

SIR Corp.

Interim Consolidated Financial Statements
(Unaudited)
**For the 12-week period ended
November 20, 2016**

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SIR Corp.

Interim Consolidated Statements of Financial Position (Unaudited)

(in thousands of Canadian dollars)

	November 20, 2016 \$	August 28, 2016 \$
Assets		
Current assets		
Cash and cash equivalents	3,816	3,888
Trade and other receivables (note 4(c))	7,143	7,084
Inventories	3,132	2,934
Prepaid expenses, deposits and other assets	1,262	703
Current portion of loans and advances	360	350
	<u>15,713</u>	<u>14,959</u>
Non-current assets		
Loans and advances	890	940
Property and equipment	50,622	50,523
Goodwill and intangible assets	4,687	4,649
	<u>71,912</u>	<u>71,071</u>
Liabilities		
Current liabilities		
Bank indebtedness (note 3)	1,718	1,779
Trade and other payables (note 4(a))	26,594	29,396
Current portion of long-term debt (note 3)	2,000	2,000
Current portion of provisions and other long-term liabilities	4,355	3,798
Current portion of Ordinary LP Units and Class A LP Units of the Partnership (note 4(b))	9,991	9,991
	<u>44,658</u>	<u>46,964</u>
Non-current liabilities		
Long-term debt (note 3)	13,120	7,599
Loan Payable to SIR Royalty Income Fund (note 4(a))	35,767	35,758
Provisions and other long-term liabilities	9,410	9,100
Ordinary LP Units and Class A LP Units of the Partnership (note 4(b))	112,080	113,830
	<u>215,035</u>	<u>213,251</u>
Shareholders' Deficiency		
Capital stock (note 5)	20,522	20,390
Contributed surplus	166	31
Deficit	<u>(163,811)</u>	<u>(162,601)</u>
	<u>(143,123)</u>	<u>(142,180)</u>
	<u>71,912</u>	<u>71,071</u>
Commitments (note 6)		

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

SIR Corp.**Interim Consolidated Statements of Operations and Comprehensive Loss
(Unaudited)**

(in thousands of Canadian dollars)

	12-week period ended November 20, 2016 \$	12-week period ended November 22, 2015 \$
Corporate restaurant operations		
Food and beverage revenue	63,559	63,139
Costs of corporate restaurant operations	59,842	59,501
	<hr/>	<hr/>
Earnings from corporate restaurant operations	3,717	3,638
Corporate costs	3,342	3,303
	<hr/>	<hr/>
Earnings before interest and income taxes	375	335
Interest expense	205	324
Interest on loan payable to SIR Royalty Income Fund (note 4(a))	692	700
Interest (income) and other expense (income) – net	12	(59)
Change in amortized cost of Ordinary LP Units and Class A LP Units of the Partnership (note 4(b))	652	3,131
	<hr/>	<hr/>
Loss before income taxes	(1,186)	(3,761)
Provision for income taxes	24	20
	<hr/>	<hr/>
Net loss and comprehensive loss for the period	(1,210)	(3,781)

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

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

(in thousands of Canadian dollars)

	12-week period ended November 20, 2016			
	Capital stock \$	Contributed surplus \$	Deficit \$	Total \$
Balance - Beginning of period	20,390	31	(162,601)	(142,180)
Stock-based compensation	-	139	-	139
Exercise of stock options (note 5)	132	(4)	-	128
Net loss for the period	-	-	(1,210)	(1,210)
Balance - End of period	20,522	166	(163,811)	(143,123)

	12-week period ended November 22, 2015			
	Capital stock \$	Contributed surplus \$	SIR Corp.'s deficit \$	Total \$
Balance - Beginning of period	20,361	-	(138,984)	(118,623)
Stock-based compensation	-	7	-	7
Exercise of stock options (note 5)	28	-	-	28
Net loss for the period	-	-	(3,781)	(3,781)
Balance - End of period	20,389	7	(142,765)	(122,369)

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

SIR Corp.

Interim Consolidated Statements of Cash Flows (Unaudited)

(in thousands of Canadian dollars)

	12-week period ended November 20, 2016 \$	12-week period ended November 22, 2015 \$
Cash provided by (used in)		
Operating activities		
Net loss for the period	(1,210)	(3,781)
Items not affecting cash		
Change in amortized cost of Ordinary LP Units and Class A LP Units of the Partnership (note 4(b))	652	3,131
Depreciation and amortization	2,500	2,560
Deferred income taxes	-	(2)
Current income taxes	24	22
Provision for impairment of loans and advances	50	-
Interest expense on long-term debt and SIR Loan	897	1,024
Non-cash interest income	(34)	(54)
Amortization of leasehold inducements	(108)	(143)
Stock-based compensation	139	7
Loss on disposal of property and equipment	69	12
Other	(39)	(50)
Landlord and other inducements received	158	270
Distributions paid to Ordinary LP and Class A LP unitholders (note 4(b))	(2,402)	(1,472)
Income taxes paid	(135)	(48)
Net change in working capital items (note 7)	(2,039)	(4,121)
Cash used in operating activities	(1,478)	(2,645)
Investing activities		
Purchase of property and equipment and other assets - net	(3,269)	(2,276)
Advance to shareholder	-	(142)
Payments received on loans and advances	24	95
Cash used in investing activities	(3,245)	(2,323)
Financing activities		
Decrease in bank indebtedness	(61)	(971)
Proceeds from issuance of long-term debt	6,000	3,000
Principal repayment of long-term debt	(500)	(500)
Interest paid	(916)	(692)
Financing fees	-	(10)
Exercise of stock options (note 5)	128	28
Cash provided by financing activities	4,651	855
Decrease in cash and cash equivalents during the period	(72)	(4,113)
Cash and cash equivalents - Beginning of period	3,888	7,869
Cash and cash equivalents - End of period	3,816	3,756

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

SIR Corp.

Notes to Interim Consolidated Financial Statements (Unaudited)

November 20, 2016

(in Canadian dollars)

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 November 20, 2016, the Company operated a total of 60 (November 22, 2015 - 59) Concept and Signature restaurants in Canada (in Ontario, Quebec, Alberta, Nova Scotia and Newfoundland) (the SIR Restaurants). The Concept restaurants are Jack Astor's Bar and Grill® (Jack Astor's®), Canyon Creek Chop House® (Canyon Creek®) and Scaddabush Italian Kitchen & Bar®, together with Alice Fazooli's® and the Signature restaurants are Reds® Wine Tavern, Reds® Midtown Tavern, and the Loose Moose Tap & Grill®. The Company also operates a Duke's Refresher® & Bar located in downtown Toronto and one seasonal restaurant, Abbey's Bakehouse®, in addition to one seasonal Abbey's Bakehouse retail outlet, which are not currently part of Royalty Pooled Restaurants (note 4(b)). Neither of the Abbey's locations were open for operation during the 2016 season.

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

The address of the Company's registered office is 5360 South Service Road, Suite 200, Burlington, Ontario. The interim consolidated financial statements were approved by the board of directors on December 21, 2016.

Fiscal year

The Company's fiscal year is made up of 52 or 53-week periods ending on the last Sunday in August. The fiscal quarters for the Company consist of accounting periods of 12, 12, 12 and 16 or 17 weeks, respectively. The fiscal years for 2017 and 2016 both consist of 52 weeks.

2 Summary of significant accounting policies

Basis of presentation

The Company prepares its condensed interim consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) for interim financial reporting, including International Accounting Standard 34, Interim Financial Reporting. The disclosures contained in these interim consolidated financial statements do not include all requirements of IFRS for annual consolidated financial statements and should be read in conjunction with the August 28, 2016 annual consolidated financial statements and notes thereto. The accounting policies as applied in these interim consolidated financial statements are consistent with those followed in the August 28, 2016 audited annual consolidated financial statements.

Seasonality

SIR Corp.

Notes to Interim Consolidated Financial Statements (Unaudited)

November 20, 2016

(in Canadian dollars)

The financial performance of the Company for the interim period is not necessarily indicative of the results that may be expected for the full year due to the seasonality of the Company's business. The full service restaurant sector of the Canadian foodservice industry in which the Company operates experiences seasonal fluctuations in revenues. Favourable summer weather generally results in increased revenues during the Company's fourth quarter (ending the last Sunday in August) when patios can be open. Additionally, certain holidays and observances also affect dining patterns both favourably and unfavourably.

3 Bank indebtedness and long-term debt

The Company has a credit agreement (Credit Agreement) with a Schedule 1 Canadian chartered bank (the Lender). The Credit Agreement provides for a three-year facility for a maximum principal amount of \$30,000,000 consisting of a \$20,000,000 revolving term credit facility (Credit Facility 1), and a \$10,000,000 revolving term loan (Credit Facility 2). The Company and the Lender also has a purchase card agreement providing credit of up to an additional \$5,000,000.

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

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

The undrawn balance of Credit Facility 1 as at November 20, 2016 is \$10,282,000.

The Credit Agreement is secured by substantially all of the assets of the Company and most of its subsidiaries, which are also guarantors. The Partnership and the Fund have not guaranteed the Credit Agreement. The Credit Agreement contains certain financial and non-financial covenants that the Company is in compliance with as at November 20, 2016.

The Company has recorded its long-term debt at amortized cost. The Company has netted the financing fees against the respective debt and amortizes these costs over the expected life of the long-term debt using the effective interest rate method. Unamortized financing fees netted against the debt as at November 20, 2016 were \$380,000 (August 28, 2016 - \$401,000).

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Notes to Interim Consolidated Financial Statements (Unaudited)

November 20, 2016

(in Canadian dollars)

4 SIR Royalty Income Fund

The following is a summary of the transactions with the Fund and the Partnership:

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

The \$40,000,000 SIR Loan is payable to the Fund and bears interest at 7.5% per annum and is due October 12, 2044. In conjunction with the Credit Agreement, on July 6, 2015, the Company, the Fund and the Partnership entered into an Intercreditor Agreement to subordinate and postpone their claims against the Company in favour of the Lender. The Fund and the Partnership have not guaranteed the Credit Agreement (note 3).

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 License and Royalty Agreement between the Partnership and the Company, whereby the Partnership licenses to the Company the right to use the trademarks and related intellectual property in return for royalty payments based on revenues, has been effected pursuant to the terms of the Intercreditor Agreement.

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

Interest expense charged to the consolidated statements of operations and comprehensive income (loss) for the 12-week period ended November 20, 2016 was \$692,000 (12-week period ended November 22, 2015 - \$700,000), which includes interest on the SIR Loan of \$683,000 (12-week period ended November 22, 2015 - \$691,000) and amortization of financing fees of \$9,000 (12-week period ended November 22, 2015 - \$9,000). Interest payable on the SIR Loan as at November 20, 2016 was \$417,000 (August 28, 2016 - \$484,000).

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November 20, 2016

(in Canadian dollars)

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 the SIR Royalty Limited Partnership

	12-week period ended November 20, 2016 \$	12-week period ended November 22, 2015 \$
	(in thousands of dollars)	
Balance – Beginning of period	123,821	96,196
Change in amortized cost of Ordinary LP units and Class A LP Units of the Partnership	652	3,131
Distributions paid to Ordinary LP and Class A LP unit holders	<u>(2,402)</u>	<u>(1,472)</u>
Balance – End of period	122,071	97,855
Less: Current portion of Ordinary LP Units and Class A LP Units of the Partnership	<u>(9,991)</u>	<u>(8,827)</u>
Ordinary LP Units and Class A LP Units of the Partnership	<u>112,080</u>	<u>89,028</u>

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

Pooled Revenue*	<u>61,724</u>	<u>61,045</u>
Partnership royalty income*	3,741	3,663
Other income	6	6
Partnership expenses	<u>(18)</u>	<u>(15)</u>
Net earnings of the Partnership	3,729	3,654
The Company's interest in the earnings of the Partnership	<u>(1,410)</u>	<u>(1,569)</u>
Fund's interest in the earnings of the Partnership	<u>2,319</u>	<u>2,085</u>

* Includes revenue from the SIR Restaurants subject to the License and Royalty Agreement. 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. Partnership royalty income is 6% of Pooled Revenue in accordance with the License and Royalty Agreement, plus a Make-Whole Payment for the closed restaurants, if any.

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(in Canadian dollars)

On October 12, 2004, the Partnership issued Ordinary LP and GP Units to the Fund for cash consideration of \$11,167,000. The Fund has also acquired Class A LP Units upon SIR's conversion of its Class A GP Units into Fund units. 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 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 Class A LP Units of the Partnership recorded in the consolidated statements of operations and comprehensive loss.

During the 12-week period ended November 20, 2016, distributions of \$2,319,000 (12-week period ended November 22, 2015 - \$2,085,000) were declared to the Fund through the Partnership. Distributions paid during the 12-week period ended November 20, 2016 were \$2,402,000 (12-week period ended November 22, 2015 - \$1,472,000). The Fund, indirectly through the Trust, is entitled to receive a pro rata share of all residual distributions. Distributions previously declared, but unpaid as at November 20, 2016 are \$4,251,000 (August 28, 2016 - \$4,334,000).

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

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

Under the terms of the License 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 License 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 to Class A GP Units based on the formula defined in the Partnership Agreement. Additional Class B GP Units may be converted to 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 may 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 unit holders based on actual revenues of the new SIR Restaurants exceeding 80% of the initial estimated revenue or there may be a reduction in the distributions to the Class A GP unit holders if revenues are less than 80% of the initial estimated revenue.

On January 1, 2016, two (January 1, 2015 - two) new SIR Restaurants were added to Royalty Pooled Restaurants in accordance with the Partnership Agreement. As consideration for the additional Royalty

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November 20, 2016

(in Canadian dollars)

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

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

As at November 20, 2016, the Company's residual interest in the Partnership is 19.8% (August 28, 2016 - 19.8%). The Company continues to maintain control of the Partnership and, therefore, continues to consolidate the Partnership.

c) Advances receivable from SIR Royalty Income Fund

Advances receivable from SIR Royalty Income Fund as at November 20, 2016 were \$3,025,000 (August 28, 2016 - \$3,213,000). 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 12-week period ended November 20, 2016, the Partnership provided these services to the Fund and the Trust for consideration of \$6,000 (12-week period ended November 22, 2015 - \$6,000), which was the amount of consideration agreed to by the related parties.

5 Capital stock

During the 12-week period ended November 20, 2016, 146,000 stock options were exercised (12-week period ended November 22, 2015 - 28,000) and 146,000 common shares were issued (12-week period ended November 22, 2015 - 28,000) for consideration of \$128,000 (12-week period ended November 22, 2015 - \$28,000), and 12,000 stock options expired.

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November 20, 2016

(in Canadian dollars)

6 Commitments

The Company has two commitments to lease properties, on which it plans to build two new restaurants. The Company has entered into purchasing commitments for \$145,000 for one of these restaurants, of which \$85,000 is included in property and equipment as at November 20, 2016. As at the current date, the Company has not entered into any other construction contracts for either restaurant, but expects to do so in the future. 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.

7 Supplemental cash flow information

The net change in working capital items is as follows:

	12-week period ended November 20, 2016 \$	12-week period ended November 22, 2015 \$
Trade and other receivables	145	(1,195)
Inventories	(198)	81
Prepaid expenses, deposits and other assets	(542)	(639)
Trade and other payables	(2,071)	(2,708)
Provisions and other long-term liabilities	627	340
	<u>(2,039)</u>	<u>(4,121)</u>