As consideration for the additional Royalty associated with the addition of two new SIR Restaurants on January 1, 2016 (January 1, 2015 - two), as well as the Second Incremental Adjustment for two new SIR Restaurants added to the Royalty Pooled Restaurants on January 1, 2015 (January 1, 2014 - four), the Company converted its Class B GP Units into Class A GP Units based on the formula defined in the Partnership Agreement. The net effect of these adjustments to the Royalty Pooled Restaurants was that the Company converted 323,000 (January 1, 2015 - 347,000) Class B GP Units into 323,000 (January 1, 2015 - 347,000) Class A GP Units on January 1, 2016 at an estimated fair value of $4,182,000 (January 1, 2015 - $4,454,000).

In addition, the revenues of two new SIR Restaurants added to the Royalty Pooled Restaurants on January 1, 2015 exceeded 80% of the Initial Adjustment's estimated revenue (January 1, 2014 - revenue of four new SIR Restaurants were less than 80% of the Initial Adjustment's estimated revenue) and, as a result, a special conversion distribution of $109,000 was declared on the Class B GP units in December 2015 and paid in January 2016 (the distributions on the Class A GP Units were reduced by a special conversion refund of $5,000 in December 2014 and paid in January 2015).

As at August 28, 2016, after the net effect of the adjustments to Royalty Pooled Restaurants on January 1, 2016 and after the effect of the August 24, 2016 conversion of the Class A GP Units into Fund units, the Company's residual interest in the Partnership is 19.8% (August 30, 2015 - 24.6%). 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 28, 2016 were $3,213,000 (August 30, 2015 - $2,743,000). Advances receivable are non-interest bearing and due on demand.

The Company, through the Partnership, has entered into an arrangement with the Fund and the Trust, whereby the Partnership will provide or arrange for the provision of services required in the administration of the Fund and the Trust. The Partnership has arranged for these services to be provided by SIR GP Inc., in its capacity as the Managing General Partner. For the 52-week period ended August 28, 2016, the Partnership provided these services to the Fund and the Trust for consideration of $24,000 (52-week period ended August 30, 2015 - $24,000), which was the amount of consideration agreed to by the related parties.

13 Provisions and other long-term liabilities

	August 28, 2016 $	August 30, 2015 $
	(in thousands of dollars)	
Gift certificates (deferred revenue)	2,938	2,838
Deferred supplier rebates	717	915
Leasehold inducements and straight-line rent liability	5,232	5,651
Long-term management bonus (a)	3,339	3,308
Asset retirement obligation (b)	672	677
	12,898	13,389
Current portion	(3,798)	(3,900)
	9,100	9,489

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 31, 2014	3,527
Current service cost and changes in estimates	228
Interest cost	104
Payments	(551)
As at August 30, 2015	3,308
Current service cost and changes in estimates	245
Interest cost	93
Payments	(307)
As at August 28, 2016	3,339

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

	52-week period ended August 28, 2016 $	52-week period ended August 30, 2015 $
	(in thousands of dollars)	
Current service cost and change in estimates	245	228
Interest cost	93	104
	338	332

The discount rate used to estimate the long-term management bonus for the 52-week period ended August 28, 2016 was 3.0% (52-week period ended August 30, 2015 - 3.1%). Other significant estimates include the expected cash flows for the respective restaurant(s).

b) The Company has recorded an asset retirement obligation in respect of the estimated lease-end remediation costs. The asset retirement obligation was estimated based on a discounted cash flow analysis using the following key assumptions:

	August 28, 2016	August 30, 2015
Total undiscounted estimated cash flows (in thousands of dollars)	$876	$880
Expected timing of repayments	0.5 to 16.8 years	1.4 to 17.8 years
Discount rate	4.1%	4.0%

14 Capital stock

Authorized

Unlimited common shares

Issued and outstanding

The issued and outstanding common shares are as follows:

	August 28, 2016		August 30, 2015	
	Number of common shares (in thousands)	$	Number of common shares (in thousands)	$
Balance - Beginning of period	10,670	20,361	10,368	11,560
Issue of capital stock	-	-	2,871	14,207
Repurchase of capital stock	-	-	(2,871)	(5,479)
Exercise of stock options (note 15)	79	29	302	73
Balance - End of period	10,749	20,390	10,670	20,361

On July 6, 2015, the Class S Special Shares were removed from the authorized capital of the Company, together with the rights, privileges, restriction and conditions attached thereto.

On July 6, 2015, the Company issued 2,871,000 common shares to a third party for cash proceeds of $14,207,000 and immediately repurchased 2,871,000 common shares from certain minority common shareholders for cash proceeds of $14,207,000 plus transaction costs of $294,000. During the 52-week period ended August 28, 2016, the Company recovered $56,000 of the transaction costs from a former minority shareholder. The excess proceeds paid to repurchase the 2,871,000 common shares over the weighted average company value of the common shares was charged to contributed surplus and deficit. The third party also acquired 320,000 common shares directly from certain of the existing minority common shareholders and common share option holders of the Company.

15 Stock option plan

During the 52-week period ended August 28, 2016, there were 79,000 options exercised (52-week period ended August 30, 2015 - 302,000) for net proceeds of $29,000 (52-week period ended August 30, 2015 - $51,000) and nil (52-week period ended August 30, 2015 - 24,000) stock options were forfeited.

During the 52-week period ended August 28, 2016, compensation expense of $31,000 (52-week period ended August 30, 2015 - $52,000) was recognized in the consolidated statements of operations and comprehensive loss. Compensation expense for options not yet vested of $6,000 will be recognized in the consolidated statements of operations and comprehensive loss over the vesting period of the stock options.

There were no stock options granted during the 52-week period ended August 28, 2016 or the 52-week period ended August 30, 2015.

	Number of stock options outstanding (in thousands)	Weighted average exercise price per share $
Balance - August 31, 2014	1,926	1.08
Exercised during 2015	(302)	0.17
Forfeited during 2015	(24)	2.00
Balance - August 30, 2015	1,600	1.24
Exercised during 2016	(79)	0.36
Balance - August 28, 2016	1,521	1.29

As at August 28, 2016, 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)	4.5	947	0.01	947	0.01
$1.00 (b)	-	42	1.00	35	1.00
$2.00 (c)	-	72	2.00	60	2.00
$3.84 (d)	3.3	460	3.84	373	3.84
		1,521		1,415	

As at August 30, 2015, 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)	5.5	998	0.01	998	0.01
$1.00 (b)	1.0	70	1.00	63	1.00
$2.00 (b)	1.0	72	2.00	60	2.00
$3.84 (c)	4.3	460	3.84	287	3.84
		1,600		1,408	

a) These stock options vested at the date of grant and expire on February 12, 2021. During the 52-week period ended August 28, 2016, 51,000 stock options were exercised (52-week period ended August 30, 2015 - 278,000) for proceeds of $1,000 (52-week period ended August 30, 2015 - $3,000). Subsequent to August 28, 2016, 79,000 stock options were exercised for net proceeds of $1,000.

b) These stock options were granted to certain directors of the Company during the 52-week period ended August 26, 2012. During the 52-week period ended August 28, 2016, 28,000 (52-week period ended August 30, 2015 - 24,000) stock options were exercised for proceeds of $28,000 (August 30, 2015 - $48,000) and $nil (August 30, 2015 - $24,000) stock options were forfeited. Of the total stock options remaining, 35,000 stock options vested at the date of grant and have an exercise price of $1.00 per share. Of the remaining outstanding stock options, one-fifth vest annually, commencing on August 30, 2012, with 7,000 having an exercise price of $1.00 per share and 72,000 having an exercise price of $2.00 per share. 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. All stock options had an expiry date of August 30, 2016. Subsequent to August 28, 2016, the expiry date for 35,000 stock options was extended for two years and they now have an expiry date of August 30, 2018. In addition, subsequent to August 28, 2016, 67,000 stock options were exercised for net proceeds of $127,000 and 12,000 stock options expired.

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 vest annually thereafter over the next three years. On death or early retirement, participants of this plan have the right to exercise vested options up to and including the earlier of: (i) one year following the date of death or early retirement; or (ii) January 1, 2017. On resignation or termination without cause, participants of this plan have the right to exercise vested options up to and including the earlier of: (i) 90 days following the date of resignation or termination without cause; or (ii) January 1, 2017. All unvested options expire on the date of death, early retirement, resignation or termination without cause. On disability or normal retirement, participants of this plan have the right to exercise vested options up to and including January 1, 2017. On termination with cause, all vested and unvested options of the participant immediately expire and are cancelled.

16 Related party transactions

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

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

	August 28, 2016 $	**August 30, 2015 $**
	(in thousands of dollars)	
Corporate costs		
Occupancy costs and maintenance services provided by a company owned by a party related to a shareholder of the Company	68	69
Maintenance services provided by a shareholder of the Company	26	10
Maintenance services provided by a company owned by a shareholder of the Company	-	8
Consulting fees provided by a company owned by a director and shareholder of the Company	-	56
Direct costs of restaurant operations		
Maintenance services provided by a company owned by a party related to a shareholder of the Company	90	126
Consulting fees provided by a company owned by a director and shareholder of the Company	-	55
Maintenance services provided by a shareholder of the Company	9	22

	August 28, 2016 $	August 30, 2015 $
	(in thousands of dollars)	
Property and equipment		
Design and construction management fees and fixtures provided by a company owned by a shareholder of the Company	316	145
Construction management fees and fixtures provided by a company owned by a party related to a shareholder of the Company	521	1,128
Fixtures provided by a shareholder of the Company	33	8
Capital stock		
Consulting fees provided by a company owned by a director and shareholder of the Company	-	83

The above transactions are in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

During the 52-week period ended August 26, 2012, the Company entered into two lease agreements with a company that is owned by a party related to a director of the Company. During the 52-week period ended August 30, 2015, one of these lease agreements was surrendered. Rent is payable under the remaining lease agreement based on a percentage of the revenues of the related restaurant. Rent paid under this lease agreement for the 52-week period ended August 28, 2016 was $12,000 (52-week period ended August 30, 2015 - $17,000).

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

	August 28, 2016 $	August 30, 2015 $
	(in thousands of dollars)	
Amounts due from U.S. S.I.R. L.L.C. and its subsidiary	6	7
Amounts due from a company owned by a party related to a director of the Company	24	7
	30	14

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

	August 28, 2016 $	August 30, 2015 $
	(in thousands of dollars)	
Amounts due to companies owned by a shareholder or director of the Company	150	63
Amounts due to a company owned by a party related to a shareholder of the Company	30	223
Amounts due to a company owned by a party related to a director of the Company	4	17
	184	303

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

Compensation of key management

	52-week period ended August 28, 2016 $	52-week period ended August 30, 2015 $
	(in thousands of dollars)	
Salaries, short-term employee benefits and director's fees	1,003	902
Fees paid to companies for management services and director's fees	968	814
Stock-based compensation	31	52
	2,002	1,768

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

17 Expenses by nature

	52-week period ended August 28, 2016 $	52-week period ended August 30, 2015 $
	(in thousands of dollars)	
Food and beverage	82,676	79,506
Labour	101,743	97,854
Direct costs of restaurant operations	48,330	45,149
Rent	14,837	14,062
Depreciation and amortization	11,076	10,905
Loss on disposal of property and equipment	97	150
Impairment of non-financial assets	1,295	2,020
Goodwill impairment	165	200
Cost of corporate restaurant operations	260,219	249,846
Salaries and benefits	8,821	8,134
Advertising and marketing	803	742
Professional, legal and consulting fees	1,140	777
Rent	373	390
Depreciation and amortization	187	227
Other	2,166	1,934
Corporate costs	13,490	12,204

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	15,507
2 to 5 years	55,091
Thereafter	42,349
	112,947

Subsequent to August 28, 2016, the Company completed the construction of one restaurant for which it incurred costs of approximately $1,200,000 during the subsequent period. In addition, the Company has two commitments to lease properties, on which it plans to build two new restaurants. The Company has entered into purchasing commitments for $113,000 for one of these restaurants, of which $47,000 is included in property and equipment as at August 28, 2016. As at the current date, the Company has not entered into any construction contracts for the other restaurant, but expects to do so in the future. Final costs of construction are subject to uncertainties as to their amounts and timing. Items such as finalization of design and final construction quotations could change the total cost of these projects.

19 Supplemental information to the consolidated statements of cash flows

The net change in working capital items is as follows:

	52-week period ended August 28, 2016 $	**52-week period ended August 30, 2015 $**
	(in thousands of dollars)	
Trade and other receivables	(424)	103
Inventories	71	(122)
Prepaid expenses, deposits and other assets	(220)	(32)
Trade and other payables	964	5,275
Provisions and other long-term liabilities	38	(253)
	429	4,971

Other non-cash items consist of the following:

	52-week period ended August 28, 2016 $	**52-week period ended August 30, 2015 $**
	(in thousands of dollars)	
Straight-line rent expense	161	139
Supplier rebates	(262)	(266)
Transaction costs on sale of Fund units	329	132
Other	(16)	119
	212	124

20 Income taxes

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

	52-week period ended August 28, 2016 $	52-week period ended August 30, 2015 $
	(in thousands of dollars)	
Current	275	200
Deferred	(4)	(16)
	271	184

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 28, 2016 $	52-week period ended August 30, 2015 $
	(in thousands of dollars)	
Loss before income taxes	(23,402)	(3,918)
Income tax recovery at Canadian statutory income tax rate of 26.5% (August 30, 2015 - 26.5%)	(6,202)	(1,038)
Increase (decrease) by the effect of		
Change in amortized cost of Ordinary LP Units and Class A LP Units	6,700	1,755
Non-deductible expenses	323	375
Partnership structure	(992)	(1,731)
Deferred tax assets and deferred tax liabilities not recognized	169	742
Corporate minimum tax	275	200
Other	(2)	(119)
Provision for income taxes	271	184

Deferred income tax assets not recognized are summarized as follows:

	August 28, 2016 $	August 30, 2015 $
	(in thousands of dollars)	
Property and equipment	686	437
Other non-current assets	340	274
Loss carry-forwards	4,231	4,302
Long-term management bonus	885	876
Leasehold inducements	1,388	1,499
Asset retirement obligation	178	177
	7,708	7,565

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

	August 28, 2016 $	August 30, 2015 $
	(in thousands of dollars)	
Property and equipment	1,395	1,225
Deferred financing fees	(993)	(1,068)
Loss carry-forwards	1,136	2,211
Income of the Partnership	-	(319)
Investment in the Partnership	(1,500)	(2,000)
Other	(38)	(53)
	-	(4)

As at August 28, 2016, the deferred tax liability related to subsidiaries that has not been recognized amounted to $7,500,000 (August 30, 2015 - $7,500,000).

As at August 28, 2016, the Company and its subsidiaries have available non-capital losses of $11,312,000 (August 30, 2015 - $15,184,000) for income tax purposes, which expire as follows:

	$ (in thousands of dollars)
2026	223
2027	631
2028	2,725
2029	430
2030	1,796
2031	1,266
2032	590
2033	1,258
2034	723
2035	1,080
2036	590
	11,312

In addition, the Company's US subsidiary has loss carry-forwards of $5,331,000 (August 30, 2015 - $5,331,000), which expire in years varying from 2024 to 2034.

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

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

	52-week period ended August 28, 2016 $	52-week period ended August 30, 2015 $
	(in thousands of dollars)	
Interest income	(217)	(279)
Provision for (recovery of) impairment of loans and advances (note 7)	500	(1,150)
Transaction costs on sale of Fund units (note 12(b))	329	142
Guarantee fee (a)	-	153
Termination fees on settlement of debt	-	424
	612	(710)

a) During the 52-week period ended August 30, 2015, the Company expensed $153,000 relating to a guarantee fee to the majority shareholder of the Company associated with the Company's Previous Credit Agreement. Guarantee fee payments ceased when the long-term debt, associated with the Previous Credit Agreement, was repaid in full on July 6, 2015. There is no guarantee fee associated with the New Credit Agreement.

22 Capital management

The Company's capital consists of its capital stock and deficit of $20,390,000 and $162,601,000, respectively. The objectives in managing capital are to safeguard the Company's ability to continue as a going concern, to provide financial capacity and flexibility to meet its strategic objectives, to allow the Company to respond to changes in economic and/or marketplace conditions and to provide a return to its shareholders. The Company strives to maintain an optimal split between senior debt and equity with a view to balancing its flexibility while minimizing its cost of capital. The Company evaluates cash flow through its budgeting and forecasting process, to help plan and track its capital requirements to meet its strategic plans and to monitor compliance with its New Credit Agreement.

Compliance with the covenants included in the Company's New Credit Agreement is monitored by management on a quarterly basis. As at August 28, 2016, the Company was in compliance with the senior leverage ratio and the fixed charge coverage ratio under the New Credit Agreement. If the Company were not in compliance with the covenants of the New Credit Agreement and unable to remedy this non-compliance, certain security is available to the lender as described in note 11.

The Company has in the past converted a portion of the Class A GP Units and sold the Fund units received. Under the New Credit Agreement, the Company may convert Class A GP Units, without prior consent from the Lender, provided such Units are promptly sold by the Company for the purposes of financing the construction of new restaurants and renovations to existing restaurants, in each case not to exceed in any year the lower of $7,000,000 and 400,000 units. During the 52-week period ended August 28, 2016, the Company received consent from its lender to exceed these limits (note 12(b)).

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