SIR CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE 52-WEEK PERIOD ENDED AUGUST 30, 2009

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SIR CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE 16 AND 52-WEEK PERIOD ENDED AUGUST 30, 2009

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FOR THE 16 AND 52-WEEK PERIODS ENDED AUGUST 30, 2009

Executive Summary

SIR Corp.'s ("SIR's") fourth quarter of fiscal 2009 ("Q4") was from May 11, 2009 to August 30, 2009 inclusive.

SIR's fiscal 2009 year consists of 52 weeks versus a 53 weeks for fiscal 2008 and its fourth quarter consists of 16 weeks for fiscal 2009 versus 17 weeks for fiscal 2008. Therefore, all revenue and expense information provided in this document for Q4 and year to date ("YTD") fiscal 2008, unless otherwise noted, includes an additional week of operations and should be considered when comparing to the current year. Included in this discussion is certain financial information for fiscal 2008 on a 52-week basis in order to assist readers in making comparisons to the current year.

Highlights for SIR's fourth quarter include:

- ***Consolidated revenue and Same Store Sales[(1)] ("SSS") (unaudited):***
    - Food and beverage revenue from corporate restaurant operations for Q4 was $61.4 million and $196.7 million year to date ("YTD"). This represents a $3.9 million or 6.0% decrease from the prior year for the quarter and a $8.3 million or 4.4% increase over the prior year for YTD.
    - SIR experienced a decline in same store sales[(1)] ("SSS") for Royalty Pooled Restaurants of 13.2% and 6.7% for the 16 and 52-week periods ended August 30 2009, respectively. If the additional week of revenue is removed from revenue in fiscal 2008, the decline in SSS[(1)] for Royalty Pooled Restaurants would be 7.6% and 4.8% for Q4 and YTD, respectively.
    - SSS[(1)] for Jack Astor's®, SIR's flagship Concept Restaurant brand that generates approximately 67% of YTD Pooled Revenue, declined 9.9% and 3.6% in the 16 and 52-week periods ending August 30, 2009, respectively. If the additional week of revenue is removed from revenue in fiscal 2008, the decline in SSS[(1)] would be 3.9% and 1.5% for Q4 and YTD, respectively.
    - The other operating segments had SSS[(1)] declines as follows: Canyon Creek® declined 18.9% and 11.5%, Alice Fazooli's® declined 17.0% and 9.2%, and the downtown Signature restaurants declined 23.8% and 15.3% for the 16 and 52-week periods ended August 30, 2009, respectively. If the additional week of revenue is removed from revenue in fiscal 2008, the declines in SSS[(1)] would be as follows: Canyon Creek 13.8% and 9.9%, Alice Fazooli's 11.9% and 7.4%, and the downtown Signature restaurants 19.9% and 14.2% for Q4 and YTD, respectively.
    - Management believes that the recent weaker economic conditions are the primary driver of the year-over-year SSS[(1)] declines. Management believes that restaurants with a higher average cheque, such as Alice Fazooli's, Canyon Creek and the downtown Toronto Signature restaurants, tend to experience a greater decline in sales volumes during economic downturns. Jack Astor's has been affected, but to a lesser extent than the other concepts and it is believed that it is due to its somewhat lower average cheque. Management does not expect significant improvements in these conditions in the near future.

Investment in existing restaurants

- In Q1, SIR closed the Alice Fazooli's near the Square One shopping mall in Mississauga, Ontario, for 10 days to complete a repositioning and renovation. The intent of these changes was to broaden Alice Fazooli's market penetration, similar to the previously completed evolutions of the Jack Astor's (2004 through 2007). Management is encouraged by the performance of this renovation and repositioning, and believes that many of its elements have applicability across some of the other Alice Fazooli's restaurants.
- Renovations in fiscal 2008 included the renovation of the Armadillo Steak House®/Loose Moose Tap & Grill®, in Q1, which now operates as the Loose Moose Tap & Grill on both floors of the premises, the renovation of the Soul of the Vine® into FOUR™/Petit Four™ in Q2 and Q3, the evolution of the last of the existing Jack Astor's restaurants originally in Royalty Pooled Restaurants in Q2 and the exterior and audio visual updates and modifications to the bar and lobby area of the Jack Astor's restaurant near the Square One shopping mall in Mississauga, Ontario, in Q4.

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(1) Same store sales includes revenue from all SIR restaurants except for those restaurants that were not open for the entire comparable periods in fiscal 2009 and fiscal 2008. The U.S. restaurant is not part of SSS. Same store sales growth ("SSSG") is the percentage increase in SSS over the prior comparable period. SSS and SSSG are non-GAAP measures that do not have standardized meanings prescribed by GAAP. However, SIR believes that SSS and SSSG are useful measures and provide investors with an indication of the change in year-over-year sales. SIR's method of calculating SSS and SSSG may differ from those of other issuers and accordingly, SSS and SSSG may not be comparable to measures used by other issuers. Please refer to the reconciliation of consolidated revenue to SSS on page 8 and to the definition of SSS in the Revenue section on page 9.

Investment in new restaurants

- Six new restaurants opened in calendar year 2008 (four restaurants opened in Q3 and Q4 of fiscal 2008 and two restaurants opened in Q1 of fiscal 2009) and were added to the Royalty Pooled Restaurants effective January 1, 2009.
- These restaurants included the new Jack Astor's that opened on April 7, 2008 and the new Canyon Creek that opened on April 8, 2008, both near the Toronto Pearson International Airport, the new Jack Astor's that opened on May 5, 2008, at the corner of Yonge and Dundas Streets in downtown Toronto, Ontario, the new Jack Astor's located in the closed Brasserie Frisco® location that opened on July 7, 2008, the new Jack Astor's near the corner of Don Mills Road and Lawrence Avenue in Toronto, Ontario that opened on October 6, 2008, and the new Jack Astor's at one of Toronto's busiest and most highly-visible locations; the corner of Yonge and Bloor Streets that opened on October 31, 2008.
- The new Jack Astor's site that opened during fiscal 2008, in Burlington, Ontario, on October 15, 2007 was added to the Royalty Pooled Restaurants, effective January 1, 2008 as a New Additional Restaurant. The former Jack Astor's restaurant in Burlington was closed on September 29, 2007 and removed from the Royalty Pooled Restaurants effective January 1, 2008. The new site has provided higher revenues and therefore an increased Royalty stream to the SIR Royalty Limited Partnership (the "Partnership"). The former Brasserie Frisco which closed on December 22, 2007, was also treated as a 2007 Closed Restaurant. SIR was required to pay a Make-Whole Payment for both these closed locations from their respective dates of closure to December 31, 2007.
- SIR has secured one new additional site for a Jack Astor's restaurant in Boisbriand, Quebec with an expected opening date in calendar year 2010 and two new additional sites, at the corner of Yonge and Gerrard Streets in Toronto, Ontario, with expected opening dates in calendar year 2011. Management continues to monitor current economic conditions and consumer confidence. Based on its assessment of these conditions, the timing of restaurant construction and opening schedules will be reviewed regularly by Management and adjusted as necessary.

- ***Net Earnings (Loss)***
  - The net earnings for Q4 of $0.7 million were $1.2 million favourable to the net loss of $0.5 million for the same period in the prior year.
  - The YTD net loss of $1.0 million is $1.4 million favourable to the same period in the prior year. Although there has been a decline in SSS[1], this has been mitigated by the implementation of cost saving initiatives. The YTD net loss would have been more favourable had there not been the $0.2 million in restructuring costs that are not expected to recur. The Q4 earnings and YTD loss also include $0.6 million in costs in other expense related to a contemplated transaction which was abandoned and $0.6 million of interest expense representing accelerated amortization of deferred financing fees as described on page 10. This is offset by an increase in the recovery of impairment of loans and advances of $0.3 million and a decrease in the impairments of goodwill and long-lived assets of $0.3 million.
- ***Adjusted EBITDA[2]***
  - Adjusted EBITDA[2] for Q4 is $7.0 million and $5.6 million in the current and prior year, respectively.
  - YTD adjusted EBITDA[2] is $18.3 million and $14.7 million in the current and prior year, respectively.

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(1) See footnote (1) on page 3

(2) References to EBITDA are to SIR's net earnings (loss) for the period before non-controlling interest in other subsidiary companies, provision for (recovery of) income taxes, other expense (income), provision for (recovery of) impairment of loans and advances, provision for long-lived assets and goodwill, interest expense-net, unrealized foreign exchange (gain) loss, interest on loan payable to SIR Royalty Income Fund, non-controlling interest in SIR Royalty Limited Partnership, other amortization and amortization of restaurant assets. References to Adjusted EBITDA are to SIR's EBITDA plus restructuring costs that is a significant unusual item and not considered a normal recurring expense. Management believes that, in addition to net earnings or loss, EBITDA and Adjusted EBITDA are a useful supplemental measure in evaluating SIR's performance. EBITDA and Adjusted EBITDA are not financial measures recognized by Canadian generally accepted accounting principles ("GAAP") and do not have a standardized meaning prescribed by GAAP. Management cautions investors that EBITDA and Adjusted EBITDA should not replace net earnings or loss or cash flows from operating, investing and financing activities (as determined in accordance with GAAP), as an indicator of SIR's performance. SIR's method of calculating EBITDA and Adjusted EBITDA may differ from the methods used by other issuers. Therefore, SIR's EBITDA and Adjusted EBITDA may not be comparable to similar measures presented by other issuers. Please refer to the reconciliation of net earnings (loss) for the period to EBITDA and Adjusted EBITDA on page 7 of this document.

- ***Outlook***
  - Given the current economic environment, SIR has determined that the most prudent course of action is to slow its growth plans. Prior to the economic slowdown, SIR had been following its sales building initiative it began after launching the SIR Royalty Income Fund (the "Fund") in fiscal 2005. Since then, SIR has opened ten new Jack Astor's restaurants and four new Canyon Creek restaurants. All the original Jack Astor's restaurants still in existence in Royalty Pooled Restaurants have undergone the sales building evolution program. The Jack Astor's location in the U.S. has also been evolved. In addition, all five Alice Fazooli's locations have been renovated, along with one Canyon Creek location, *reds*, Far Niente®, Soul of the Vine (conversion to FOUR/Petit Four) and the Armadillo Steak House/Loose Moose Tap & Grill (now the Loose Moose Tap & Grill). In Q1, SIR opened a Jack Astor's location near the corner of Don Mills Road and Lawrence Avenue in Toronto, Ontario and a Jack Astor's location at Yonge and Bloor Streets in Toronto, Ontario. In addition, three new sites for restaurants have been secured; one with an expected opening in calendar year 2010 and two with expected openings in calendar year 2011. Additional sites will be considered, however SIR intends to slow its growth from the previously stated goal of 68 restaurants by December, 2010. Management is committed to maximizing the performance of all of its restaurants. All of this work is being done to set in place a foundation to support stable and growing sales and earnings for SIR over the longer term.
  - Management continues to monitor the economy and evaluate its potential impact on the Canadian business environment, particularly in relation to consumer confidence and availability of credit. SIR expects that the current economic downturn may significantly negatively affect its sales and profit prospects in the near future. In anticipation of a continuing economic downturn, SIR has implemented some cost saving initiatives and made changes to certain marketing tactics. SIR continues to review its opportunities with regard to these and is also undertaking cash preservation strategies which include the previously announced slowing of growth plans.
  - On November 13, 2009, SIR entered into a new $26.0 million credit facility with a new senior lender to refinance and replace its current revolving line of credit and construction facility and to facilitate the repurchase of certain of its common shares for $17.0 million. (See Liquidity and Capital Resources).

Overview

SIR is a private company amalgamated under the Business Corporations Act of Ontario. As at August 30, 2009, SIR operates 45 Concept and Signature Restaurants in Canada (in Ontario, Quebec, Alberta and Nova Scotia). The Concept Restaurants are Jack Astor's, Canyon Creek and Alice Fazooli's. The Signature Restaurants are *reds*, Far Niente/FOUR/Petit Four, and the Loose Moose Tap & Grill. As at August 30, 2009, 45 SIR Restaurants were included in the SIR Royalty Pooled Restaurants.

On April 13, 2009, SIR acquired the non-controlling interest in Jack Astor's Don Mills Limited. Therefore, as at August 30, 2009, SIR owned 100% of all its Canadian restaurants. SIR also has an investment in one Jack Astor's restaurant in the USA which is not included in the Royalty Pooled Restaurants.

The five new Jack Astor's and one new Canyon Creek that opened during calendar year 2008 were added to the Royalty Pooled Restaurants on January 1, 2009. Three new Jack Astor's restaurants which opened during calendar year 2007 were added to the Royalty Pooled Restaurants on January 1, 2008.

During calendar year 2007, SIR closed the former Jack Astor's in Burlington, Ontario and the Brasserie Frisco. These restaurants ceased to be part of the Royalty Pooled Restaurants on January 1, 2008.

On October 1, 2004, the SIR Royalty Income Fund (the "Fund") filed a final prospectus for a public Offering of Units of the Fund and the Offering closed on October 12, 2004. The net proceeds of the Offering of $51.2 million were used by the Fund to acquire the SIR Loan and indirectly, through the SIR Holdings Trust (the "Trust"), the SIR Rights owned or licensed by SIR or its subsidiaries and used in connection with the operation of SIR's restaurants in Canada. In 2004, the Partnership granted SIR a 99-year license to use the SIR Rights in most of Canada in consideration for a Royalty, payable by SIR to the Partnership, equal to 6% of the revenue of the Royalty Pooled Restaurants. The Partnership also issued its own securities to SIR in return for the SIR Rights acquired.

SIR's fiscal year is comprised of 52 or 53-week periods ending on the last Sunday in August. Fiscal quarters of SIR consist of accounting periods of 12, 12, 12 and 16 (or 17) weeks, respectively. The fiscal years for 2009 and 2008 consist of 52 weeks and 53 weeks, respectively.

Seasonality

The full service restaurant sector of the Canadian foodservice industry, in which SIR operates, experiences seasonal fluctuations in revenues. Favourable summer weather generally results in increased revenues during SIR's fourth quarter (ending on the last Sunday in August) when patios can be open. Certain holidays and observances also affect dining patterns both favourably and unfavourably.

Selected Consolidated Historical Financial Information

The following tables set out selected financial information of SIR for the 16 and 52-week periods ended August 30, 2009 and the 17 and 53-week periods ended August 31, 2008, respectively. The audited consolidated financial statements of SIR are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are presented in Canadian dollars. This information should be read in conjunction with the annual audited consolidated financial statements of SIR, including the notes thereto.

Statements of Operations	16-Week Period Ended August 30, 2009	17-Week Period Ended August 31, 2008	52-Week Period Ended August 30, 2009	53-Week Period Ended August 31, 2008
	(in thousands of dollars) (unaudited)			
Corporate restaurant operations:				
Food and beverage revenue	61,400	65,298	196,705	188,365
Cost of corporate restaurant operations	55,515	59,009	179,103	170,689
Earnings from corporate restaurant operations	**5,885**	**6,289**	**17,602**	**17,676**
Net earnings (loss) for the period	**739**	**(476)**	**(1,044)**	**(2,441)**

Balance Sheet	August 30, 2009	August 31, 2008
	(in thousands of dollars) (unaudited)	
Total assets	73,696	71,953
Total long-term liabilities	67,413	65,594

EBITDA[(2)] and Adjusted EBITDA[(2)]

EDITDA[(2)] and Adjusted EBITDA[(2)] are non-GAAP measures used by SIR to supplement its reporting of net earnings (loss) and net cash flow. EBITDA[(2)] and Adjusted EBITDA[(2)] consist of net earnings (loss) for the period excluding certain non-cash expenses and other expenses that SIR considers not to be of an operating nature. SIR believes that EBITDA[(2)] and Adjusted EBITDA[(2)] are useful estimates of the core business's contribution to cash flow from operations and uses this measure as a supplemental measure of SIR's performance. Similarly, SIR believes that certain investors may also find this non-GAAP measure to be a useful measure for their independent evaluation of SIR's performance.

The following table reconciles net earnings (loss) for the period to EBITDA[(2)] and Adjusted EBITDA[(2)]:

[(2)] *See footnote [(2)] on page 4*

Reconciliation of net earnings (loss) for the period to EBITDA[2] and Adjusted EBITDA[2]	16-Week Period Ended August 30, 2009	17-Week Period Ended August 31, 2008	52-Week Period Ended August 30, 2009	53-Week Period Ended August 31, 2008
	(in thousands of dollars) (unaudited)			
Net earnings (loss) for the period	739	(476)	(1,044)	(2,441)
Add (deduct):				
Non-controlling interest in other subsidiary companies	-	(9)	(32)	(27)
Provision for (recovery of) income taxes	(24)	10	(35)	15
Other expense (income)	579	(10)	635	(141)
Recovery of impairment of and loans and advances	(700)	(350)	(700)	(350)
Goodwill impairment	237	111	237	277
Provision for impairment of long lived assets	-	225	-	225
Unrealized foreign exchange (gain) loss	(157)	87	79	16
Interest expense – net	903	195	1,365	377
Interest on loan payable to SIR Royalty Income Fund	921	978	2,992	3,049
Non-controlling interest in SIR Royalty Limited Partnership	1,513	1,730	4,679	5,078
Other amortization	86	101	294	297
Amortization of restaurant assets	2,867	3,003	9,595	8,343
EBITDA[2]	**6,964**	**5,595**	**18,065**	**14,718**
Restructuring costs	-	-	228	-
Adjusted EBITDA[2]	**6,964**	**5,595**	**18,293**	**14,718**
Income from Class A & B GP Units of the Partnership [3] (Not included in EBITDA[2] and Adjusted EBITDA[2] above)	1,170	781	3,369	2,373
6% Royalty obligations under License and Royalty Agreement [4]	3,631	3,495	11,125	10,539

Results of Operations

Reconciliation of Revenue from Consolidated Financial Statements to Pooled Revenue	16-Week Period Ended August 30, 2009	17-Week Period Ended August 31, 2008	52-Week Period Ended August 30, 2009	53-Week Period Ended August 31, 2008
	(in thousands of dollars) (unaudited)			
Revenue reported in consolidated financial statements	61,400	65,298	196,705	188,365
Less: Revenue from corporate restaurant operations excluded from Royalty Pooled Restaurants[4]	(884)	(7,036)	(11,283)	(13,218)
Revenue for Royalty Pooled Restaurants	**60,516**	**58,262**	**185,422**	**175,147**

[2] *See footnote [2] on page 4*

[3] *The 52 and 53-week periods ended August 30, 2009 and August 31, 2008 include the additional distribution declared to Class B GP Unitholders in December of each year, if any.*

[4] *See the SIR Royalty Income Fund section of this document for the Royalty calculation. Pooled Revenue includes revenue from all restaurants included in Royalty Pooled Restaurants. On January 1st of each year, New Additional Restaurants are added and New Closed Restaurants are removed from Royalty Pooled Restaurants. Royalty obligations equal 6% of Pooled Revenue plus any Make-Whole Payments. The Royalty obligations for the 53-week period ended August 31, 2008 includes a Make-Whole Payment for the closed Jack Astor's location in Burlington and the closed Brasserie Frisco location, from their date of closure to December 31, 2007.*

Reconciliation of Revenue from Consolidated Financial Statements to Same Store Sales[1]	16-Week Period Ended August 30, 2009	17-Week Period Ended August 31, 2008	52-Week Period Ended August 30, 2009	53-Week Period Ended August 31, 2008
	(in thousands of dollars) (unaudited)			
Revenue reported in consolidated financial statements	61,400	65,298	196,705	188,365
Less: Revenue from corporate restaurant operations excluded from same store sales[1]	(11,961)	(8,341)	(34,225)	(14,200)
Same store sales[1]	**49,439**	**56,957**	**162,480**	**174,165**

Same Store Sales[1] by Segment	16-Week Period Ended August 30, 2009	17-Week Period Ended August 31, 2008	% Fav. / (Unfav.)*	52-Week Period Ended August 30, 2009	53-Week Period Ended August 31, 2008	% Fav. / (Unfav.)*
			(in thousands of dollars) (unaudited)			
Jack Astor's	33,353	37,008	(9.9%)	104,077	107,981	(3.6%)
Canyon Creek	6,821	8,413	(18.9%)	24,782	28,005	(11.5%)
Alice Fazooli's	5,785	6,971	(17.0%)	18,881	20,784	(9.2%)
Signature Restaurants	3,480	4,565	(23.8%)	14,740	17,395	(15.3%)
Same store sales[1]	**49,439**	**56,957**	**(13.2%)**	**162,480**	**174,165**	**(6.7%)**

*This percentage is not adjusted to remove the impact of the additional week of revenue in fiscal 2008. Please refer to pages 3 and 10 of this document for the estimated impact of that adjustment.

Summary of Quarterly Results

Statement of Operations	4th Quarter Ended August 30, 2009 (16 weeks)	3rd Quarter Ended May 10, 2009 (12 weeks)	2nd Quarter Ended February 15, 2009 (12 weeks)	1st Quarter Ended November 23, 2008 (12 weeks)	4th Quarter Ended August 31, 2008 (17 weeks)	3rd Quarter Ended May 4, 2008 (12 weeks)	2nd Quarter Ended February 10, 2008 (12 weeks)	1st Quarter Ended November 18, 2007 (12 weeks)
Corporate Restaurant Operations				(in thousands of dollars) (unaudited)				
Food and beverage revenue	61,400	44,995	45,231	45,079	65,298	41,910	41,191	39,966
Cost of corporate restaurant operations	55,515	40,743	40,937	41,908	59,009	37,706	37,371	36,603
Earnings from corporate restaurant operations	5,885	4,252	4,294	3,171	6,289	4,204	3,820	3,363
Net earnings (loss) for the period	739	143	(39)	(1,887)	(476)	(288)	(590)	(1,087)

[1] *See footnote [1] on page 3*

Selected Unaudited Consolidated Statement of Cash Flows Information	4th Quarter Ended August 30, 2009 (16 weeks)	3rd Quarter Ended May 10, 2009 (12 weeks)	2nd Quarter Ended February 15, 2009 (12 weeks)	1st Quarter Ended November 23, 2008 (12 weeks)	4th Quarter Ended August 31, 2008 (17 weeks)	3rd Quarter Ended May 4, 2008 (12 weeks)	2nd Quarter Ended February 10, 2008 (12 weeks)	1st Quarter Ended November 18, 2007 (12 weeks)
	(in thousands of dollars) (unaudited)							
Net cash provided by operations	3,897	3,398	2,496	2,816	4,355	1,841	1,876	594
Net cash used in investing activities	(398)	(1,012)	(2,004)	(4,665)	(10,897)	(3,391)	(2,746)	(2,722)
Net cash provided by (used in) financing activities	(241)	(177)	(13)	2,601	5,005	1,890	285	2,016
Increase (decrease) in cash and cash equivalents during the period	3,256	2,201	479	764	(1,536)	340	(583)	(115)
Cash and cash equivalents – Beginning of period	4,927	2,726	2,247	1,483	3,019	2,679	3,262	3,377
Cash and cash equivalents – End of period	8,183	4,927	2,726	2,247	1,483	3,019	2,679	3,262

Revenue

There are a number of references to different revenue groupings used in the audited consolidated financial statements, the notes to the audited consolidated financial statements and the Management's Discussion and Analysis ("MD&A"). The following definitions are provided for greater clarification of these groupings:

i. Revenue (per the SIR consolidated statements of operations) – this is the total consolidated revenue of all restaurants for the period. The restaurants include all SIR restaurants and the U.S. Jack Astor's restaurant. For the 16 and 52-week periods ended August 30, 2009, this revenue was $61.4 million and $196.7 million, respectively.

ii. Same Store Sales[(1)] – this is a sub-set of i above used for tracking comparable year-over-year sales. For Q4 fiscal 2009 and 2008, SSS[(1)] includes all SIR restaurants except for Jack Astor's and Canyon Creek near the Toronto Pearson International Airport, the new Jack Astor's in Burlington, Jack Astor's at the corner of Yonge & Dundas Streets in Toronto, Ontario, Jack Astor's on John Street in Toronto, Ontario, Jack Astor's near the corner of Don Mills and Lawrence Avenue in Toronto, Ontario and Jack Astor's at the corner of Yonge and Bloor Streets in Toronto, Ontario because they were not open for the entire comparable period in fiscal 2008. It also excludes revenue from the closed Jack Astor's location in Burlington, Ontario and the closed Brasserie Frisco because they were not open for the entire comparable periods in fiscal 2009 and 2008. The U.S. restaurant is not part of SIR Restaurants. For the 16 and 52-week periods ended August 30, 2009, this revenue was $49.4 million and $162.5 million, respectively.

iii. Pooled Revenue – this is the revenue subject to the License and Royalty Agreement – this includes revenue from all Royalty Pooled Restaurants. The Royalty Pooled Restaurants are adjusted on January 1st of each year for New Additional Restaurants and New Closed Restaurants. Currently, there are 45 Royalty Pooled Restaurants. For the 16 and 52-week periods ended August 30, 2009, Pooled Revenue was $60.5 million and $185.4 million, respectively. The applicable Royalty payable to the Partnership on the Pooled Revenue for these periods was $3.6 million and $11.1 million, respectively.

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(1) *See footnote (1) on page 3*

Same Store Sales[(1)]

SSS[(1)] declined 13.2% and 6.7% for the 16 and 52-week periods ended August 30, 2009, respectively. If the additional week of revenue is removed from revenue in fiscal 2008, the decline in SSS[(1)] for Royalty Pooled Restaurants would be 7.6% and 4.8% for Q4 and YTD, respectively. Management believes that the recent weaker economic conditions are the primary driver of the year-over-year SSS[(1)] declines. Management believes that Jack Astor's somewhat lower average cheque, has contributed to reducing the impact of the economy and consumer confidence on Jack Astor's revenue in fiscal 2009. Restaurants with a higher average cheque, such as Alice Fazooli's, Canyon Creek and the downtown Toronto Signature Restaurants, tend to experience a greater decline in sales volumes. Management does not expect significant improvements in these conditions in the near future and this may continue to have an impact on future revenue and profit.

SSS[(1)] for Jack Astor's, SIR's flagship Concept Restaurant brand which generates approximately 67% of YTD Pooled Revenue, declined 9.9% and 3.6% for the 16 and 52-week periods ended August 30, 2009, respectively. If the additional week of revenue is removed from revenue in fiscal 2008, the decline in SSS[(1)] would be 3.9% and 1.5% for Q4 and YTD, respectively.

Canyon Creek's SSS[(1)] declined 18.9% and 11.5% for the 16 and 52-week periods ended August 30, 2009. The SSS[(1)] of Alice Fazooli's declined 17.0% and 9.2% for the 16 and 52-week periods ended August 30, 2009 and SSS[(1)] of the downtown Toronto Signature Restaurants, declined 23.8% and 15.3% for the 16 and 52-week periods ended August 30, 2009. If the additional week of revenue is removed from revenue in fiscal 2008, the declines in SSS[(1)] would be as follows: Canyon Creek® 13.8% and 9.9%, Alice Fazooli's® 11.9% and 7.4%, and the downtown Signature restaurants 19.9% and 14.2% for Q4 and YTD, respectively.

Cost of Corporate Restaurant Operations

As a percentage of revenue, costs of corporate restaurant operations for both the 16-week period ended August 30, 2009 and the 17-week period ended August 31, 2008 was 90.4% and it increased to 91.1% for the 52-week period ended August 30, 2009 compared to 90.6% for the 53-week period ended August 31, 2008. Higher labour costs are the main contributor to the increase in the 52-week period ended August 30, 2009 compared to the prior year . The minimum wage increase, in Ontario, effective March 31, 2009, is the main reason for higher labour costs.

Corporate costs

Corporate costs decreased by $1.9 million for the 16-week period ended August 30, 2009 compared to the 17-week period ended August 31, 2008 and decreased by $2.4 million for the 52-week period ended August 30, 2009 compared to the 53-week period ended August 31, 2008. SIR is continually managing corporate costs to obtain efficiencies while revenues grow.

Restructuring costs

During the 52-week period ended August 30, 2009, SIR restructured their corporate and restaurant operations and incurred severance costs of $0.2 million.

Interest expense - net

Interest expense increased by $0.7 million for the 16-week period ended August 30, 2009 compared to the 17-week period ended August 31, 2008, and increased by $1.0 million for the 52-week period ended August 30, 2009 compared to the 53-week period ended August 31, 2008. Increased long-term debt in fiscal 2009 versus fiscal 2008 has resulted in increased interest expense. In addition, because this debt was replaced subsequent to year end, the amortization of the deferred financing fees was accelerated, resulting in increased interest amortization of $0.6 million in Q4.

SIR Loan & non-controlling interest in SIR Royalty Limited Partnership

On October 12, 2004, the Fund completed its initial public offering and used the proceeds to acquire the SIR Loan and invest in the Ordinary LP Units of the Partnership. In accordance with AcG-15, SIR has consolidated the Partnership and accordingly, the Fund's interest in the Partnership has been recorded as non-controlling interest.

Interest on the SIR Loan totalled $0.9 million and $3.0 million for the 16 and 52-week periods ended August 30, 2009, respectively and totalled $1.0 million and $3.0 million for the 17 and 53-week periods ended August 31, 2008, respectively.

The Fund's share of the income of the Partnership for the 16 and 17-week periods ended August 30, 2009 and August 31, 2008, respectively of $1.5 million and $1.7 million, respectively, has been recorded as non-controlling interest in the audited consolidated statements of operations. The Fund's share of income of the Partnership was $4.7 million and $5.1 million for the 52 and 53-week periods ended August 30, 2009 and August 31, 2008, respectively.

[(1)] *See footnote [(1)] on page 3*

Jack Astor's (Cary & Las Colinas) Limited ("JACL") and unrealized foreign exchange gain (loss)

SIR accounts for its investment in JACL as an integrated foreign operation. Therefore, SIR uses the temporal method to translate the transactions and balances of JACL, recognizing foreign currency translation gains and losses in the consolidated statements of operations.

There was an unrealized foreign exchange gain of JACL of $0.2 million for the 16-week period ended August 30, 2009 and an unrealized foreign exchange loss of $0.08 million for the 52-week period ended August 30, 2009. The value of the Canadian dollar versus the US dollar improved during the fourth quarter of fiscal 2009, but YTD there has been a decrease in value, resulting in the YTD loss. The loss is mainly related to the US denominated debt of JACL. The prior year showed an unrealized foreign exchange loss of $0.09 million and $0.02 million for the 17 and the 53-week periods ended August 31, 2008, respectively.

During 2008, SIR acquired the non-controlling interest's shares in JACL for cash consideration of $0.2 million increasing its ownership to 100% of this operation. The acquisition resulted in goodwill of $0.2 million. Because JACL was experiencing operating losses, at the time, Management tested this goodwill for impairment, subsequent to the acquisition. Management determined that the carrying value of the net assets exceeded the fair values of the business unit and accordingly, an impairment charge of $0.2 million was recorded for the goodwill arising upon this acquisition.

Recovery of impairment of loans and advances

Prior to fiscal 2008, 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. These advances are non-interest bearing, non-secured and due on demand. SIR has determined that these advances are impaired based on estimated future cash flows of the remaining U.S. operations. Accordingly, the loan and advances receivable are written down to their net realizable value of $1.1 million. In fiscal 2009, U.S. S.I.R. L.L.C. repaid $0.5 million (2008 - $0.2 million) of these advances to SIR. Accordingly, SIR recognized interest income of $0.02 million and $0.09 million during the 16 and 52-week periods ended August 30, 2009, respectively. The improvement in cash flows of the U.S. operations resulted in a recovery of impairment of $0.7 million and $0.4 million for the 52-week period ended August 30, 2009 and the 53-week period ended August 31, 2008, respectively. While SIR has no obligation to fund the U.S. operations, it may do so if it considers that it would be in the interest of SIR; subject to the restrictions contained in its arrangements with the Fund and the bank credit facility (see Liquidity and Capital Resources section).

Other income (expense)

Other expense is $0.6 million for both the 16 and 52-week periods ended August 30, 2009 compared to an income of $0.01 million and $0.1 million for the 17 and 53-week periods ended August 31, 2008. Q4 and YTD 2009 include costs of $0.6 million related to a contemplated transaction which was abandoned.

EBITDA[(2)] and Adjusted EBITDA[(2)]

EBITDA[(2)] is $7.0 million and $18.1 million for the 16 and 52-week periods ended August 30, 2009 as compared to $5.6 million and $14.7 million for the 17 and 53-week periods ended August 31, 2008. Adjusted EBITDA[(2)] is $7.0 million and $18.3 million for the 16 and 52-week periods ended August 30, 2009, as compared to $5.6 million and $14.7 million for the 17 and 53-week periods ended August 31, 2008 (see Selected Consolidated Historical Financial Information - Reconciliation of net earnings (loss) for the period to EBITDA[(2)] and Adjusted EBITDA[(2)]).

SIR Royalty Income Fund

The following is a summary of the accounting implications of the SIR Loan and non-controlling interest of the Partnership:

(a) *SIR Loan*

The $40.0 million SIR Loan bears interest at 7.5% per annum and is due October 12, 2044. On August 9, 2007, the Fund entered into an agreement to subordinate and postpone its claims against SIR in favour of the bank. The Partnership and the Fund have not guaranteed the existing or new credit facilities (see Liquidity and Capital Resources section).

The bank debt is "permitted indebtedness" within the meaning of the agreements between the Fund, the Partnership and SIR, and as a result the Fund and the Partnership have, as contemplated in the existing agreements, subordinated and postponed their claims against SIR to the claims of the bank. This subordination, which includes a subordination of the Partnership's rights under the License and Royalty Agreement between the Partnership and SIR whereby the Partnership licenses to SIR 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 an Interlender Agreement.

(2) See footnote (2) on page 4

Under the Interlender Agreement, absent a default or event of default under the $16.0 million credit facility, ordinary payments to the Partnership and the Fund 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 bank is pursuing remedies). The Interlender Agreement also contains various other typical covenants of the Fund and the Partnership. On November 13, 2009, the Fund and the Partnership entered into a Subordination and Postponement Agreement to subordinate and postpone their claims against SIR in favour of the lenders for the $26.0 million senior term debt facility. The terms of the Subordination and Postponement Agreement are consistent with the Interlender Agreement.

Interest expense on the SIR Loan of $0.9 million and $3.0 million was charged to the consolidated statements of operations for the 16 and 52-week periods ended August 30, 2009, respectively ($1.0 million and $3.0 million for the 17 and 53-week periods ended August 31, 2008, respectively).

SIR has the right to require the Fund to, indirectly, purchase their 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.

Financing costs of $4.8 million were incurred in fiscal 2005 in respect of the issuance of the SIR Loan and Partnership Units. Due to a change in accounting policy, effective August 27, 2007, these costs have been deferred and are being amortized over 40 years, the term of the SIR Loan, using the effective interest rate method. Prior to this, the straight line method was used. Amortization of $0.006 million and $0.02 million has been recorded as interest expense in the consolidated statements of operations for the 16 and 52-week periods ended August 30, 2009, respectively ($0.006 million and $0.02 million for the 17 and 53-week periods ended August 31, 2008). The financing costs are netted against the SIR Loan in the audited consolidated financial statements.

(b) Non-controlling interest in SIR Royalty Limited Partnership

	16-Week Period Ended August 30, 2009	17-Week Period Ended August 31, 2008	52-Week Period Ended August 30, 2009	53-Week Period Ended August 31, 2008
	(in thousands of dollars) (unaudited)			
Initial investment by the Fund	11,167	11,167	11,167	11,167
Non-controlling interest in earnings of the Partnership	1,513	1,730	4,679	5,078
Distributions declared on the Partnership's Units held by non-controlling interest	(1,513)	(1,730)	(4,679)	(5,078)
Non-controlling interest in the Partnership	11,167	11,167	11,167	11,167
Pooled Revenue (5)	60,516	58,262	185,422	175,147
Partnership royalty income (6)	3,631	3,495	11,125	10,539
Other income	7	20	38	63
Partnership expenses	(34)	(31)	(123)	(107)
Net earnings of the Partnership	3,604	3,484	11,040	10,495
SIR's interest in the earnings of the Partnership:				
Income from Class A & B GP Units of the Partnership(7)	(1,170)	(781)	(3,369)	(2,373)
Income from Class C GP Units of the Partnership	(921)	(973)	(2,992)	(3,044)
	(2,091)	(1,754)	(6,361)	(5,417)
Non-controlling interest in the earnings of the Partnership	1,513	1,730	4,679	5,078

(5) *Includes revenue from the SIR Restaurants subject to the License and Royalty Agreement and excludes revenue from JACL. Revenue from the six restaurants added to Royalty Pooled Restaurants on January 1, 2009 has been included in Pooled Revenue for the period from January 1, 2009 to August 30, 2009. Revenue from the three restaurants added to Royalty Pooled Restaurants on January 1, 2008, has been included in Pooled Revenue for the period from January 1, 2008 to August 30, 2009. The Partnership owns the SIR Rights formerly owned or licensed by SIR or its subsidiaries and used in connection with the operation of the majority of SIR's restaurants in Canada.*

(6) *6% of Pooled Revenue plus a Make-Whole Payment for closed locations, included in Royalty Pooled Restaurants.*

(7) *The 52 and 53-week periods ended August 30, 2009 and August 31, 2008, respectively include the additional distribution of $0.18 million and $0.08 million declared and paid to SIR in the second quarter of 2009 and 2008, respectively.*

On October 12, 2004, the Partnership issued Ordinary LP and GP Units to the Fund for cash consideration of $11.2 million. The holders of the Ordinary LP Units are entitled to receive a pro rata share of all residual distributions of the Partnership and have the right to receive distributions in priority to the initial 595,185 Class A GP Units which are held by SIR.

The holders of the Class A GP Units are 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.

In 2004, the Partnership granted SIR a 99-year license to use the SIR Rights in most of Canada in consideration for a Royalty, payable by SIR 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, SIR may be required to pay a Make-Whole Payment in respect of the reduction in revenues for restaurants closed during a reporting period. SIR is not required to pay any Make-Whole Payments in respect of a closed restaurant following the date on which the number of Royalty Pooled Restaurants is equal to or greater than 68 or following October 12, 2019, whichever occurs first. On January 1 of each year (the "Adjustment Date"), following December 31, 2005, 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, SIR 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 exceeded 80% of the initial estimated revenues and the formula defined in the Partnership Agreement. Conversely, converted Class A GP Units may be returned by SIR if the actual revenues of the new SIR Restaurants are less than 80% of the initial estimated revenues. In December of each year, an additional distribution may be payable to the Class B GP unitholders based on actual revenues of the new SIR Restaurants exceeding 80% of the initial estimated revenues 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 revenues.

On January 1, 2009, six (January 1, 2008 - three) new SIR Restaurants, were added to Royalty Pooled Restaurants in accordance with the License and Royalty Agreement. As consideration for the additional Royalty associated with the addition of six (January 1, 2008 – three) new restaurants on January 1, 2009, as well as the Second Incremental Adjustment for the three (January 1, 2007 – three) new SIR restaurants added to Royalty Pooled Restaurants on January 1, 2008, SIR 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 SIR converted to Class A GP Units was reduced by an adjustment for the closure of nil (2008 – two) SIR Restaurants during the prior calendar year. The net effect of these adjustments to the Royalty Pooled Restaurants was that SIR converted 1,077,000 (2008 – 194,000) Class B GP Units of the Partnership into 1,077,000 (January 1, 2008 – 194,000) Class A GP Units of the Partnership on January 1, 2009 at an estimated fair value of $6.0 million (January 1, 2008 - $1.5 million). As a result of this exchange, SIR's interest in the Partnership increased to 33.7% effective January 1, 2009. In addition, the revenues of three (January 1, 2007 – three) new SIR Restaurants added to Royalty Pooled Restaurants on January 1, 2008 exceeded 80% of the Initial Adjustment's estimated revenues and, as a result, an Additional Distribution of $0.18 million was declared in December 2008 (December 2007 - $0.08 million) and paid the following January. Additional Class A GP Units are expected to be issued to SIR effective January 1, 2010 and a Conversion Distribution is expected to be declared in December 2009, and paid in cash to SIR in January 2010.

(c) *Amounts due to the Fund* – (see Transactions with the SIR Royalty Income Fund in the Transactions with Related Parties section)

Liquidity and Capital Resources

Selected Consolidated Statement of Cash Flows Information	16-Week Period Ended August 30, 2009	17-Week Period Ended August 31, 2008	52-Week Period Ended August 30, 2009	53-Week Period Ended August 31, 2008
	(in thousands of dollars) (unaudited)			
Net cash provided by operations	3,897	4,355	12,607	8,666
Net cash used in investing activities	(398)	(10,897)	(8,079)	(19,756)
Net cash provided by (used in) financing activities	(241)	5,005	2,170	9,196
Increase (decrease) in cash and cash equivalents during the period	3,256	(1,536)	6,700	(1,894)
Cash and cash equivalents – Beginning of period	4,927	3,019	1,483	3,377
Cash and cash equivalents – End of period	8,183	1,483	8,183	1,483

Net cash provided by operations decreased by $0.5 million for the 16-week period ended August 30, 2009 as compared to the 17-week period ended August 31, 2008. The change in net earnings (loss) for the period of $1.2 million in earnings was offset by the decrease in net change in working capital items of $1.1 million, the decrease in landlord and other inducements received of $0.6 million and the decrease in unrealized foreign exchange loss of $0.2 million. The decrease in the combined impairment of goodwill, loans and advances and long lived assets of $0.4 million and the increase in non-cash interest expense of $0.7 million also increased net cash provided from operations for Q4. Net cash provided by operations increased $3.9 million for the 52-week period ended August 30, 2009 as compared to the 53-week period ended August 31, 2008. This is mainly attributable to the decrease in net loss of $1.4 million and an increase in amortization of $1.2 million, offset by a decrease in landlord and other inducements received of $1.0 million and an increase in net change in working capital of $1.8 million. The decrease in the combined impairment of goodwill, loans and advances and long lived assets of $0.6 million and the increase in non-cash interest expense of $0.7 million also increased net cash provided from operations YTD.

Net cash used in investing activities for the 16 and 17-week period ended August 30, 2009 and August 31, 2008, was $0.4 million and $10.9 million, respectively. Net cash used in investing activities for the 52 and 53-week period ended August 30, 2009 and August 31, 2008 was $8.1 million and $19.8 million, respectively. Purchases of property and equipment and restaurant pre-opening costs amounted to $0.5 million and $11.1 million for the 16 and 17-week period ended August 30, 2009 and August 31, 2008, respectively, and $8.4 million and $19.9 million for the 52 and 53-week periods ending August 30, 2009 and August 31, 2008, respectively. Capital expenditures have decreased in the current year as compared to the prior year due to SIR reducing its growth plans. Fiscal 2009 expenditures are mainly the result of the remaining construction costs of the two new Jack Astor's opened during Q1 of fiscal 2009 and the renovations at Alice Fazooli's near the Square One shopping mall in Mississauga, Ontario. Expenditures for the 53-week period ended August 31, 2008 were mainly the result of renovations of Soul of the Vine into FOUR/Petit Four, renovations at the Loose Moose Tap & Grill and the construction costs of the six new Jack Astor's and one new Canyon Creek restaurants opened during calendar year 2008.

During fiscal years 2005 to 2009, SIR has purchased property and equipment totalling approximately $59.5 million. This represents investments in new restaurants, major renovations of existing restaurants, certain other profit enhancing initiatives (such as new patios and patio expansions) and maintenance capital expenditures. Management expects that these investments in new and existing restaurants and the profit enhancing initiatives will help position SIR to work through the current economic downturn.

During the Q3 of fiscal 2009, SIR acquired the non-controlling interest in Jack Astor's Don Mills Limited for $0.3 million. During Q2 of fiscal 2008, SIR acquired the non-controlling interest in JACL for $0.2 million. During the 16 and 52-week periods ended August 30, 2009, SIR received $0.1 million and $0.5 million, respectively ($0.2 million and $0.2 million during the 17 and 53-week periods ended August 31, 2008, respectively) in payments on its loans and advances from U.S. S.I.R. L.L.C. and its subsidiaries.

Net cash provided by financing activities was $0.2 million for the 16-week period ended August 30, 2009 and net cash provided by financing activities was $2.2 million for the 52-week period ended August 30, 2009. Net cash provided by financing activities was $5.0 million and $9.2 million for the 17 and 53-week periods ended August 31, 2008, respectively. There was no change in the bank indebtedness during the 16-week period ended August 30, 2009 compared to an increase in bank indebtedness of $0.9 million during the 17-week period ended August 31, 2008. The bank indebtedness decreased $0.9 million during the 52-week period ended August 30, 2009 compared to an increase of $0.6 million during the 53-week period ended August 31, 2008. SIR did not draw on its construction line during the 16-week period ended August 30, 2009, but has drawn $3.7 million during the 52-week period ended August 30, 2009. Draws during the 17 and 53-week periods ended August 31, 2008 were $4.3 million and $9.0 million, respectively. Principal repayments on long-term debt were $0.1 million and $0.4 million for both the 16 and 52-week periods ended August 30, 2009 and the 17 and 53-week periods ended August 31, 2008, respectively.

The five new Jack Astor's restaurants and one new Canyon Creek restaurant that opened during calendar year 2008 were added to the Royalty Pooled Restaurants effective January 1, 2009. The two new Jack Astor's restaurants that opened in Hamilton, Ontario and Dartmouth, Nova Scotia during fiscal 2007 and the one that opened in Burlington, Ontario in Q1 of fiscal 2008 were added to the Royalty Pooled Restaurants effective January 1, 2008. At these times, SIR received additional Class A GP Units in accordance with the formula for adjustment for the addition of restaurants added to Royalty Pooled Restaurants. The amount of Class A GP Units received in each year was adjusted for a reduction related to the closure of two restaurants in calendar year 2007 and the Second Incremental Adjustment for the three (2007 – three) new additional restaurants that were added to the Royalty Pooled Restaurants on January 1, 2008. Under the terms of the Exchange Agreement, SIR has the right to convert some or all of the net additional Class A GP Units into Fund Units on a one-for-one basis.

As of August 30, 2009, SIR had current assets of $14.3 million (August 31, 2008 - $8.8 million) and current liabilities of $25.6 million (August 31, 2008 - $24.6 million) resulting in a working capital deficit of $11.3 million (August 31, 2008 - $15.8 million). Revenues in the restaurant business are largely paid by cash and credit card whereas most suppliers offer credit terms for payment. Therefore, restaurants are able to pay their suppliers from the cash received on revenues in the following months, as the supplier payables are due. Cash balances are typically used to construct new restaurants or re-invest in existing restaurants to grow the business. As a result, SIR, like many other restaurant businesses would anticipate having a negative working capital balance in the foreseeable future.

Management believes that there are sufficient cash resources retained in SIR from its cash generated by operations to fund its working capital requirements.

In Fiscal 2007, SIR entered into a $16.0 million credit facility, consisting of a two-year revolving credit facility ("Operating Line") up to $2.0 million, a two-year revolving construction credit facility ("Construction Line") for up to $13.0 million and a treasury management facility for up to $1.0 million. Outstanding balances under the Construction Line for completed restaurants convert into a five year amortizing term loan at the end of the committed period or earlier, such as semi-annual, to be determined by SIR and the lender. The Construction Line and the Operating Line are two year committed facilities, renewable annually thereafter at the lender's sole discretion for a 364-day period. The rates of interest on the financing are Bankers' Acceptance rate plus 1.75% or Prime rate plus 0.25%. The financing arrangement is collateralized by a general security agreement and entitles the lender to a first charge on all of SIR's assets, including a pledge of all shares and the investment in the Partnership and a specific assignment of rights under the License and Royalty Agreement. However, the lender does not have a pledge over the assets of the Partnership. As at August 30, 2009, SIR had no outstanding borrowings on its Operating Line and it had outstanding borrowings on its Construction Line of $12.7 million. The unused Operating Line and Construction Line as at August 30, 2009 was $1.9 million and $0.3 million, respectively. No further draws have been made on the Construction Line subsequent to Q4 of fiscal 2009. As at August 30, 2009, SIR had an obligation of $0.6 million in capital lease arrangements. Amounts drawn on the above mentioned credit facility and capital lease arrangements are Permitted Indebtedness as defined in the SIR General Security Agreement and the Partnership General Security Agreement.

During Q4, the lender approved the extension of the credit facilities for 364 days maturing on July 31, 2010, at which time, the Construction Line, if not extended, would be converted into a five year term loan due in 60 equal monthly instalments. The rates of interest on the financing are banker's acceptance rate plus 3.75% or prime rate plus 2.25%. All other terms and conditions remain the same.

On November 13 2009, SIR entered into a new Credit Agreement ("Credit Agreement") with a new senior lender to refinance its current revolving line of credit and construction facility and to facilitate the repurchase of certain of its common shares. This new credit facility is a three-year facility for a maximum principal amount of $26.0 million. Part of the proceeds from this facility was used to repay and replace the existing credit facilities of which $12.7 million was outstanding on the Construction Line. The remaining proceeds, as well as a portion of existing cash on hand, were used to repurchase 5.4 million common shares of SIR held by Ken Fowler Enterprises Limited ("KFEL") or its controlling shareholder Ken Fowler (representing approximately 35% of the shares of SIR), to acquire the rights to certain debts owed by U.S. S.I.R. L.L.C. from one shareholder of SIR and to pay professional fees and transaction costs related to these transactions. The amount allocated to the share repurchase was $16.7 million. SIR also filed Articles of Amendment to authorize an unlimited number of Class S Special Shares. The Class S Special Shares have 1.0 million votes per share, are redeemable at the option of the holder for a redemption amount as defined in the Articles of Amendment and redeemable at the option of SIR, at any time following the third anniversary of the date of first issuance of any Class S Special Share, at the redemption amount. Following the repurchase of common shares, Peter Fowler Enterprises Limited ("PFEL") owns approximately 58% of the common shares of SIR. Peter Fowler and PFEL have guaranteed SIR's obligations under the Credit Agreement. SIR also issued warrants to Peter Fowler, which would, if exercised, represent a controlling interest in SIR. The warrants have an exercise price of $1.00 and expire on November 11, 2020. The warrants can only be exercised upon the event of default on the Credit Agreement and entitles the holder to one Class S Special Share per warrant exercised. The warrants, which are a derivative financial instrument, will be initially recorded at fair value with an offset to the initial carrying value of the senior term debt. The warrants will be marked-to-market, with changes in market value being recorded in the consolidated statement of operations. SIR has not yet determined the fair value of either the warrant or the guarantee. This warrant has also been pledged to the new senior lender.

In addition, as part of this transaction, 0.8 million stock options with an exercise price of $0.01 were forfeited by a shareholder of SIR.

KFEL has advised SIR that it used the proceeds of the share repurchase to repay its bank debt, and that it intends to complete other disposal transactions in order to fully repay its bank lender (it will still have other indebtedness and obligation to other parties, however). At the date hereof, both KFEL's bank lender has released its security over both KFEL's and PFEL's shares in SIR.

The Credit Agreement provides for a maximum $26.0 million senior term debt facility. This facility has a 3 year term and a 10 year amortization. Interest is the greater of 7.80% per annum and the three-month Canadian dollar bankers' acceptance rate plus 7.55% per annum, which on November, 13, 2009 was 7.86%. Certain financial covenants apply to SIR, including a minimum fixed charge coverage ratio. The loan is secured by substantially all of the assets of SIR and most of its subsidiaries, which are also guarantors. The Partnership and the Fund have not guaranteed the Credit Agreement. The Credit Agreement qualifies as "permitted indebtedness" within the meaning of the agreements between the Fund, the Partnership and SIR, and as a result the Fund and the Partnership have, as contemplated in the existing agreements, subordinated and postponed their claims against SIR to the claims of the new lender. The terms of the subordination are as contemplated in the existing agreements between the Fund, the Partnership and SIR. This subordination includes a subordination of the Partnership's rights under the License and Royalty Agreement between the Partnership and SIR whereby the Partnership licenses to SIR the right to use trademarks and related intellectual property in return for royalty payments based on revenues and is effected pursuant to the terms of a Subordination and Postponement Agreement, a copy of which, will also be filed on SEDAR. In addition, the original five year restrictions on repurchases of shares by SIR contained in the agreements between the Fund, the Partnership and SIR have expired.

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

Management continues to monitor the economy and evaluate its potential impact on the Canadian business environment, particularly in relation to consumer confidence and availability of credit. SIR expects that the current economic downturn may significantly negatively affect its sales and profit prospects in the near future. In anticipation of a continuing economic downturn, SIR has implemented certain cost saving initiatives. SIR continues to review its opportunities and is undertaking cash preservation strategies which include the previously announced slowing of growth plans.

Certain bank loans were entered into by Jack Astor's Cary, LLC, a subsidiary of JACL, in fiscal year 2001 and are guaranteed by SIR. There is one loan remaining of $1.3 million (U.S. $1.2 million) and it is currently non-compliant with respect to certain financial and non-financial covenants. As a result, this loan is presented as a current liability in SIR's audited consolidated financial statements. All payments due on this loan have been made to date and the borrowers have not received any notices of default. The loan is secured by the assets of JACL and a pledge of the shares in JACL by SIR.

Contractual Obligations

In 2004, the Partnership granted SIR a 99-year license to use the SIR Rights in most of Canada in consideration for a Royalty, payable by SIR to the Partnership, equal to 6% of the revenue of the restaurants included in Royalty Pooled Restaurants. Payment of the Royalty is secured by the Partnership General Security Agreement. On August 9, 2007, the Fund entered into an agreement to subordinate and postpone its claims against SIR in favour of the bank. The Partnership and the Fund have not guaranteed this credit facility (Please refer to SIR Royalty Income Fund section).

The security interest for all amounts payable by SIR to the Partnership under the License and Royalty Agreement, as set out in the Partnership General Security Agreement, is substantially the same as, and ranks equally with, the security interest granted by SIR to the Fund in respect of the SIR Loan. SIR consolidates the Partnership, and this transaction between SIR and the Partnership is eliminated in SIR's audited consolidated financial statements, however the obligation for payments remains.

Under the terms of the License and Royalty Agreement, SIR may be required to pay a Make-Whole Payment in respect of the reduction in revenue for restaurants closed during a reporting period. SIR is not required to pay any Make-Whole Payment in respect of a closed restaurant following the date on which the number of Royalty Pooled Restaurants is equal to or greater than 68, or following October 12, 2019, whichever occurs first. On January 1 of each year (the "Adjustment Date"), following December 31, 2005, 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, SIR will be entitled to convert its Class B GP Units of the Partnership to Class A GP Units of the Partnership based on a formula defined in the Partnership Agreement.

Three Royalty Pooled Restaurants have been closed since the IPO was completed. On May 27, 2006, the Jack Astor's in Don Mills, Ontario was closed, on September 29, 2007, the Jack Astor's in Burlington, Ontario was closed and on December 22, 2007, the Brasserie Frisco was closed. The Don Mills location was demolished by the landlord and has been redeveloped into a major "lifestyle mall". A new Jack Astor's was opened in this location on October 6, 2008. The Burlington location was replaced with a new Jack Astor's in a different location in Burlington, which opened on October 15, 2007 and this new location has started to provide higher revenues and therefore a greater Royalty stream to the Partnership. On July 7, 2008, SIR opened a new Jack Astor's on John Street, in Toronto, Ontario, in the former Brasserie Frisco location. Under the terms of the License and Royalty Agreement, SIR was required to pay a Make-Whole Payment for these closed restaurants from their respective dates of the closure until December 31 of the same year. In accordance with the License and Royalty Agreement, on January 1, following the year of closure, the revenue of these closed restaurant were netted against the revenue of the new SIR Restaurants eligible as New Additional Restaurants, for that year, when determining the number of Class B GP Units of the Partnership, held by SIR, that were converted into Class A GP Units of the Partnership and these restaurants were removed from the Royalty Pooled Restaurants as New Closed Restaurants.

SIR and its subsidiaries have entered into operating leases relating to its head office and restaurant locations with minimum annual payments. As at August 30, 2009, SIR has three commitments to lease properties upon which it plans to build three new restaurants. At the current date, SIR has not entered into any construction contracts for these restaurants 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. Such things as finalization of design and final construction quotations could change the total cost of these projects. SIR has entered into capital lease arrangements to lease restaurant equipment and as at August 30, 2009, SIR had an obligation of $0.6 million. As at August 30, 2009, SIR had drawn $12.7 million on its original Construction line and no further draws were made subsequent to 2009. During Q4, an extension of the credit facility for 364 days, maturing on July 31, 2010, was approved. However, on November 13, 2009, SIR entered into a new senior debt facility to refinance its current revolving line of credit and construction facility and repurchase certain shares (see Liquidity and Capital Resources section).

The following contractual obligations of SIR reflect the draw down of the $26.0 million senior term debt facility, entered into subsequent to year end (in thousands of dollars):

	1 Year	2 – 3 Years	4 – 5 Years	Thereafter	Total
Operating leases	10,442	20,393	19,899	37,152	87,886
Long-term debt repayments [8]	1,800	4,563	21,178	382	27,923
SIR Loan				40,000	40,000
	12,242	24,956	41,077	77,534	155,809

Off-Balance Sheet Arrangements

SIR has off-balance sheet arrangements with respect to its operating leases. (See Contractual Obligations section).

Transactions with Related Parties

SIR has entered into related party transactions with shareholders or companies controlled by shareholders of SIR and directors of SIR. The 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. Significant transactions with related parties include:

- Payment for operational services provided by two shareholders of SIR in the amount of $0.2 million and $0.5 million for the 16 and 52-week periods ended August 30, 2009 ($0.1 million and $0.5 million for the 17 and 53-week periods ended August 31, 2008).
- Payment for design fees, charged to property and equipment, provided by one shareholder of SIR in the amount of $0.01 million and $0.1 million for the 16 and 52-week periods ended August 30, 2009 ($0.2 million and $0.5 million for the 17 and 53-week periods ended August 31, 2008).
- Payment for consulting fees provided indirectly by one of SIR's directors in the amount of $0.05 million and $0.2 million for the 16 and 52-week periods ended August 30, 2009 ($0.06 million and $0.1 million for the 17 and 53-week periods ended August 31, 2008).

[8] *Repayments of long-term debt include the scheduled principal repayments of the loans of JACL. The loans are currently non-compliant with respect to certain financial and non-financial covenants. As a result the loans are presented as a current liability on SIR's consolidated financial statements.*

- SIR has a lease commitment related to its head office premises that expires on December 31, 2010. The head office premise was previously owned by certain shareholders of SIR until July 4, 2008, when the leased premises were sold by the related party and rental payments ceased to be a related party transaction effective that day. During the 53-week period ended August 31, 2008, the amount of rent that SIR paid to certain shareholders of SIR for its head office premises (directly or indirectly) was $0.2 million.

Transactions with the SIR Royalty Income Fund

Amounts due to (from) the Fund and its subsidiaries consist of:

	August 30, 2009	August 31, 2008
	(in thousands of dollars)	
Advances receivable	(1,518)	(1,573)
Interest payable on SIR Loan	247	283
Partnership distributions payable	2,651	2,814
Payable to the Fund and its subsidiaries – net	1,380	1,524

Amounts due to (from) related parties are non-interest bearing and due on demand.

During the 16 and 52-week periods ended August 30, 2009, distributions of $1.5 million and $4.7 million, respectively ($1.7 million and $5.1 million, respectively for the 17 and 53-week periods ended August 31, 2008) were declared to the Fund by the Partnership. The Fund, indirectly through the Trust, is entitled to receive a pro rata share of all residual distributions.

Interest expense on the SIR Loan totalled $0.9 million and $3.0 million for the 16 and 52-week periods ended August 30, 2009, respectively ($1.0 million and $3.0 million for the 17 and 53-week periods ended August 31, 2008). The SIR Loan bears interest at 7.5% per annum.

SIR, 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 of the Partnership. The Partnership provided these services to the Fund and the Trust for consideration of $0.007 million and $0.02 million for the 16 and 52-week periods ended August 30, 2009, respectively ($0.006 million and $0.02 million, for the 17 and 53-week periods ended August 31, 2008) which was the amount of consideration agreed to by the related parties.

Critical Accounting Estimates

The preparation of SIR's financial statements requires Management to make estimates and assumptions that affect income and expenses during the reporting periods, in addition to the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements. Actual results could differ materially from those estimates in the near term.

Under Canadian GAAP, goodwill is not amortized but is tested for impairment, at least annually. Management applies a fair-value-based test to the carrying value of each reporting unit. A goodwill impairment charge would be recorded if the amount of the recorded goodwill exceeds the difference between the fair value of the reporting unit and the carrying value of the net assets of each respective reporting unit. As a result of declining sales and earnings of one restaurant, SIR recognized an impairment of goodwill of $0.2 million. An impairment of goodwill of $0.3 million was recognized in fiscal 2008 for two restaurants.

Under Canadian GAAP, an impairment charge is recognized for long-lived assets, including intangible assets with finite lives, when an event or change in circumstances causes an asset's carrying value to exceed the total undiscounted cash flows expected from its use and eventual disposition. As a result of a decline in sales and earnings from certain restaurants, SIR conducted an impairment analysis of these restaurants' long-lived assets. In 2008, the analysis showed that the estimated future cash flows for one restaurant were not sufficient to recover the carrying value of the property and equipment and restaurant pre-opening costs and accordingly, an impairment provision of $0.2 million was recorded to write down these assets to their fair values. The fair values were determined using a depreciated replacement cost methodology.

SIR adopted the provisions of CICA Handbook Section 3110, Asset Retirement Obligations effective August 30, 2004 with respect to estimated lease end remediation costs. SIR has estimated an asset retirement liability of $0.4 million (2008 - $0.3 million) and a corresponding leasehold improvement of $0.1 million (2008 - $0.05 million) as at August 30, 2009.

SIR follows the asset and liability method of accounting for income taxes. Future income tax assets are recognized only to the extent that Management determines it is more likely than not that the future income tax assets will be realized. At August 30, 2009, SIR had approximately $22.5 million in non-capital losses carried forward in Canada available to reduce taxable income in future years. At August 30, 2009, SIR has not recognized the benefit of these losses in the financial statements. SIR recorded a valuation allowance of $8.6 million at August 30, 2009 against the net future tax assets. Future changes in the valuation allowance are thus expected based on changes in Management's assessment of the likelihood of realizing the future tax asset, and will directly impact income tax expense and therefore net income.

In prior years, SIR has recorded a provision for impairment of loans and advances resulting from the potential risk that the loan recipient will not be able to make the required payments. Management continually monitors payment patterns and investigates past-due accounts to assess the likelihood of collections to estimate the required provisions, if any. During fiscal 2009, SIR received repayment of $0.5 million (2008 - $0.2 million) against the loans and advances. Accordingly, SIR recognized interest income of $0.02 million and $0.09 million during the 16 and 52-week periods ended August 30, 2009 and recorded a recovery of the provision for loans receivable of $0.7 million and $0.4 million for the 52 and 53-week periods ended August 30, 2009 and August 31, 2008, respectively. If the financial condition of its loan recipients were to deteriorate, resulting in an impairment of their ability to make payments, additional provisions may be required.

SIR has established a management bonus program that provides restaurant managers and area directors with the opportunity to earn a bonus based on the cash flows of the restaurant(s). The percentage of cash flow earned depends on the years of service and ranges up to 10%. The managers and area directors also have the opportunity to earn a bonus upon leaving SIR, if he/she has at least five years of service. This bonus is based on the value of the restaurant(s) at that time using cash flows over a three-year period and a percentage that ranges from 2% to 10%. Upon leaving the plan, a participant's bonus is paid in three instalments over a two-year period. Estimates made by Management in determining the amount of accrual for the bonus are dependent upon the performance of the restaurant and termination rates of managers.

Changes in Accounting Policies, Including Initial Adoption

Handbook Section 1535, Capital Disclosures, requires disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital and whether the entity has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance. SIR has adopted this standard effective September 1, 2008.

Handbook Section 3862, Financial Instruments - Disclosures, increases the disclosures currently required that will enable users to evaluate the significance of financial instruments for an entity's financial position and performance, including disclosures about fair value. In addition, disclosure is required of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about liquidity risk and market risk. The quantitative disclosures must also include a sensitivity analysis for each type of market risk to which an entity is exposed, showing how net income and other comprehensive income would have been affected by reasonably possible changes in the relevant risk variable. SIR has adopted this standard effective September 1, 2008.

Handbook Section 3863, Financial Instruments – Presentation, replaces the existing requirements on presentation of financial instruments which have been carried forward unchanged to this new section. SIR has adopted this standard effective September 1, 2008.

Handbook Section 3031 –Inventories replaces Handbook Section 3030 – Inventories and provides more guidance on the measurement and disclosure requirements for inventories. The new standard allows the reversal of previous write downs to net realizable value when there is a subsequent increase in the value of inventories. SIR has adopted this standard effective September 1, 2008 and the adoption of this standard did not have any impact on SIR.

Recently Issued Accounting Pronouncements

International Financial Reporting Standards: The CICA plans to converge Canadian GAAP with International Financial Reporting Standards ("IFRS") over a transition period expected to end in 2011. Management is evaluating whether or not SIR is required to adopt IFRS and has not yet determined the impact.

Handbook Section 3064 replaces Handbook Section 3062 – "Goodwill and Intangible Assets" and Handbook Section 3450 – "Research and Development Costs" and establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The provisions relating to the definition and initial recognition of intangible assets, including internally generated intangible assets, are equivalent to the corresponding provisions of International Accounting Standard ("IAS") 38, "Intangible Assets". SIR plans to adopt this standard effective August 31, 2009. Management has determined that the capitalization of restaurant pre-opening costs will no longer be permitted and that the impact of this retroactive change in accounting policy on SIR's consolidated financial statements will be a reduction to intangible and other assets of $2.7 million as at August 30, 2009, a reduction to future income tax liability of $0.04 million as at August 30, 2009, a reduction to net loss and comprehensive loss for the 52-week period ended August 30, 2009 of $0.5 million and an increase to deficit at the beginning of the 52-week period ended August 30, 2009 of $3.1 million. Management has also determined that certain computer software costs with a net book value of $0.1 million will require reclassification from property and equipment to intangible and other assets.

Business Combinations, Consolidated Financial Statements and Non-Controlling Interests: Handbook Section 1582, "Business Combinations", Handbook Section 1601, "Consolidated Financial Statements", and Handbook Section 1602, "Non-Controlling Interest" replace the former Handbook Section 1581, "Business Combinations" and Handbook Section 1600, "Consolidated Financial Statements" and establish a new section for accounting for a non-controlling interest in a subsidiary. These sections provide the Canadian equivalent to IFRS 3, "Business Combinations" and IAS 27, "Consolidated and Separate Financial Statements". Handbook Section 1582 is effective for the Company for business combinations for which the acquisition date is on/after the reporting period beginning on or after August 29, 2011. Handbook Section 1601 and Handbook Section 1602 is effective for the Company for interim and annual consolidated financial statements relating to years beginning on or after August 29, 2011. Management has not yet determined the impact of the adoption of this change in its financial statements.

Financial Instruments and Other Instruments

SIR's financial instruments consist of cash and cash equivalents, accounts receivable, loans and advances, bank indebtedness, trade accounts payable and accrued liabilities, construction accounts payable and accrued liabilities, long-term debt and loan payable to the Fund. The fair values of these instruments approximate their carrying amounts due to their short-term maturity or, in the case of the loans and advances, the fair values of these items do not differ significantly from their carrying values. The fair value of the long-term debt is $14.7 million. The fair value of the loan payable to the Fund could only be determined through the valuation of the debt. As a result, the determination of the fair value is not practical within the constraints of timeliness and cost.

SIR's financial instruments exposed to credit risk include cash and cash equivalents, accounts receivable and loans and advances. SIR places its cash and cash equivalents with institutions of high credit worthiness. Accounts receivable primarily comprise amounts due from major credit card companies, and as such, Management believes that its accounts receivable credit risk exposure is limited. SIR monitors the collectability of its loans and advances and establishes provisions when collection of the amounts becomes doubtful. SIR is exposed to interest rate risk with respect to its Operating Line and the Construction Line because they have a floating interest rate. The loan payable to the Fund, the US loan payable, the loans payable to landlords and the capital lease obligations have fixed interest rates. Accordingly, changes in interest rates for these liabilities 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 the interest rate. SIR is exposed to exchange rate risk in respect of transactions and certain guarantees denominated in U.S. dollars.

Risks and Uncertainties

The performance of SIR is dependent on many factors. The restaurant industry generally, and in particular, the casual and fine dining segment of this industry, is intensely competitive with respect to price, service, location, food quality and qualified staff. Recently, competition has increased in the mid-price, full-service, casual and fine dining sectors in which many of the SIR Restaurants operate. In addition, factors such as economic conditions (particularly as they relate to the unprecedented recent deterioration of the economic environment and consumer confidence), availability of credit (particularly as it relates to the recent disruption in global credit markets), inflation, increased food, labour and benefits costs, taxes, government regulations (including those governing alcoholic beverages), weather, seasonality, public safety issues and the availability and quality of food, services and products sold in the restaurants affect the restaurant industry in general and therefore SIR. Please refer to the Fund's March 31, 2009 Annual Information Form for further discussion on risks and uncertainties related to SIR.

SIR is a holder of partnership interests in the Partnership. The Fund is also an indirect holder of partnership interests in the Partnership. The income of the Fund must be computed and will be taxed in accordance with Canadian tax laws. There is no assurance that Canadian federal income tax laws respecting the treatment of trusts will not be changed in a manner which adversely affects Unitholders.

On June 22, 2007, Bill C-52, which significantly modifies the income tax rules applicable to certain publicly traded or listed trusts and partnerships, received Royal Assent. In particular, certain income of (and distributions made by) publicly listed flow-through entities ("FTE's") will be taxed in a manner similar to income earned by (and distributions made by) a corporation and investors in the FTE would be taxed as though the distributions were dividends. Because the Fund was publically traded or listed prior to November 1, 2006, it is not subject to these new rules until its 2011 taxation year, so long as the Fund meets the requirements for normal growth. On December 15, 2006, the Federal Department of Finance released guidance provisioning the amount of growth that FTE's are permitted to experience without jeopardizing its deferral of these new taxation rules. The 2011 date will hold for those FTE's whose equity capital growth does not exceed the greater of $50 million and the FTE's market capitalization as of the end of trading on October 31, 2006. As a result of these new rules, the Fund has a future income tax liability in their financial statements.

On March 12, 2009, Bill C-10 – Budget Implementation Act 2009, which further modifies the rules applicable to certain publically traded or listed trusts and partnerships, received Royal Assent. In particular, Bill C-10 provides rules to facilitate the conversion of an income trust into a corporation on a tax-deferred basis (the "Conversion Rules"). The Conversion Rules provide income trusts with tax efficient structuring options to convert to corporate form in advance of their 2011 taxation year – at which time most income trusts would become subject to a new entity-level tax based on corporate income tax rates.

SIR is considering these announcements and the possible impact of the new rules to it and to the Fund. The new rules may adversely affect the value and marketability of SIR's indirect interests in the Fund, and at such time as the new rules apply to the Fund, the distributable cash of the Fund may be materially reduced. As a result, the new rules may adversely affect SIR, as the holder of partnership interests which are convertible into units of the Fund, as well as the Fund and its Unitholders. SIR intends to continue to assess and plan for their expected impact. Changes may prove necessary to seek to adapt to any new tax laws with a view to attempting, where practicable, to minimize their overall adverse effects.

Outlook

SIR intends to continue to focus on maintaining restaurant sales and profits and reducing costs in light of the current economic conditions in Canada.

SIR intends to slow its growth from its previously stated goal of reaching a total restaurant count of 68 restaurants by December 2010. SIR currently has 45 restaurants open in Canada and since October 2004, the Fund's Initial Public Offering, SIR has opened fourteen new restaurants to date. It has secured three additional sites, one with a planned opening in calendar year 2010 and two with planned openings in calendar year 2011. Given the current economic environment, SIR has determined the most prudent course of action is to slow its growth plans. Additional sites will be considered, however growth is expected to be slowed for at least the next calendar year. Management continues to monitor current economic conditions and consumer confidence. Based on its assessment of these conditions, the timing of restaurant construction and opening schedules will be reviewed regularly by Management and adjusted as necessary.

Six new locations were added to the Royalty Pooled Restaurants effective January 1, 2009. These locations included the new Jack Astor's that opened on April 7, 2008 and the new Canyon Creek that opened on April 8, 2008, both near the Toronto Pearson International Airport, the new Jack Astor's that opened on May 5, 2008, at the corner of Yonge and Dundas Streets in downtown Toronto, Ontario, the new Jack Astor's located in the closed Brasserie Frisco location that opened on July 7, 2008, the new Jack Astor's near the corner of Don Mills Road and Lawrence Avenue in Toronto, Ontario that opened on October 6, 2008, and the new Jack Astor's at one of Toronto's busiest and most highly-visible locations; the corner of Yonge and Bloor Streets that opened on October 31, 2008.

Three new Jack Astor's restaurants were added to the Royalty Pooled Restaurants effective January 1, 2008 (Jack Astor's in Hamilton, Ontario and Dartmouth, Nova Scotia, which both opened during fiscal 2007 and Jack Astor's in Burlington, Ontario which opened in Q1 of fiscal 2008). Two closed restaurants were removed from the Royalty Pooled Restaurants effective January 1, 2008.

On one of the three secured sites mentioned above, SIR has plans to construct a Jack Astor's in Boisbriand, Quebec which is expected to open in calendar year 2010**.** The remaining two new sites are at the corner of Yonge and Gerrard Streets, in Toronto, Ontario and are expected to open in calendar year 2011.

In Q1, SIR closed the Alice Fazooli's near the Square One shopping mall in Mississauga, Ontario, for 10 days to complete a repositioning and renovation. The intent of these changes was to broaden Alice Fazooli's market penetration, similar to the previously completed evolutions of the Jack Astor's (2004 through 2007). Management is encouraged by the performance of this renovation and repositioning, and believes that many of its elements have applicability across some of the other Alice Fazooli's restaurants.

Management believes that the recent weaker economic conditions have contributed to the year-over-year SSS[(1)] declines. Management believes that restaurants with a higher average cheque, such as Alice Fazooli's, Canyon Creek and the downtown Toronto Signature Restaurants, tend to experience a greater decline in sales volumes. Jack Astor's, which accounts for approximately 67% of Pooled Revenue, has been affected, but to a lesser extent than the other concepts and it is believed that it is due to its somewhat lower average cheque. During the year, SSS[(1)] in the full service restaurant industry have been negatively impacted by the current economic conditions and Management does not expect significant improvements in these conditions in the near future.

Management believes that there are sufficient cash resources retained in SIR from its cash generated by operations to fund its working capital requirements.

On November 13, 2009, SIR entered into a new Credit Agreement with a new senior lender to refinance its current revolving line of credit and construction facility and to facilitate the repurchase of certain of its common shares (see Liquidity and Capital Resources section).

In June 2007, legislation was enacted that changes the manner in which distributions from certain publicly listed flow-through entities including income funds are taxed (see Risks and Uncertainties section).

Management is carefully monitoring the effects on SIR's business of the continued weakness in economic conditions and consumer confidence. SIR expects that the current economic downturn could continue to negatively affect its sales and profit prospects in the near future. In anticipation of a continuing economic downturn, SIR has implemented some cost saving initiatives and continues to review its opportunities with regard to other cost savings. SIR is also undertaking cash preservation strategies, which include the previously announced slowing of growth plans. SIR intends to continue to focus on sustaining and growing restaurant sales and profits while managing costs in light of the current economic conditions in Canada.

SIR limited its mass media advertising during 2009. It had one mass media campaign during Q2 of 2009 and launched its exciting new advertising campaign, "Get Fresh" for Jack Astor's, during Q3 of 2009. This campaign included direct mail, radio and television banner advertisements supporting Jack Astor's key markets. SIR intends to return to its regular advertising initiatives including radio-based advertising and recently launched a 4-week media campaign for Canyon Creek that included print, television, on-line and radio advertisements.

During the last six years, SIR has made significant investments in both new and existing restaurants. All but two of SIR's 45 restaurants have either been newly constructed or renovated within the past six years. This leaves SIR well positioned with modern and relevant concepts, which Management believes will help position SIR to work through the current economic downturn. SIR management is committed to maximizing the performance of all of its restaurants.

[(1)] See footnote [(1)] on page 3

Forward Looking Information

Statements in this report, including the information set forth as to the future financial or operating performance of the Fund or SIR, that are not current or historical factual statements may constitute "forward-looking" information within the meaning of securities laws. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Fund, the Trust, the Partnership, SIR, the SIR Restaurants, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this document, such statements may include, among other language, such words as "may", "will", "expect", "believe", "plan", "anticipate", "intend", "estimate" and other similar terminology. These statements reflect Management's current expectations, estimates and projections regarding future events and operating performance and speak only as of the date of this document. Readers should not place undue importance on forward-looking statements and should not rely upon this information as of any other date. These forward-looking statements involve a number of risks and uncertainties. The following are some of the factors that could cause actual results to differ materially from those expressed in or underlying such forward-looking statements: competition; changes in demographic trends; changing consumer preferences and discretionary spending patterns; changes in consumer confidence; changes in national and local business and economic conditions; changes in availability of credit; legal proceedings and challenges to intellectual property rights; dependence of the Fund on the financial condition of SIR; legislation and governmental regulation; accounting policies and practices; and the results of operations and financial condition of SIR. The foregoing list of factors is not exhaustive. Many of these issues can affect the Fund's or SIR's actual results and could cause their actual results to differ materially from those expressed or implied in any forward-looking statements made by, or on behalf of, the Fund or SIR. Readers are cautioned that forward-looking statements are not guarantees of future performance, and should not place undue reliance on them. The Fund and SIR expressly disclaim any obligation or undertaking to publicly release any updates or revisions to any forward-looking statements contained herein to reflect any change in expectations, estimates and projections with regard thereto or any changes in events, conditions or circumstances on which any statement is based, except as expressly required by law. This Management Discussion and Analysis is provided as of November 24, 2009**.**

In formulating the forward-looking statements contained herein, Management has assumed that business conditions affecting SIR's restaurants and the Fund will continue substantially in the ordinary course, including without limitation with respect to general industry conditions, regulations (including those regarding employees, food safety, tobacco and alcohol), weather, taxes, foreign exchange rates and interest rates, that there will be no pandemics or other material outbreaks of disease or safety issues affecting humans or animals or food products, and that there will be no unplanned material changes in its facilities, equipment, customer and employee relations, or credit arrangements. Management is not anticipating an improvement, in the near future, in economic conditions (particularly as it relates to the recent unprecedented deterioration of the economic environment and consumer confidence, which could significantly negatively affect sales and profit prospects in the near future). Management is not anticipating an improvement, in the near future, in the availability of credit (particularly as it relates to the recent disruption of world credit markets, which could significantly negatively affect sales and profit prospects in the near future). These assumptions, although considered reasonable by Management at the time of preparation, may prove to be incorrect. In particular, in estimating the revenues for the five new Jack Astor's restaurants, and one new Canyon Creek restaurant added to Royalty Pooled Restaurants on January 1, 2009, Management has assumed that they will operate consistent with other Jack Astor's and Canyon Creek restaurants. For more information concerning the Fund's risks and uncertainties, please refer to the October 2004 final prospectus, and/or its March 31, 2009 Annual Information Form, all of which are available under the Fund's profile at www.sedar.com.

Additional information related to SIR, the Partnership and the Fund can be found at www.sedar.com and on SIR's website at www.sircorp.com