SIR Corp.

Interim Consolidated Financial Statements
(Unaudited)
For the 12-week and 24-week periods ended February 10, 2013

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SIR Corp.

Interim Consolidated Statements of Financial Position
(Unaudited)

(in thousands of Canadian dollars)

	February 10 2013 $	August 26, 2012 $
Assets		
Current assets		
Cash and cash equivalents	5,067	10,495
Restricted cash (note 3)	2,056	-
Trade and other receivables (note 4(c))	5,146	6,799
Inventories	2,851	2,622
Prepaid expenses, deposits and other assets	1,518	764
Current portion of loans and advances	150	150
	16,788	20,830
Non-current assets		
Loans and advances	1,112	1,076
Property and equipment	52,886	46,131
Goodwill and intangible assets	5,634	5,522
	76,420	73,559
Liabilities		
Current liabilities		
Trade and other payables (note 4(a))	25,492	24,381
Current portion of long-term debt (note 3)	3,797	3,864
Current portion of provisions and other long-term liabilities	4,501	3,663
Current portion of Ordinary LP Units and Class A LP Units of the Partnership (note 4(b))	5,449	4,696
	39,239	36,604
Non-current liabilities		
Long-term debt (note 3)	26,520	27,713
Loan payable to SIR Royalty Income Fund (note 4(a))	35,640	35,627
Provisions and other long-term liabilities	8,538	8,971
Deferred income taxes	61	84
Ordinary LP Units and Class A LP Units of the Partnership (note 4(b))	60,220	53,632
	170,218	162,631
Shareholders' Deficiency		
Capital stock	11,560	11,560
Contributed surplus	155	107
Deficit	(105,513)	(100,739)
	(93,978)	(89,072)
	76,420	73,559

Commitments (note 5)

Subsequent event (note 7)

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		24-week period end	
	February 10, 2013 $	February 12, 2012 $	February 10, 2013 $	February 12, 2012 $
Corporate restaurant operations				
Food and beverage revenue	52,210	50,084	102,590	99,297
Costs of corporate restaurant operations	47,837	45,257	95,402	90,571
Earnings from corporate restaurant operations	4,373	4,827	7,188	8,726
Corporate costs	2,496	2,703	5,172	5,427
Earnings before interest and income taxes	1,877	2,124	2,016	3,299
Interest expense	636	541	1,212	1,040
Interest on loan payable to SIR Royalty Income Fund (note 4(a))	698	697	1,395	1,393
Interest and other expense (income) - net	(53)	-	191	(4)
Change in amortized cost of Ordinary LP Units and Class A LP Units of the Partnership (note 4(b))	3,169	7,651	3,755	15,357
Loss before income taxes	(2,573)	(6,765)	(4,537)	(14,487)
Provision for (recovery of) income taxes	249	(2)	237	(4)
Net loss and comprehensive loss for the period	(2,822)	(6,763)	(4,774)	(14,483)

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)

	24-week period ended February 10, 2013			
	Capital stock $	Contributed surplus $	SIR Corp.'s deficit $	Total $
Balance - Beginning of period	11,560	107	(100,739)	(89,072)
Stock-based compensation	-	48	-	48
Net loss for the period	-	-	(4,774)	(4,774)
Balance - End of period	11,560	155	(105,513)	(93,798)

	24-week period ended February 12, 2012			
	Capital stock $	Contributed surplus $	SIR Corp.'s deficit $	Total $
Balance - Beginning of period	11,571	-	(65,959)	(54,388)
Repurchase of capital stock	(11)	(14)	-	(25)
Stock-based compensation	-	84	-	84
Net loss for the period	-	-	(14,483)	(14,483)
Balance - End of period	11,560	70	(80,442)	(68,812)

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		24-week period ended	
	February 10, 2013 $	February 12, 2012 $	February 10, 2013 $	February 12, 2012 $
Cash provided by (used in)				
Operating activities				
Net loss for the period	(2,822)	(6,763)	(4,774)	(14,483)
Items not affecting cash				
Change in amortized cost of Ordinary LP Units and Class A LP Units of the Partnership (note 4(b))	3,169	7,651	3,755	15,357
Depreciation and amortization	2,172	1,961	4,227	3,848
Deferred income taxes	(10)	(2)	(23)	(7)
Current income taxes	259	-	260	3
Interest expense	1,334	1,238	2,607	2,433
Non-cash interest income	(53)	(53)	(109)	(110)
Amortization of leasehold inducements	(118)	(114)	(236)	(229)
Stock-based compensation	37	10	48	84
Loss on disposal of property and equipment	35	25	136	101
Other	30	9	199	11
Leasehold and other inducements received	56	25	177	25
Distributions paid to Ordinary LP and Class A LP unitholders (note 4(b))	(2,126)	(1,598)	(3,225)	(2,697)
Income taxes paid	-	-	-	(3)
Net change in working capital items (note 6)	1,315	1,178	267	204
Cash provided by continuing operations	3,278	3,567	3,309	4,537
Cash provided by discontinued operation	-	-	-	58
	3,278	3,567	3,309	4,595
Investing activities				
Purchase of property and equipment and other assets - net	(4,239)	(3,046)	(9,344)	(5,031)
Net cash proceeds received from restricted funds (note 3)	2,998	-	4,598	-
Repayment of loans and advances	39	89	50	209
Cash used in continuing investing activities	(1,202)	(2,957)	(4,696)	(4,822)
Financing activities				
Proceeds from issuance of long-term debt	-	609	-	4,190
Principal repayment of long-term debt	(608)	(356)	(1,446)	(794)
Repurchase of capital stock	-	(25)	-	(25)
Interest paid	(1,285)	(1,064)	(2,441)	(2,347)
Financing fees	(118)	(213)	(154)	(464)
Cash provided by (used in) continuing financing activities	(2,011)	(1,049)	(4,041)	560
Increase (decrease) in cash and cash equivalents during the period	65	(439)	(5,428)	333
Cash and cash equivalents - Beginning of period	5,002	6,005	10,495	5,233
Cash and cash equivalents - End of period	5,067	5,566	5,067	5,566

The accompanying notes are an integral part of these interim 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 February 10, 2013, the Company operated a total of 51 (February 12, 2012 - 47) 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® and the Signature restaurants are Reds® Wine Tavern, Far Niente®/FOUR®/Petit Four®, the Loose Moose Tap & Grill®, Duke's Refresher™ and Abbey's Bakehouse™. The latter two Signature restaurants are not currently part of the Royalty Pooled Restaurants (note 4(b)).

On October 1, 2004, SIR Royalty Income Fund (the Fund) filed a final prospectus for a public offering of units of the Fund. The net proceeds of the offering of $51,167,000 were used by the Fund to acquire certain bank debt of the Company (the SIR Loan) (note 4) 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 March 25, 2013.

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 2013 and 2012 consist of 52 weeks each.

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 26, 2012 annual consolidated financial statements and notes thereto. 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.

Seasonality

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 Long-term debt

The Company's existing credit facility (the Amended Credit Agreement) consists of a term loan (the Term Loan) and a development loan (the Development Loan). Both the Term Loan and the Development Loan are due on November 14, 2016 and 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, which on February 10, 2013 totalled 6.94%. The Company can also elect to fix the interest rate. The amortization period for the Term Loan and the Development Loan are 10 years and 7 years, respectively.

The Amended 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 License and Royalty Agreement. However, the lender does not have a pledge over the assets of the Partnership. The Amended Credit Agreement contains certain financial and non-financial covenants that the Company is in compliance with as at February 10, 2013. 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 $49,000 and $49,000 for the 12-week and 24-week periods ended February 10, 2013, respectively (12-week and 24-week periods ended February 12, 2012 - $53,000 and $106,000, respectively) were charged to interest and other expense (income) - net in the consolidated statements of operations and comprehensive loss. 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 only exercisable in the event of default.

Under the Fourth Amendment to the Amended Credit Agreement, the lender released the security it held on 1,500,000 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 fund the costs associated with constructing new restaurants and renovating existing restaurants. During the 12-week period ended November 18, 2012, the Company converted 523,900 Class A GP Units to Fund units and sold 523,900 Fund units for net proceeds of $6,560,000 (net of transaction costs of $251,000, including commissions of $157,000). The proceeds net of commissions only from the sale of the Fund units of $6,654,000 were deposited in a restricted account by the lender and, accordingly, have been classified as restricted cash in the consolidated statements of financial position (note 4(b)). This disposition of the Fund units has been accounted for as a non-cash transaction in the consolidated statements of cash flows. Subsequent to the disposal of the Fund units, $4,598,000 of the funds held in the restricted account has been released to the Company and, accordingly, as at February 10, 2013, the balance in the restricted account is $2,056,000. The funds are released upon the Company's presenting eligible capital expenditures.

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 February 10, 2013 were $773,000 (August 26, 2012 - $959,000).

4 SIR Royalty Income Fund

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

a) SIR Loan

The $40,000,000 SIR Loan bears interest at 7.5% per annum and is due October 12, 2044. On November 13, 2009, the Fund and the Partnership entered into a Subordination and Postponement Agreement to subordinate and postpone their claims against the Company in favour of the lender. This agreement was amended on August 26, 2011 to incorporate the Development Loan under the Company's Amended Credit Agreement. The Fund and the Partnership have not guaranteed the current credit facility (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 Subordination and Postponement Agreement.

Under the Subordination and Postponement Agreement, absent a default or event of default under the Amended 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, 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 Subordination and Postponement Agreement also contains various other typical covenants of the Fund and the Partnership. 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 12-week and 24-week periods ended February 10, 2013 was $698,000 and $1,395,000, respectively (12-week and 24-week periods ended February 12, 2012 - $697,000 and $1,393,000, respectively), which includes interest on the SIR Loan of $691,000 and $1,381,000, respectively, (12-week and 24-week periods ended

February 12, 2012 - $691,000 and $1,381,000, respectively) and amortization of financing fees of $7,000 and $14,000, respectively (12-week and 24-week periods ended February 12, 2012 - $6,000 and $12,000, respectively). Interest payable on the SIR Loan as at February 10, 2013 was $353,000 (August 26, 2012 - $473,000).

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 the SIR Royalty Limited Partnership

	12-week period ended		24-week period ended	
	February 10, 2013 $	February 12, 2012 $	February 10, 2013 $	February 12, 2012 $
	(in thousands of dollars)			
Balance - Beginning of period	64,626	32,186	58,328	25,579
Conversion of Class A GP Units	-	-	6,811	-
Change in amortized cost of the Ordinary LP Units and Class A LP Units of the Partnership	3,169	7,651	3,755	15,357
Distributions paid to Ordinary LP and Class A LP unitholders	(2,126)	(1,598)	(3,225)	(2,697)
Balance - End of period	65,669	38,239	65,669	38,239
Less: Current portion of Ordinary LP Units and Class A LP Units of the Partnership	(5,449)	(4,259)	(5,449)	(4,259)
Ordinary LP Units and Class A LP Units of the Partnership	60,220	33,980	60,220	33,980
Pooled Revenue*	50,091	48,567	97,847	96,455
Partnership royalty income*	3,046	2,926	5,996	5,799
Other income	9	10	17	18
Partnership expenses	(19)	(10)	(37)	(28)
Net earnings of the Partnership	3,036	2,926	5,976	5,789
The Company's interest in the earnings of the Partnership	(1,692)	(1,782)	(3,478)	(3,495)
Fund's interest in the earnings of the Partnership	1,344	1,144	2,498	2,294

* 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.

On October 12, 2004, the Partnership issued Ordinary LP and GP Units to the Fund for cash consideration of $11,167,000. The holders of the Ordinary 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 of the Partnership have been classified as a financial liability in the consolidated statements of financial position. The Ordinary LP Units are accounted for at amortized cost, with changes in the carrying value of Ordinary LP Units of the Partnership recorded in the consolidated statements of operations and comprehensive loss.

During the 12-week and 24-week periods ended February 10, 2012, distributions of $1,344,000 and $2,498,000, respectively (12-week period and 24-week periods ended February 12, 2012 - $1,144,000 and $2,294,000, respectively) were declared to the Fund through the Partnership. Distributions paid during the 12-week and 24-week periods ended February 10, 2012 were $2,126,000 and $3,225,000, respectively (12-week and 24-week periods ended February 12, 2012 - $1,598,000 and $2,697,000, respectively). The Fund, indirectly through the Trust, is entitled to receive a pro rata share of all residual distributions. Distributions payable to SIR Royalty Income Fund as at February 10, 2013 was $3,083,000 (August 26, 2012 - $3,810,000).

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

During the 12-week period ended November 18, 2012, the Company converted 523,900 Class A GP Units into Fund units and sold these Fund units. Net proceeds received from the sale of the Fund units were $6,560,000 (net of transaction costs of $251,000), of which $2,056,000 is held in an account that is restricted by the lender as at February 10, 2013 (note 3). As a result of the conversion of the Class A GP Units into Fund units, the Company's interest in the Partnership decreased from 38.2% to 32.2%. The Company continues to maintain control of the Partnership and, therefore, continues to consolidate the Partnership. The disposal of interest in the Partnership increases the Company's obligations in respect of the Class A LP Units of the Partnership. Accordingly, the gross proceeds received of $6,811,000 have been added to the carrying value of the Class A LP Units. The Class A LP Units have been accounted for at amortized cost, with changes in the carrying value being recorded in the consolidated statements of operations. As the Fund's interest in the Partnership has increased, this transaction is not dilutive to Fund unitholders. The Fund has converted the Class A GP Units received into Class A LP Units. The holders of the Class A LP Units are entitled to receive a pro rata share of all residual distributions of the Partnership.

The 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 unitholders 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 unitholders if revenues are less than 80% of the initial estimated revenue.

On January 1, 2013, four (January 1, 2012 - one) 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, 2013 (January 1, 2012 - one), as well as the Second Incremental Adjustment for one new SIR Restaurant added to the Royalty Pooled Restaurants on January 1, 2012 (January 1, 2011 - 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 two (January 1, 2012 - nil) SIR Restaurants during the prior year. The net effect of these adjustments to the Royalty Pooled Restaurants was that the Company converted 296,000 (January 1, 2012 - 204,000) Class B GP Units into 296,000 (January 1, 2012 - 204,000) Class A GP Units on January 1, 2013 at an estimated fair value of $4,326,000 (January 1, 2012 - $1,906,000). As a result of this exchange, the Company's interest in the Partnership increased to 34.4%, effective January 1, 2013, from 32.2%.

In addition, the revenues of one (January 1, 2011 - one) new SIR Restaurant added to the Royalty pool on January 1, 2012 exceeded 80% of the Initial Adjustment's estimated revenue and, as a result, an additional distribution of $23,000 was declared in December 2012 (December 2011 - $34,000) and paid the following January.

c) Advances receivable from SIR Royalty Income Fund

Advances receivable from SIR Royalty Income Fund as at February 10, 2013 were $2,126,000 (August 26, 2012 - $2,844,000). 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 and 24-week periods ended February 10, 2013, the Partnership provided these services to the Fund and the Trust for consideration of $5,000 and $11,000, respectively (12-week and 24-week periods ended February 12, 2012 - $5,000 and $11,000, respectively), which was the amount of consideration agreed to by the related parties.

5 Commitments

The Company has four commitments to lease properties, on which it plans to build six new restaurants. The Company has begun the early stages of construction of five of these restaurants to be built and has further purchase commitments for the construction of these restaurants of $3,600,000. As at the current date, the Company has not entered into any construction contracts for the other restaurant to be built 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.

6 Supplemental cash flow information

The net change in working capital items is as follows:

	12-week period ended		24-week period ended	
	February 10, 2013 $	February 12, 2012 $	February 10, 2013 $	February 12, 2012 $
	(in thousands of dollars)			
Trade and other receivables	1,428	1,141	1,561	590
Inventories	(179)	(65)	(229)	(80)
Prepaid expenses, deposits and other assets	(245)	(169)	(754)	(737)
Trade and other payables	276	63	(806)	(458)
Provisions and other long-term liabilities	35	208	495	889
	1,315	1,178	267	204

7 Subsequent event

Subsequent to February 10, 2013, the Fund filed a short form prospectus to qualify the distribution by the Company of 895,000 units of the Fund. Subsequent to February 10, 2013, the Company converted 895,000 Class A GP Units into Fund units and subsequently sold the Fund units, generating net proceeds of approximately $9,958,000 (net of transaction costs of approximately $1,050,000). As a result of the conversion of the Class A GP Units into Fund units, the Company's interest in the Partnership changed from 34.4% to 24.4%. Accordingly, this transaction does not have a dilutive effect on the Fund unitholders. The Class A GP Units received by the Fund in exchange for the Fund units issued were converted to Class A LP Units. The Class A LP Units will be accounted for as a financial liability consistent with the Ordinary LP Units.

Under the Fourth Amendment to the Amended Credit Agreement, the lender released the security it held on 1,500,000 of the Class A GP Units (and any Fund units received upon conversion of Class A GP Units) and required that all sale proceeds be used to fund the costs associated with constructing new restaurants and renovating existing restaurants.