SIR Corp.

Consolidated Financial Statements
August 31, 2014 and August 25, 2013
(in thousands of Canadian dollars)

November 24, 2014

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 31, 2014 and August 25, 2013 and the consolidated statements of operations and comprehensive loss, changes in shareholders' deficiency and cash flows for the 53-week period ended August 31, 2014 and the 52-week period ended August 25, 2013, 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 as issued by the International Accounting Standards Board, 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 31, 2014 and August 25, 2013 and their financial performance and their cash flows for the 53-week period ended August 31, 2014 and the 52-week period ended August 25, 2013 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario

SIR Corp.

Consolidated Statements of Financial Position

(in thousands of Canadian dollars)

	August 31, 2014 $	August 25, 2013 $
Assets		
Current assets		
Cash and cash equivalents	4,642	7,708
Restricted cash (notes 12 and 23)	1	3,036
Trade and other receivables (notes 6, 12(c) and 16)	6,707	6,212
Inventories	2,883	2,831
Prepaid expenses, deposits and other assets	450	1,169
Current portion of loans and advances (note 7)	400	350
	15,083	21,306
Non-current assets		
Loans and advances (notes 7 and 21)	947	827
Property and equipment (notes 8 and 16)	58,762	55,057
Goodwill and intangible assets (note 9)	5,167	5,423
	79,959	82,613
Liabilities		
Current liabilities		
Trade and other payables (notes 10, 12 and 16)	23,372	25,222
Current portion of long-term debt (notes 11 and 23)	4,729	3,950
Current portion of provisions and other long-term liabilities (note 13)	4,022	3,789
Current portion of Ordinary LP Units and Class A LP Units of the Partnership (note 12(b))	8,285	7,509
	40,408	40,470
Non-current liabilities		
Long-term debt (notes 11 and 23)	23,257	24,250
Loan payable to SIR Royalty Income Fund (note 12(a))	35,687	35,655
Provisions and other long-term liabilities (note 13)	9,142	9,108
Deferred income taxes (note 20)	20	43
Ordinary LP Units and Class A LP Units of the Partnership (note 12(b))	85,775	78,209
	194,289	187,735
Shareholders' Deficiency		
Capital stock (note 14)	11,560	11,560
Contributed surplus	484	318
Deficit	(126,374)	(117,000)
	(114,330)	(105,122)
	79,959	82,613

Contingencies and commitments (note 18)

Subsequent events (note 23)

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)

	53-week period ended August 31, 2014 $	52-week period ended August 25, 2013 $
Corporate restaurant operations		
Food and beverage revenue	266,837	242,130
Costs of corporate restaurant operations (notes 16 and 17)	248,363	223,411
Earnings from corporate restaurant operations	18,474	18,719
Corporate costs (notes 16 and 17)	11,712	11,760
Earnings before interest and income taxes	6,762	6,959
Interest expense	2,741	2,495
Interest on loan payable to SIR Royalty Income Fund (note 12(a))	3,067	3,021
Interest (income) and other expense (income) - net (note 21)	(100)	1,112
Change in amortized cost of Ordinary LP Units and Class A LP Units of the Partnership (note 12(b))	10,214	16,168
Loss before income taxes	(9,160)	(15,837)
Provision for income taxes (note 20)	214	424
Net loss and comprehensive loss for the period	(9,374)	(16,261)

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)

	53-week period ended August 31, 2014			
	Capital stock $	Contributed surplus $	SIR Corp.'s deficit $	Total $
Balance - Beginning of period	11,560	318	(117,000)	(105,122)
Stock-based compensation (note 15)	-	166	-	166
Net loss for the period	-	-	(9,374)	(9,374)
Balance - End of period	11,560	484	(126,374)	(114,330)

	52-week period ended August 25, 2013			
	Capital stock $	Contributed surplus $	SIR Corp.'s deficit $	Total $
Balance - Beginning of period	11,560	107	(100,739)	(89,072)
Stock-based compensation (note 15)	-	211	-	211
Net loss for the period	-	-	(16,261)	(16,261)
Balance - End of period	11,560	318	(117,000)	(105,122)

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

SIR Corp.

Consolidated Statements of Cash Flows

(in thousands of Canadian dollars)

	53-week period ended August 31, 2014 $	52-week period ended August 25, 2013 $
Cash provided by (used in)		
Operating activities		
Net loss from continuing operations for the period	(9,374)	(16,261)
Items not affecting cash		
Change in amortized cost of Ordinary LP Units and Class A LP Units of the Partnership (note 12(b))	10,214	16,168
Depreciation and amortization	11,263	9,667
Stock-based compensation	166	211
Deferred income taxes (note 20)	(23)	(41)
Current income taxes (note 20)	237	465
Provision for (recovery of) impairment of loans and advances (note 7)	(300)	70
Goodwill and intangible assets impairment (note 9)	-	375
Impairment of non-financial assets (note 8)	893	393
Interest expense on long-term debt and SIR Loan	5,808	5,516
Non-cash interest income	(191)	(189)
Amortization of leasehold inducements	(552)	(533)
Loss on disposal of property and equipment	257	271
Other (note 19)	104	1,040
Leasehold and other inducements received	1,346	449
Distributions paid to Ordinary LP and Class A LP unitholders	(8,848)	(6,597)
Income taxes paid	(294)	(472)
Net change in working capital items (note 19)	(2,496)	2,115
Cash provided by operating activities	8,210	12,647
Investing activities		
Purchase of property and equipment and other assets - net	(15,523)	(20,677)
Net cash proceeds received from restricted funds (note 12)	9,817	14,000
Payment received on loans and advances	321	168
Cash used in continuing investing activities	(5,385)	(6,509)
Financing activities		
Proceeds from issuance of long-term debt	4,000	-
Principal repayment of long-term debt	(4,236)	(3,638)
Interest paid	(5,428)	(5,168)
Financing fees	(227)	(119)
Cash used in continuing financing activities	(5,891)	(8,925)
Decrease in cash and cash equivalents during the period	(3,066)	(2,787)
Cash and cash equivalents - Beginning of period	7,708	10,495
Cash and cash equivalents - End of period	4,642	7,708

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 31, 2014, the Company operated a total of 58 (August 25, 2013 - 54) Concept and Signature restaurants in Canada (in Ontario, Quebec, Alberta and Nova Scotia) (the SIR Restaurants). The Concept restaurants are Jack Astor's Bar and Grill® (Jack Astor's®), Canyon Creek Chop House® (Canyon Creek®) and Alice Fazooli's®, together with Scaddabush Italian Kitchen & Bar® and the Signature restaurants are Reds® Wine Tavern, Reds® Midtown Tavern, Far Niente®/FOUR®/Petit Four® and Loose Moose Tap & Grill®. The Company also operates a Dukes Refresher™ & Bar and two seasonal restaurants: Abbey's Bakehouse® and Dukes Refresher™, in addition to one seasonal Abbey's Bakehouse retail outlet, which are not currently part of Royalty Pooled Restaurants (note 12(b)).

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

The address of the Company's registered office is 5360 South Service Road, Suite 200, Burlington, Ontario. The consolidated financial statements were approved for issuance by the Board of Directors on November 24, 2014.

Fiscal year

The Company's fiscal year is made up of 52 or 53-week periods ending on the last Sunday in August. The fiscal quarters for the Company consist of accounting periods of 12, 12, 12 and 16 or 17 weeks, respectively. The fiscal years for 2014 and 2013 consisted of 53 and 52 weeks, respectively.

2 Basis of presentation

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

3 Summary of significant accounting policies

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

Basis of measurement

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

Consolidation

The Company prepares its consolidated financial statements in accordance with IFRS and includes 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 Don Mills Limited, 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., 1149692 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 within 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 is held in a segregated account as required by the agreement between the Company and its lenders (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 capital leases. All other leases of equipment are accounted for as operating leases. Operating lease payments are expensed on a straight-line basis over the term of the lease.

Leasehold inducements

Leasehold inducements represent payments received 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 included in this category consist of the warrants, which are a derivative financial instrument (note 14).

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

ii) Available-for-sale investments: Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. The Company's available-for-sale assets comprise investments in equity securities of companies that are also related parties. As at August 31, 2014 and August 25, 2013, the fair value of these equity securities is not significant.

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

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

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

iv) Financial liabilities at amortized cost: Financial liabilities at amortized cost include 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. 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 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 and comprehensive loss, except to the extent that they relate to items recognized directly in other comprehensive income (OCI) or directly in equity, in which case the income taxes are also recognized directly in OCI or equity, respectively.

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

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

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

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

Stock-based compensation and other stock-based payments

The Company has a stock option plan. Certain stock options vest equally over five years. Each tranche of the award is considered a separate award with its own vesting period and grant date fair value. Compensation expense is recognized over the tranche's vesting period and a corresponding adjustment to contributed surplus equal to the fair value of the equity instruments granted using the Black-Scholes option pricing model taking into consideration estimates for forfeitures. Any consideration paid by employees or directors on exercising stock options is credited to capital stock.

Foreign currency translation

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

Long-term management bonus

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

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

Asset retirement obligations

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

Provisions and contingent liabilities

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

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

Borrowing costs

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

IFRS adopted during the period

IFRS 10, Consolidated Financial Statements

IFRS 10, Consolidated Financial Statements, requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. IFRS 10 replaced Standing Interpretations Committee (SIC) 12, Consolidation - Special Purpose Entities, and parts of IAS 27. Management has determined that the adoption of this standard had no impact on its consolidated financial statements.

IFRS 11, Joint Arrangements

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC 13, Jointly Controlled Entities - Non-monetary Contributions by Venturers. Management has determined that the adoption of this standard had no impact on its consolidated financial statements.

IFRS 12, Disclosure of Interests in Other Entities

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off-balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. Management has determined that the adoption of this standard required additional disclosures in its annual consolidated financial statements.

IFRS 13, Fair Value Measurement

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Management has determined that the adoption of this standard had no impact on its consolidated financial statements.

IAS 19, Employee Benefits

IAS 19 has been amended to make significant changes to the recognition and measurement of defined benefit pension expense and termination benefits and to enhance the disclosure of all employee benefits. A number of other amendments have been made to recognition, measurement and classification, including redefining short-term and other long-term benefits, guidance on the treatment of taxes relating to benefit plans, guidance on risk/cost sharing features and expanded disclosures. Management has determined that the adoption of this standard had no impact on its consolidated financial statements.

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.

IAS 36, Impairment of assets - Disclosures

Limited scope amendments have been made to disclosure requirements in IAS 36, Impairment of Assets. This standard is effective for years beginning on or after January 1, 2014. Management is evaluating this standard and has not yet determined the impact on its consolidated financial statements.

IFRIC 21, Accounting for levies imposed by governments

IFRIC 21 clarifies that the obligating event giving rise to a liability to pay a levy is the activity described in the relevant legislation that triggers payment of the levy. This standard is effective for years beginning on or after January 1, 2014. Management is evaluating this 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, which is effective for years beginning on or after January 1, 2015. Management is evaluating the amendment and has not yet determined the impact on the consolidated financial statements.

IAS 24, Related Party Transactions

IAS 24, Related Party Transactions has been amended to (i) revise the definition of "related party" to include an entity that provides key management personnel services to the reporting entity or its parent, and (ii) clarify related disclosure requirements. This amendment is effective for annual periods beginning on or after July 1, 2014. Management is evaluating this 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 must be applied in an entity's first annual IFRS financial statements for periods beginning on or after January 1, 2017 and early adoption is permitted. Management is evaluating this amendment and has not yet determined the impact on the consolidated financial statements.

4 Significant accounting estimates and judgments

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

Impairment of non-financial assets

The Company reviews goodwill at least annually and other non-financial assets 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 31, 2014, the Company evaluated its loans and advances from U.S. S.I.R. L.L.C. for impairment. The Company determined the estimated recoverable amounts by using a discounted cash flow model. Significant assumptions used in the discounted cash flow model included the expected future cash payments and a discount rate of 15%. Based on the analysis completed, a recovery of $300,000, for the 53-week period ended August 31, 2014 (52-week period ended August 25, 2013 - provision of $70,000) was recognized 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

Financial assets and liabilities have been classified into categories that determine their basis of measurement and for items measured at fair value, whether changes in fair value are recognized in the consolidated statements of operations or in comprehensive loss. Those categories are fair value through profit or loss, loans and receivables, available-for-sale assets, and for liabilities, amortized cost. The following table shows the carrying values and fair values of assets and liabilities for each of these categories as at August 31, 2014 and August 25, 2013.

	August 31, 2014		August 25, 2013	
	Carrying Value $	**Fair Value $**	**Carrying Value $**	**Fair Value $**
	(in thousands of dollars)		(in thousands of dollars)	
Assets				
Loans and receivables				
Cash and cash equivalents	4,642	4,642	7,708	7,708
Restricted cash	1	1	3,036	3,036
Trade and other receivables	6,707	6,707	6,212	6,212
Loans and advances	1,347	1,347	1,177	1,177
Liabilities				
Amortized cost				
Trade and other payables	23,372	23,372	25,222	25,222
Long-term debt	27,986	28,662	28,200	28,898
Loan payable to SIR Royalty Income Fund	35,687	see below	35,655	see below
Ordinary LP Units and Class A LP Units of the Partnership	94,060	see below	85,718	see below

Carrying and fair values

Cash and cash equivalents, restricted cash, trade and other receivables 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 31, 2014, the Company has $28,656,000 (August 25, 2013 - $28,887,000) in floating rate debt. The Company incurred $2,103,000 of interest expense on this debt during the 53-week period ended August 31, 2014 (52-week period ended August 25, 2013 - $2,129,000). An increase or decrease of 1% in the three-month Canadian dollar bankers' acceptance rate would have resulted in an increase or decrease, respectively, in net earnings of $287,000 for the 53-week period ended August 31, 2014 (52-week period ended August 25, 2013 - $289,000).

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

Other price risk

The expected cash flows used in the estimate of the amortized cost of the Ordinary LP Units and Class A LP Units are derived from the market price of the Fund units adjusted for taxes and the Company's loan payable to the Fund. Accordingly, the change in the carrying value of the Ordinary LP Units and Class A LP Units changes with changes in the market price of the Fund units. An increase/decrease in the market price of the Fund units of 5% would result in an increase/decrease of the carrying value of Ordinary LP Units and Class A LP Units of the Partnership of $6,600,000 (August 25, 2013 - $6,200,000).

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, restricted cash, trade and other receivables and loans and advances. The Company minimizes the credit risk of cash, cash equivalents and restricted cash 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 $191,000 during the 53-week period ended August 31, 2014 (52-week period ended August 25, 2013 - $189,000).

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 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 $421,000 (August 25, 2013 - $2,318,000) 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 31, 2014
	Less than 1 year **$**	**2 - 5 years** **$**	**Over 5 years** **$**
		(in thousands of dollars)	
Trade and other payables	23,372	-	-
Long-term debt*	6,556	25,741	-
Loan payable to SIR Royalty Income Fund*	2,992	11,968	112,395
	32,920	37,709	112,395

			As at August 25, 2013
	Less than 1 year **$**	**2 - 5 years** **$**	**Over 5 years** **$**
		(in thousands of dollars)	
Trade and other payables	25,222	-	-
Long-term debt*	5,834	28,126	-
Loan payable to SIR Royalty Income Fund*	2,992	11,968	115,403
	34,048	40,094	115,403

* 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 any principal and interest payments related to Tranche C Development Loans (note 11).

The above table excludes the cash flows relating to the Ordinary LP Units and Class A LP Units of the Partnership, as these are not contractual obligations until declared. The estimated amount expected to be paid in the next fiscal year is $8,285,000 (August 25, 2013 - $7,509,000).

6 Trade and other receivables

	August 31, 2014 $	August 25, 2013 $
	(in thousands of dollars)	
Trade receivables	2,101	1,775
Receivables from landlords	-	189
Receivables from SIR Royalty Income Fund and its subsidiaries (note 12(c))	2,553	2,372
Trade receivables from related parties (note 16)	386	364
Other	1,667	1,512
	6,707	6,212

7 Loans and advances

	August 31, 2014 $	August 25, 2013 $
	(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	1,180	1,180
Advances to and receivables from U.S. S.I.R. L.L.C., non-interest bearing, due on demand	3,318	3,448
Advances to and receivables from subsidiaries of U.S. S.I.R. L.L.C., non-interest bearing, due on demand	398	398
Loan receivable from U.S. S.I.R. L.L.C., with interest at 10% and no set terms of repayment	2,284	2,284
Loan receivable from U.S. S.I.R. L.L.C., non-interest bearing, due on demand	265	265
	7,445	7,575
Provision for impairment	(6,098)	(6,398)
	1,347	1,177
Current portion	(400)	(350)
	947	827

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 have been recorded at their estimated net realizable value of $1,347,000 (August 25, 2013 - $1,177,000). During 2014, the Company received payments of $321,000 (52-week period ended August 25, 2013 - $168,000) and recognized interest income of $191,000 (52-week period ended August 25, 2013 - $189,000) in the current year.

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 26, 2012	1,226
Payment received	(168)
Interest	189
Provision for impairment	(70)
Balance - August 25, 2013	1,177
Payment received	(321)
Interest	191
Recovery of impairment	300
Balance - August 31, 2014	1,347

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 26, 2012						
Cost	564	238	1,450	43,048	64,210	109,510
Accumulated depreciation and impairment losses	(513)	(238)	(1,128)	(24,059)	(37,441)	(63,379)
Net book value as at August 26, 2012	51	-	322	18,989	26,769	46,131
Additions	19	-	150	6,384	12,607	19,160
Disposals	-	-	(2)	(174)	(100)	(276)
Depreciation	(23)	-	(123)	(3,883)	(5,536)	(9,565)
Impairment losses	-	-	-	(45)	(348)	(393)
As at August 25, 2013	47	-	347	21,271	33,392	55,057
As at August 25, 2013						
Cost	582	202	1,597	47,976	75,286	125,643
Accumulated depreciation and impairment losses	(535)	(202)	(1,250)	(26,705)	(41,894)	(70,586)
Net book value as at August 25, 2013	47	-	347	21,271	33,392	55,057
Additions	-	-	83	6,129	9,818	16,030
Disposals	-	-	(2)	(197)	(54)	(253)
Depreciation	(13)	-	(127)	(4,372)	(6,667)	(11,179)
Impairment losses	-	-	-	-	(893)	(893)
As at August 31, 2014	34	-	301	22,831	35,596	58,762
As at August 31, 2014						
Cost	580	202	1,683	53,536	84,700	140,701
Accumulated depreciation and 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

Property and equipment include $1,974,000 (August 25, 2013 - $2,372,000) of costs for restaurants under development that were not being depreciated as at August 31, 2014.

Property and equipment include furniture, fixtures and equipment held under finance leases with a cost of $27,000 (August 25, 2013 - $27,000) and a net carrying value of $9,000 (August 25, 2013 - $11,000).

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 four restaurants (2013 - four restaurants) was less than the carrying value of the restaurants' non-financial assets (property and equipment).

In fiscal 2014, the recoverable amount for the impairment of three restaurants (two Jack Astor's and one Canyon Creek restaurant) (2013 - one Jack Astor's and two Alice Fazooli's restaurants) was based on fair value less costs to sell. The fair value less costs to sell for these restaurants was estimated using a depreciated replacement cost methodology.

The recoverable amount for the fiscal 2014 impairment of the remaining restaurant (Signature restaurant) (fiscal 2013 - one Jack Astor's restaurant) was based on value-in-use, which was estimated using a discounted cash flow model. Significant assumptions used in the model include the estimate of cash flows and a discount rate of 15% (fiscal 2013 - 15%). Management has performed sensitivity testing on the estimates and determined that a reasonable change in assumptions would not result in a material change in the impairment of the property and equipment.

In addition, certain costs incurred for design of new restaurants were abandoned in the prior year. Accordingly, these costs were written off during the 52-week period ended August 25, 2013.

Accordingly, in total, an impairment loss of $893,000 (August 25, 2013 - $393,000) 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:

	53-week period ended August 31, 2014 $	**52-week period ended August 25, 2013 $**
	(in thousands of dollars)	
Jack Astor's	469	109
Alice Fazooli's	-	201
Canyon Creek Chophouse	224	43
Signature	200	40
	893	393

9 Goodwill and intangible assets

	Goodwill $	Computer software $	Intangible lease assets $	Financing fees $ (note 11)	Total $
			(in thousands of dollars)		
As at August 26, 2012					
Cost	5,410	874	837	-	7,121
Accumulated amortization and impairment losses	(164)	(789)	(646)	-	(1,599)
Net book value	5,246	85	191	-	5,522
For the 52-week period ended August 25, 2013					
As at August 26, 2012	5,246	85	191	-	5,522
Additions	-	81	-	-	81
Disposals	-	(1)	-	-	(1)
Amortization	-	(33)	(69)	-	(102)
Financing fees paid prior to funding of debt	-	-	-	298	298
Impairment losses	(375)	-	-	-	(375)
As at August 25, 2013	4,871	132	122	298	5,423
As at August 25, 2013					
Cost	5,410	955	837	298	7,500
Accumulated amortization and impairment losses	(539)	(823)	(715)	-	(2,077)
Net book value	4,871	132	122	298	5,423
For the 53-week period ended August 31, 2014					
As at August 25, 2013	4,871	132	122	298	5,423
Additions	-	135	-	-	135
Disposals	-	(9)	-	-	(9)
Amortization	-	(37)	(47)	-	(84)
Reclassified to long-term debt	-	-	-	(298)	(298)
As at August 31, 2014	4,871	221	75	-	5,167
As at August 31, 2014					
Cost	5,410	895	549	-	6,854
Accumulated amortization and impairment losses	(539)	(674)	(474)	-	(1,687)
Net book value	4,871	221	75	-	5,167

Goodwill has been allocated to the following Concept restaurants:

	August 31, 2014 $	August 25, 2013 $
	(in thousands of dollars)	
Jack Astor's	4,166	4,166
Canyon Creek Chophouse	705	705
	4,871	4,871

During the 53-week period ended August 31, 2014, the Company recognized an impairment of goodwill of $nil (52-week period ended August 25, 2013 - $375,000). The impairment in fiscal 2013 was a result of declining sales and earnings of one restaurant.

In fiscal 2013, 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 15% 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 31, 2014 $	August 25, 2013 $
	(in thousands of dollars)	
Trade payables	12,170	13,029
Accrued liabilities	8,054	9,485
Construction payables	1,739	1,135
Interest payable on long-term debt	99	66
Interest payable on SIR Loan (note 12(a))	250	464
Payables to related parties (note 16)	1,060	1,043
	23,372	25,222

11 Long-term debt

	August 31, 2014 $	August 25, 2013 $
	(in thousands of dollars)	
Term Loan (a)	15,974	18,326
Tranche A Development Loan (a)	8,511	9,863
Tranche B Development Loan (a)	3,495	-
Finance lease obligations, bearing interest at 4.75%, repayable in monthly instalments, maturing on August 1, 2015	6	11
	27,986	28,200
Current portion	(4,729)	(3,950)
	23,257	24,250

a) The Company has a credit facility that consists of a term loan (the Term Loan) and three development loans. On June 23, 2014, the Company entered into a Third Amended and Restated Loan Agreement (the Credit Agreement) that includes the Term Loan and the Tranche A and Tranche B Development Loans which were outstanding as at August 31, 2014 and now provides for contemplated financing of $6.0 million (Tranche C Development Loan). All loans under the Credit Agreement are due on November 13, 2016. The Term Loan and the Tranche A Development Loan have a variable interest rate equal to the greater of 6.0% per annum and the three-month Canadian dollar bankers' acceptance rate plus 5.75% per annum. The Tranche B Development Loan has a variable rate equal to the greater of 5.9% per annum and the three-month Canadian dollar bankers' acceptance rate plus 5.65% per annum. Interest on the Tranche C Development Loan will be calculated as the greater of 5.55% per annum and the three-month Canadian dollar bankers' acceptance rate plus 5.30% per annum. The Company can also elect to fix the interest rate. The amortization period for the Term Loan is ten years whereas for the Tranche A Development Loan, the Tranche B Development Loan and the Tranche C Development Loan the amortization periods are seven years. The Tranche C Development Loan is not to exceed $6.0 million and was intended to be drawn by September 19, 2014, but could be extended to March 19, 2015 at the sole discretion of the lender upon request by the Company. Subsequent to August 31, 2014, the Company announced that rather than seeking an extension of its credit facility at this time, it plans to exchange a portion of the Class A GP Units into Fund units and sell these units (note 23).

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

The Term Loan, the Tranche A Development Loan and the Tranche B Development Loan are repayable in estimated monthly blended instalments of principal and interest of $307,000, $178,000 and $60,000, respectively.

The Credit Agreement is collateralized by a general security agreement and entitles the lender to a first charge on all of the Company's assets, including a pledge of all shares and the investment in the Partnership and a specific assignment of the rights under the Licence and Royalty Agreement. However, the lender does not have a pledge over the assets of the Partnership. The Partnership and the Fund did not guarantee the Credit Agreement.

Under an Amended and Restated Subordination and Postponement Agreement, absent a default or event of default under the Credit Agreement, ordinary payments to the Fund and the Partnership could continue. However, if a default or an event of default were to occur, then payments to the Fund and the Partnership could cease and the related rights of the Fund and the Partnership could be subject to a standstill obligation for a period of up to 120 days (which may be extended if the lender is pursuing remedies). The Amended and Restated Subordination and Postponement Agreement also contains various other typical covenants. In addition, the Company provided an undertaking to the Fund and the Partnership to restrict the amount of the additional debt that the Company can incur without the consent of the Fund and the Partnership (which consent shall not be unreasonably withheld).

The Credit Agreement contains certain financial and non-financial covenants that the Company is in compliance with as at August 31, 2014. In addition, the debt is guaranteed by a company owned by the majority shareholder of the Company (a related party), for which guarantee fees of $225,000 for the 53-week period ended August 31, 2014 (52-week period ended August 25, 2013 - $49,000) were charged to interest (income) and other expense (income) - net in the consolidated statements of operations and comprehensive loss. The original agreement between the Company and guarantor expired on April 13, 2013. During the 53-week period ending August 31, 2014, the Company entered into a new guarantee agreement with the guarantor which requires the Company to pay a fee of $90,000 for the first three-month period of fiscal 2014 and $45,000 per three-month period thereafter until the debt is repaid in full. The guarantee fee is expensed as incurred. On November 13, 2009, the Company also issued 26 warrants to the majority shareholder of the Company to acquire Class S Special Shares of the Company. These warrants have been pledged to the senior lender and are only exercisable in the event of default.

b) As at August 31, 2014, the Company has a purchasing card totalling $9,000 (August 25, 2013 - $79,000).

c) The Company has recorded its long-term debt at amortized cost. The Company has netted the financing fees paid against the Term Loan, the Tranche A Development Loan and the Tranche B Development Loan and amortizes these costs over the expected life of the long-term debt using the effective interest method. Financing fees incurred during the 52-week period ended August 25, 2013 of $298,000 were classified in goodwill and intangible assets in the prior year. Amortization of financing fees of $324,000 (52-week period ended August 25, 2013 - $261,000) has been charged to interest expense in the consolidated statements of operations and comprehensive loss. Unamortized financing fees netted against the debt as at August 31, 2014 were $676,000 (August 25, 2013 - $698,000).

d) The principal amount of long-term debt outstanding as at August 31, 2014 is repayable as follows:

	$ (in thousands of dollars)
2015	4,729
2016	5,059
2017	18,874
	28,662

e) The effective interest rate on long-term debt as at August 31, 2014 is 8.3% (August 25, 2013 - 8.0%).

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. On August 23, 2013, the Company, the Fund and the Partnership entered into an Amended and Restated Subordination and Postponement Agreement to subordinate and postpone their claims against the Company in favour of the lender. The Fund and the Partnership have not guaranteed the current 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 Amended and Restated Subordination and Postponement Agreement.

Under the Amended and Restated Subordination and Postponement Agreement, absent a default or event of default under the 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, then payments to the Fund and the Partnership could cease and the related rights of the Fund and the Partnership could be subject to a “standstill” obligation for a period of up to 120 days (which may be extended if the lender is pursuing remedies). The Amended and Restated Subordination and Postponement Agreement also contain various other typical covenants. In addition, the Company provided an undertaking to the Fund and the Partnership to restrict the amount of additional debt that the Company can incur without the consent of the Fund and the Partnership (which consent shall not be unreasonably withheld).

Interest expense charged to the consolidated statements of operations and comprehensive loss for the 53-week period ended August 31, 2014 was $3,067,000 (52-week period ended August 25, 2013 - $3,021,000), which includes interest on the SIR Loan of $3,035,000 (52-week period ended August 25, 2013 - $2,992,000) and amortization of financing fees of $32,000 (52-week period ended August 25, 2013 - $29,000). Interest payable on the SIR Loan as at August 31, 2014 was $250,000 (August 25, 2013 - $464,000).

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 31, 2014 were $4,313,000 (August 25, 2013 - $4,345,000).

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

	53-week period ended August 31, 2014 $	52-week period ended August 25, 2013 $
	(in thousands of dollars)	
Balance - Beginning of period	85,718	58,328
Conversion of Class A GP Units	6,976	17,819
Change in amortized cost of Ordinary LP Units and Class A LP Units of the Partnership	10,214	16,168
Distributions paid to Ordinary LP and Class A LP unitholders	(8,848)	(6,597)
Balance - End of period	94,060	85,718
Less: Current portion of Ordinary LP Units and Class A LP Units of the Partnership	(8,285)	(7,509)
Ordinary LP Units and Class A LP Units of the Partnership	85,775	78,209

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

	53-week period ended August 31, 2014 $	52-week period ended August 25, 2013 $
	(in thousands of dollars)	
Pooled revenue*	253,847	228,695
Partnership royalty income*	15,231	13,847
Other income	42	39
Partnership expenses	(92)	(99)
Net earnings of the Partnership	15,181	13,787
The Company's interest in the earnings of the Partnership	(6,953)	(7,054)
Fund's interest in the earnings of the Partnership	8,228	6,733

*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 53-week period ended August 31, 2014, distributions of $8,228,000 (52-week period ended August 25, 2013 - $6,733,000) were declared to the Fund through the Partnership. Distributions paid during the 53-week period ended August 31, 2014 were $8,848,000 (52-week period ended August 25, 2013 - $6,597,000). 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 31, 2014 were $3,326,000 (August 25, 2013 - $3,946,000).

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

On January 28, 2014 (2013 - October 23, 2013), the lender released the security it held on 500,000 (2013 - 1,500,000) Class A GP Units of the Partnership (and any Fund units received upon conversion of Class A GP Units of the Partnership) and required that all sale proceeds be used to fund the costs associated with constructing new restaurants and renovating existing restaurants.

On February 10, 2014, the Company converted 500,000 Class A GP Units to Fund units and sold these Fund units for net proceeds of $6,757,000, net of transaction costs of $219,000. During the 52-week period ended August 25, 2013, the Company converted 1,418,900 Class A GP Units into Fund units and sold these Fund units for net proceeds of $16,551,000, net of transaction costs of $1,268,000.

The gross proceeds from the above transactions, net of certain transaction costs were deposited in an account restricted by the lender and accordingly, are classified as restricted cash in the consolidated statements of financial position. During the 53-week period ended August 31, 2014, $9,817,000 (52-week period ended August 25, 2013 - $14,000,000) has been drawn from this restricted account. The funds are released upon the Company presenting eligible capital expenditures to the lender. As at August 31, 2014, $1,000 is held in this account (August 25, 2013 - $3,036,000) (note 23).

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 $6,976,000 (52-week period ended August 25, 2013 - $17,819,000) were added to the carrying value of the Class A LP Units. As the Fund's interest in the Partnership has increased, this transaction is not dilutive to the Fund. The Fund has converted the Class A GP Units received into Class A LP Units. The holders of the Class A LP Units are entitled to receive a pro rata share of all residual distributions of the Partnership.

These dispositions of the Fund units are accounted for as non-cash transactions in the consolidated statements of cash flows.

As a result of the February 10, 2014 conversion of the Class A GP Units into Fund units, the Company's residual interest in the Partnership decreased 5.1% from 30.6% to 25.5%. The Company continues to maintain control of the Partnership and, therefore, continues to consolidate the Partnership.

The Partnership owns the SIR Rights formerly owned or licensed by the Company or its subsidiaries and used in connection with the operation of the majority of the Company's restaurants in Canada. In 2004, the Partnership granted the Company a 99-year licence to use the SIR Rights in most of Canada in consideration for a Royalty, payable by the Company to the Partnership, equal to 6% of the revenue of the Royalty Pooled Restaurants (the 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, 2014, four (January 1, 2013 - four) new SIR Restaurants were added to the Royalty Pooled Restaurants in accordance with the Partnership Agreement. As consideration for the additional Royalty associated with the addition of four new SIR Restaurants on January 1, 2014 (January 1, 2013 - four), as well as the Second Incremental Adjustment for four new SIR Restaurants added to the Royalty Pooled Restaurants on January 1, 2013 (January 1, 2012 - one), the Company converted its Class B GP Units into Class A GP Units based on the formula defined in the Partnership Agreement. The number of Class B GP Units that the Company converted into Class A GP Units was reduced by an adjustment for the permanent closure of nil (January 1, 2013 - two) SIR Restaurants during the prior year. The net effect of these adjustments to the Royalty Pooled Restaurants was that the Company converted 803,000 (January 1, 2013 - 296,000) Class B GP Units into 803,000 (January 1, 2013 - 296,000) Class A GP Units on January 1, 2014 at an estimated fair value of $11,436,000 (January 1, 2013 - $4,326,000). As at August 31, 2014, the Company's residual interest in the Partnership is 25.5% (August 25, 2013 - 24.4%).

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

c) Advances receivable from SIR Royalty Income Fund

Advances receivable from SIR Royalty Income Fund as at August 31, 2014 were $2,553,000 (August 25, 2013 - $2,372,000). 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 53-week period ended August 31, 2014, the Partnership provided these services to the Fund and the Trust for consideration of $24,000 (52-week period ended August 25, 2013 - $24,000), which was the amount of consideration agreed to by the related parties.

13 Provisions and other long-term liabilities

	August 31, 2014 $	August 25, 2013 $
	(in thousands of dollars)	
Gift certificates (deferred revenue)	2,768	2,774
Deferred supplier rebates	1,076	49
Leasehold inducements and straight-line rent liability	5,239	5,725
Long-term management bonus (a)	3,527	3,837
Asset retirement obligation (b)	554	512
	13,164	12,897
Current portion	(4,022)	(3,789)
	9,142	9,108

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 28, 2012	3,798
Current service cost and changes in estimates	272
Interest cost	129
Payments	(362)
As at August 25, 2013	3,837
Current service cost and changes in estimates	123
Interest cost	126
Payments	(559)
As at August 31, 2014	3,527

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

	53-week period ended August 31, 2014 $	52-week period ended August 25, 2013 $
	(in thousands of dollars)	
Current service cost and change in estimates	123	272
Interest cost	126	129
	249	401

The discount rate used to estimate the long-term management bonus for the 53-week period ended August 31, 2014 was 3.6% (August 25, 2013 - 4.0%). 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 31, 2014	August 25, 2013
Total undiscounted estimated cash flows (in thousands of dollars)	$882	$774
Expected timing of repayments	1.2 to 18.8 years	0.6 to 14.6 years
Discount rate	7.0%	7.0%

14 Capital stock

Authorized
Unlimited Class S Special Shares
Unlimited common shares

Issued and outstanding
No Class S Special Shares are issued or outstanding as at August 31, 2014 or August 25, 2013.
The issued and outstanding common shares are as follows:

	August 31, 2014		August 25, 2013	
	Number of common shares (in thousands)	$	Number of common shares (in thousands)	$
Balance - Beginning and end of period	10,368	11,560	10,368	11,560

The Class S Special Shares have 1,000,000 votes per share, are redeemable at the option of the holder for a redemption amount, as defined in the Articles of Amendment, and are redeemable at the option of the Company at any time following the third anniversary of the date of first issuance of any Class S Special Shares, at the redemption amount. No Class S Special Shares are currently outstanding; however, as part of the Credit Agreement, the Company issued 26 warrants to acquire one Class S Special Share per warrant to a majority shareholder of the Company. The warrants have an exercise price of $1.00, expire on November 11, 2020 and can only be exercised in the event of default by the Company with respect to its Credit Agreement. These warrants have been pledged to the lender (note 11). The warrants, which are a derivative financial instrument, have a nominal fair value.

15 Stock option plan

During the 53-week period ended August 31, 2014, there were nil (52-week period ended August 25, 2013 - 500,000) stock options granted and 40,000 (52-week period ended August 25, 2013 - nil) stock options forfeited.

During the 53-week period ended August 31, 2014, compensation expense of $166,000 (52-week period ended August 25, 2013 - $211,000) was recognized in the consolidated statements of operations and comprehensive loss. Compensation expense for options not yet vested of $108,000 will be recognized in the consolidated statements of operations and comprehensive loss over the vesting period of the stock options.

Stock options issued during the 52-week period ended August 25, 2013 are valued using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

Risk-free interest rate	1.4%
Expected life	4 years
Expected volatility	25.4%
Expected dividend	nil

	Number of stock options outstanding (in thousands)	**Weighted average exercise price per share $**
Balance - August 26, 2012	1,466	0.24
Granted during 2013	500	3.84
Balance - August 25, 2013	1,966	1.14
Forfeited during 2014	(40)	3.84
Balance - August 31, 2014	1,926	1.08

As at August 31, 2014, 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)	6.5	1,276	0.01	1,276	0.01
$1.00 (b)	2.0	70	1.00	56	1.00
$2.00 (b)	2.0	120	2.00	72	2.00
$3.84 (c)	5.3	460	3.84	200	3.84
		1,926		1,604	

As at August 25, 2013, 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 $**	**Number of stock options** (in thousands)	**Weighted average exercise price $**
$0.01 (a)	7.5	1,276	0.01	1,276	0.01
$1.00 (b)	3.0	70	1.00	42	1.00
$2.00 (b)	3.0	120	2.00	24	2.00
$3.84 (c)	6.4	500	3.84	-	3.84
		1,966		1,342	

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

b) These stock options were granted to certain directors of the Company during the 52-week period ended August 26, 2012. Of the total granted, 35,000 stock options vested at the date of grant and have an exercise price of $1.00 per share. Of the remaining stock options, one-fifth vest annually, commencing on August 30, 2012, with 35,000 having an exercise price of $1.00 per share and 120,000 having an exercise price of $2.00 per share. All stock options have an expiry date of August 30, 2016. On death, permanent disability, resignation or replacement by the shareholders of the Company, the Company retains the right to purchase the directors' remaining interest, being all outstanding shares plus any remaining stock options, at a negotiated price, which shall be paid over three years.

c) These stock options were granted to key management of the Company during the 52-week period ended August 25, 2013, with an exercise price of $3.84 and an expiry date of January 1, 2020. During the 53-week period ended August 31, 2014, 40,000 stock options were forfeited. Of the remaining stock options, 200,000 stock options vested on January 1, 2014 and 87,000 stock options vest annually thereafter over the next three years. On death or early retirement, participants of this plan have the right to exercise vested options up to and including the earlier of: (i) one year following the date of death or early retirement; or (ii) January 1, 2017. On resignation or termination without cause, participants of this plan have the right to exercise vested options up to and including the earlier of: (i) 90 days following the date of resignation or termination without cause; or (ii) January 1, 2017. All unvested options expire on the date of death, early retirement, resignation or termination without cause. On disability or normal retirement, participants of this plan have the right to exercise vested options up to and including January 1, 2017. On termination with cause, all vested and unvested options of the participant immediately expire and are cancelled.

16 Related party transactions

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

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

	August 31, 2014 $	**August 25, 2013 $**
	(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	165	160
Occupancy costs provided by a company owned by a director and shareholder of the Company	4	22
Maintenance services provided by a shareholder of the Company	14	-
Direct costs of restaurant operations		
Maintenance services provided by a company owned by a party related to a shareholder of the Company	88	66
Property and equipment		
Design and construction management fees and fixtures provided by a company owned by a shareholder of the Company	882	720
Construction management fees and fixtures provided by a company owned by a party related to a shareholder of the Company	1,151	1,426
Fixtures provided by a shareholder of the Company	35	88

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. Rent is payable under these lease agreements based on a percentage of the revenues of the related restaurant. Rent paid under these lease agreements for the 53-week period ended August 31, 2014 was $12,000 (52-week period ended August 25, 2013 - $nil).

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

	August 31, 2014 $	August 25, 2013 $
	(in thousands of dollars)	
Amounts due from U.S. S.I.R. L.L.C. and its subsidiary	206	201
Amounts due from a company owned by a party related to a director of the Company	180	163
	386	364

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

	August 31, 2014 $	August 25, 2013 $
	(in thousands of dollars)	
Amounts due to companies owned by a shareholder of the Company	12	47
Amounts due to a company owned by a party related to a shareholder of the Company	91	153
Amounts due to a company owned by a party related to a director of the Company	174	86
Amounts due to U.S. S.I.R. L.L.C.	783	757
	1,060	1,043

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

	53-week period ended August 31, 2014 $	52-week period ended August 25, 2013 $
	(in thousands of dollars)	
Salaries and short-term employee benefits	1,513	1,848
Other long-term benefits	-	49
Stock-based compensation	166	211
	1,679	2,108

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

17 Expenses by nature

	53-week period ended August 31, 2014 $	52-week period ended August 25, 2013 $
	(in thousands of dollars)	
Food and beverage	79,363	72,013
Labour	95,416	87,057
Direct costs of restaurant operations	47,788	42,261
Rent	13,591	11,614
Depreciation and amortization	11,055	9,427
Loss on disposal of property and equipment	257	271
Impairment of non-financial assets	893	393
Goodwill impairment	-	375
Cost of corporate restaurant operations	248,363	223,411
Salaries and benefits	7,885	7,766
Advertising and marketing	589	654
Professional, legal and consulting fees	683	902
Rent	393	367
Depreciation and amortization	208	240
Other	1,954	1,831
Corporate costs	11,712	11,760

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	14,079
2 to 5 years	53,406
Thereafter	44,076
	111,561

The Company has three commitments to lease properties, on which it plans to build three new restaurants. The Company has begun the early stages of construction of one of these restaurants to be built and has further purchase commitments for the construction of this property of \$1,100,000. As at the current date, the Company has not entered into any construction contracts for the other two restaurants, but expects to do so in the future. Final costs of construction are subject to uncertainties as to their amounts and timing. Items such as finalization of design and final construction quotations could change the total cost of these projects.

19 Supplemental information to the consolidated statements of cash flows

The net change in working capital items is as follows:

	53-week period ended August 31, 2014 \$	**52-week period ended August 25, 2013 \$**
	(in thousands of dollars)	
Trade and other receivables	(647)	602
Inventories	(52)	(209)
Prepaid expenses, deposits and other assets	719	(405)
Trade and other payables	(2,074)	2,061
Provisions and other long-term liabilities	(442)	66
	(2,496)	2,115

Other non-cash items consist of the following:

	53-week period ended August 31, 2014 $	52-week period ended August 25, 2013 $
	(in thousands of dollars)	
Straight-line rent expense	66	374
Supplier rebates	(159)	(141)
Transaction costs on sale of Fund units	209	808
Other	(12)	(1)
	104	1,040

20 Income taxes

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

	53-week period ended August 31, 2014 $	52-week period ended August 25, 2013 $
	(in thousands of dollars)	
Current	237	465
Deferred	(23)	(41)
	214	424

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

	53-week period ended August 31, 2014 $	52-week period ended August 25, 2013 $
	(in thousands of dollars)	
Loss before income taxes	(9,160)	(15,837)
Income tax recovery at Canadian statutory income tax rate of 26.5% (August 25, 2013 - 26.5%)	(2,427)	(4,197)
Increase (decrease) by the effect of		
Change in amortized cost of Ordinary LP Units and Class A LP Units	2,707	4,285
Non-deductible expenses	384	780
Deductible expenses - eliminated on consolidation	(3,010)	(2,617)
Deferred tax assets and deferred tax liabilities not previously recognized	2,310	1,711
Corporate minimum tax	237	465
Other	13	(3)
Provision for (recovery of) income taxes	214	424

Deferred income tax assets not recognized are summarized as follows:

	August 31, 2014 $	August 25, 2013 $
	(in thousands of dollars)	
Property and equipment	2	191
Other non-current assets	383	379
Loss carry-forwards	4,189	4,344
Long-term management bonus	914	993
Leasehold inducements	886	1,418
Asset retirement obligation	147	136
Ontario tax harmonization	80	80
	6,601	7,541

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

	August 31, 2014 $	August 25, 2013 $
	(in thousands of dollars)	
Property and equipment	1,364	(140)
Deferred financing fees	(1,189)	(1,157)
Loss carry-forwards	1,853	1,731
Long-term management bonus	22	25
Leasehold inducements	504	70
Income of the Partnership	(574)	(572)
Investment in the Partnership	(2,000)	-
	(20)	(43)

As at August 31, 2014, the deferred tax liability related to subsidiaries that has not been recognized amounted to $7,500,000 (August 25, 2013 - $8,600,000).

As at August 31, 2014, the Company and its subsidiaries have available non-capital losses of $13,955,000 (August 25, 2013 - $15,843,000) for income tax purposes, which expire as follows:

	$ (in thousands of dollars)
2015	300
2026	2,741
2027	1,552
2028	2,725
2029	598
2030	1,725
2031	1,638
2032	598
2033	1,356
2034	722
	13,955

In addition, the Company's US subsidiary has loss carry-forwards of $5,221,000 (August 25, 2013 - $5,201,000), 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:

	53-week period ended August 31, 2014 $	52-week period ended August 25, 2013 $
	(in thousands of dollars)	
Interest income	(244)	(275)
Provision for (recovery of) impairment of loans and advances (note 7)	(300)	70
Transaction costs on sale of Fund units (note 12)	219	1,268
Guarantee fee (a)	225	49
	(100)	1,112

a) During the 53-week period ended August 31, 2014, the Company expensed $225,000 (52-week period ended August 25, 2013 - $49,000) relating to a guarantee fee to the majority shareholder of the Company. The original guarantee agreement between the Company and the guarantor was payable over a three-year period ending April 13, 2013 in equal quarterly payments of $45,000 and was amortized over the term of the guarantee agreement. Under the current agreement, the Company paid a fee of $90,000 for the first three-month period of fiscal 2014 and $45,000 per three-month period, for the remainder of the year. The Company will continue to pay $45,000 per three-month period until the long-term debt is repaid in full (note 11(a)).

22 Capital management

The Company's capital consists of its capital stock and deficit of $11,560,000 and $126,226,000, respectively. The objectives in managing capital are to safeguard the Company's ability to continue as a going concern, to provide financial capacity and flexibility to meet its strategic objectives, to allow the Company to respond to changes in economic and/or marketplace conditions and to provide a return to its shareholders. The Company strives to maintain an optimal split between senior debt and equity with a view to balancing its flexibility while minimizing its cost of capital. The Company evaluates cash flow through its budgeting and forecasting process, to help plan and track its capital requirements to meet its strategic plans and to monitor compliance with its Credit Agreement.

On June 23, 2014, the financial covenants included in the Company's Credit Agreement were amended to include a cash available for debt service covenant, in addition to the senior debt leverage ratio and will replace the fixed charge coverage ratio, effective with the Company's first quarter of fiscal 2015. Compliance with the covenants is monitored by management on a quarterly basis. During the 53-week period ended August 31, 2014, the Company was in compliance with the senior debt leverage ratio and the fixed charge coverage ratio. If the Company were not in compliance with the covenants of the Credit Agreement and unable to remedy this non-compliance, certain security is available to the lender as described in note 11.

The Company has in the past converted a portion of the Class A GP Units and sold the Fund units received. Proceeds received on the sale of the Fund units have been restricted by the lender for use in financing the construction of new restaurants and renovations to existing restaurants.

On November 13, 2009, the Company provided an undertaking to the Fund and the Partnership to restrict the amount of the additional debt that the Company can incur without the consent of the Fund and the Partnership (which consent shall not be unreasonably withheld).

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

23 Subsequent events

On November 5, 2014, the lender released the security it held on 350,000 Class A GP Units in the Partnership (and any Fund units received upon conversion of Class A GP Units in the Partnership) and required that all sale proceeds be used to finance capital expenditures, including restaurant renovations, new restaurant construction and other lender approved purposes. On November 19, 2014, the Company converted 350,000 Class A GP Units to Fund units and sold these Fund units for total net proceeds of $4,268,000 (net of estimated transaction costs of $142,000). The proceeds net of certain transaction costs were deposited in the account restricted by the lender. Since then, $2,000,000 has been released to the Company and the remainder will likely be released during the second quarter of fiscal 2015 provided that the Company is in compliance with the terms and conditions of the Credit Agreement.

In addition, the financial covenants applicable to the Company's Credit Agreement were modified such that the minimum cash available for debt service ratio will now apply commencing at the end of the Company's first quarter of fiscal 2015 (the 12-week period ended November 23, 2014).