SIR CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FIRST QUARTER FISCAL 2008

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

12-WEEK PERIOD ENDED NOVEMBER 18, 2007

SIR CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS
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FOR THE 12-WEEK PERIOD ENDED NOVEMBER 18, 2007

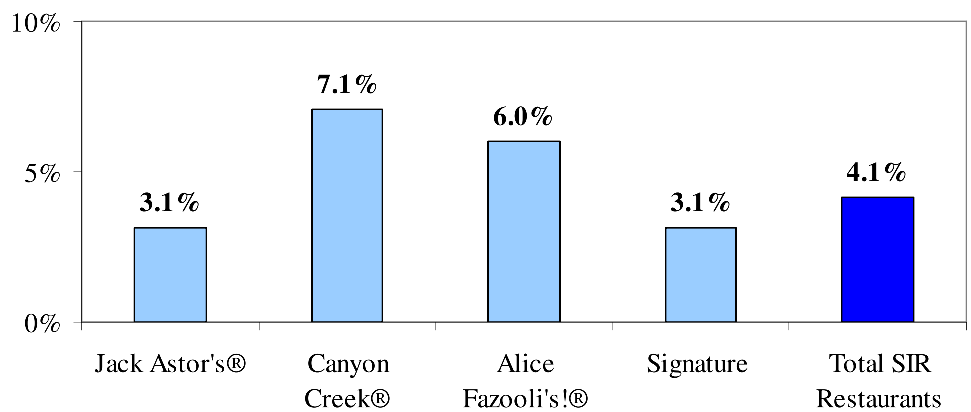
Executive Summary

SIR Corp. continues to follow its growth strategy and experience total and same store sales growth(1) ("SSSG") during its first quarter of fiscal 2008 ("Q1") which was from August 27, 2007 to November 18, 2007 inclusive.

Highlights for SIR's first quarter include:

- ***Growth in both consolidated revenue and Same Store Sales(1) ("SSS") (unaudited):***
  - Food and beverage revenue from corporate restaurant operations for Q1 was $40.0 million vs. $36.4 million for the first quarter of fiscal 2007, an increase of 9.8%.
  - SSSG(1) for restaurants in the Royalty pool was 4.1% for Q1.
  - SSSG(1) for the Concept Restaurants (Jack Astor's®, Canyon Creek® and Alice Fazooli's!®), which generate approximately 88.2% of year to date ("YTD") Pooled Revenue, was 4.3% for the 12-week period ended November 18, 2007.
  - SSSG(1) for Jack Astor's, SIR's flagship Concept Restaurant brand that generates approximately 59.0% of YTD Pooled Revenue, was 3.1% for the 12-week period ended November 18, 2007.
  - Canyon Creek continues to perform well, with SSSG(1) of 7.1% for the 12-week period ended November 18, 2007.
  - For the 12-week period ended November 18, 2007, SSSG(1) of Alice Fazooli's! was 6.0%.
  - SSSG(1) of the downtown Toronto Signature Restaurants, which represent approximately 11.8% of YTD Pooled Revenue, was 3.1% for the 12-week period ended November 18, 2007.

Same Store Sales Growth(1) for the 12-week period ended November 18, 2007



- ***Investment in existing restaurants***
  - During Q1, the Armadillo Steak House®/Loose Moose Tap & Grill® underwent a renovation and now operates as the Loose Moose Tap & Grill on both floors of the premises. Management is pleased with the results of this change and expects to experience higher revenue from this location in fiscal 2008.
  - During Q1, renovations at the Soul of the Vine® took place in order to introduce an innovative bakery concept, Petit Four™ Bakery, which targets the lucrative catering and take-out markets in the downtown Toronto core. Management is pleased with the result and early media coverage has been positive.
  - Subsequent to Q1, the last of the existing Jack Astor's restaurants originally in the Royalty pool underwent the successful evolution process.
  - In Q1 of fiscal 2007, a major renovation of reds® was completed and reds continues to experience strong sales growth since the renovation.

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(1) Same store sales includes revenue from all SIR restaurants except for the Jack Astor's located in Hamilton, Ontario, Dartmouth, Nova Scotia and both the former and existing Burlington, Ontario locations because they were not open for the entire comparable periods in fiscal 2008 and fiscal 2007 (the US restaurant is not part of SSS). Same store sales growth 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 7 and to the definition of SSS in the Revenue section on page 8.

- ***Investment in new restaurants***
  - During Q1, a new Jack Astor's site opened in Burlington, Ontario, on October 15, 2007. The former Jack Astor's restaurant in Burlington was closed on September 29, 2007. With respect to the closed Burlington restaurant location, SIR is required to pay a Make-Whole Payment from the date of closure to December 31, 2007. It is expected that the closed restaurant will be removed from the Royalty Pooled Restaurants as a New Closed Restaurant, effective January 1, 2008 and the new Jack Astor's restaurant in Burlington will be added to the Royalty Pooled Restaurants, effective January 1, 2008 as a New Additional Restaurant. The new site is expected to provide higher revenues and therefore a greater Royalty stream to the SIR Royalty Limited Partnership (the "Partnership").
  - During Q1 of fiscal 2007, a new Canyon Creek restaurant opened at the Fallsview Casino Resort in Niagara Falls, Ontario, on August 28, 2006. This restaurant, along with the two other Canyon Creek restaurants opened during the latter half of fiscal 2006 were added to the Royalty Pooled Restaurants effective January 1, 2007.
  - During Q3 of fiscal 2007, on March 26, 2007, SIR opened a new Jack Astor's restaurant in Hamilton, Ontario. During Q4 of fiscal 2007, on May 7, 2007, SIR opened a new Jack Astor's restaurant in Dartmouth, Nova Scotia. It is expected that these restaurants will be added to the Royalty Pooled Restaurants effective January 1, 2008.
  - In the first half of calendar year 2008, SIR expects to open a new Jack Astor's in the former Brasserie Frisco® location, which is expected to close on December 22, 2007. After evaluating a range of options, SIR determined that converting Brasserie Frisco into a new Jack Astor's is the best use of this prime downtown Toronto location. It is expected that Brasserie Frisco will be treated as a 2007 Closed Restaurant and it is expected that the new Jack Astor's will be added to the Royalty Pooled Restaurants effective January 1, 2009 as a New Additional Restaurant. SIR is required to pay a Make-Whole Payment from the date of closure to December 31, 2007.
  - A new Jack Astor's is expected to open in Don Mills, Ontario in the second half of calendar year 2008. SIR has secured a site in the "lifestyle mall" which is currently being developed in the same location where a former Jack Astor's restaurant existed. This former Jack Astor's was closed in fiscal 2006 and removed from the Royalty pool effective January 1, 2007.
  - SIR has secured four additional sites for Jack Astor's and Canyon Creek restaurants with expected openings in calendar year 2008. One of these new sites is for a Jack Astor's at the corner of Dundas and Yonge Streets in Toronto, Ontario. Two new sites have been secured near the Toronto Pearson International Airport for a Jack Astor's and a Canyon Creek, under one lease. The fourth site is for a Jack Astor's in Boisbriand, Quebec.
- ***Net Loss from Continuing Operations***
  - The net loss from continuing operations for Q1 of $1.1 million was $1.1 million favourable to the same period in the prior year.
- ***EBITDA[(2)]***
  - EBITDA[(2)] for the first quarter is $2.4 million and $1.6 million in the current and prior year, respectively**.**

Outlook

- SIR continues to follow its sales building initiative it began after launching the SIR Royalty Income Fund (the "Fund") in fiscal 2005. Since then SIR has opened five new Jack Astor's restaurants and three new Canyon Creek restaurants. All the original Jack Astor's restaurants still in existence in the Royalty pool have undergone the sales building evolution program, with the last one completed subsequent to Q1. 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 and Far Niente. The Armadillo Steak House/Loose Moose Tap & Grill and the Soul of the Vine also underwent renovations, during Q1 of fiscal 2008. SIR expects to open a new Jack Astor's restaurant in the former Brasserie Frisco location in the first half of calendar year 2008 and expects to reopen the Jack Astor's location in Don Mills, Ontario in the second half of calendar year 2008. In addition, four new sites for Jack Astor's and Canyon Creek restaurants have been secured with expected openings in calendar year 2008. All of this work is being done to set in place a foundation for anticipated sales growth and improved earnings for SIR. Management is committed to maximizing the performance of all of its restaurants.

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(1) See footnote (1) on page 3

(2) References to EBITDA are to SIR's net loss from continuing operations before non-controlling interest in other subsidiary companies, provision for (recovery of) income taxes, other expense (income), provisions for impairment of notes receivable, 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. Management believes that, in addition to net earnings or loss, EBITDA is a useful supplemental measure in evaluating SIR's performance. EBITDA is not a financial measure recognized by Canadian generally accepted accounting principles ("GAAP") and does not have a standardized meaning prescribed by GAAP. Management cautions investors that 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 may differ from the methods used by other issuers. Therefore, SIR's EBITDA may not be comparable to similar measures presented by other issuers. Please refer to the reconciliation of loss from continuing operations to EBITDA on page 6 of this document.

- During Q4 of fiscal 2007, SIR completed a $16.0 million financing arrangement that is expected to help facilitate SIR's restaurant expansion plans (see Liquidity and Capital Resources section).
- On October 31, 2006, the Federal Department of Finance announced a plan that proposes changes to the manner in which distributions from certain publicly listed flow-through entities ("FTE's") including income funds are taxed. However, existing Income Trusts would not be subject to this proposed taxation of distributions until the 2011 taxation year so long as the Fund meets the requirements for "normal growth". This legislation was enacted in June, 2007. The Trustees of the Fund and senior management of SIR will continue to monitor this development.

Overview

SIR is a private company amalgamated under the Business Corporations Act of Ontario. As at November 18, 2007**,** SIR operates 40 Concept and Signature Restaurants in Canada (in Ontario, Quebec, Alberta and Nova Scotia). The Concept Restaurants are Jack Astor's Bar and Grill, Canyon Creek Chop House® and Alice Fazooli's!. The Signature Restaurants are reds, Far Niente/Soul of the Vine, Petit Four, Brasserie Frisco, and the Loose Moose Tap & Grill. As at November 18, 2007, 38 SIR Restaurants were included in the SIR Royalty Pooled Restaurants. The three new Canyon Creek restaurants which opened during calendar year 2006: one in Scarborough, Ontario, one in Vaughan, Ontario, and one located at the Fallsview Casino Resort in Niagara Falls, Ontario, were added to the Royalty Pooled Restaurants on January 1, 2007. SIR started operating one new Jack Astor's restaurant located in Hamilton, Ontario on March 26, 2007, and a second one located in Dartmouth, Nova Scotia, on May 7, 2007. During the 12-week period ended November 18, 2007, SIR closed the former Jack Astor's in Burlington, Ontario and opened a Jack Astor's in a new location in Burlington, Ontario. It is expected that the closed Burlington location will cease to be part of the Royalty Pooled Restaurants on January 1, 2008 and the three new Jack Astor's, opened during calendar year 2007, are expected to be added to the Royalty Pooled Restaurants on January 1, 2008. It is also expected that Brasserie Frisco, which is expected to close subsequent to November 18, 2007, will cease to be part of the Royalty Pooled Restaurants on January 1, 2008. SIR owns 100% of all its Canadian restaurants, except for Jack Astor's Don Mills Limited (50%). SIR closed the Jack Astor's location in Don Mills, Ontario during fiscal 2006. This restaurant ceased to be part of the Royalty Pooled Restaurants on January 1, 2007. SIR also has an investment in one Jack Astor's restaurant in the USA which is not included in the Royalty Pooled Restaurants.

On October 1, 2004, 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. 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 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 2008 and 2007 consist of 53 weeks and 52 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 first 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 12-week period ended November 18, 2007. The unaudited 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 unaudited consolidated financial statements of SIR for the 12-week period ended November 18, 2007, including the notes thereto.

Statements of Operations	12-week Period Ended November 18, 2007	12-week Period Ended November 19, 2006
	(in thousands of dollars) (unaudited)	
Corporate restaurant operations:		
Food and beverage revenue	39,966	36,413
Cost of corporate restaurant operations	36,603	33,868
Earnings from corporate restaurant operations	**3,363**	**2,545**
Net loss from continuing operations for the period	**(1,087)**	**(2,204)**
Net loss for the period	**(1,087)**	**(2,243)**

Balance Sheet	November 18, 2007	August 26, 2007
	(in thousands of dollars)	
	(unaudited)	
Total assets	61,383	65,823
Total long-term liabilities	56,101	59,602

EBITDA[(2)]

EBITDA[(2)] is a non-GAAP measure used by SIR to supplement its reporting of net loss from continuing operations and net cash flow from continuing operations. EBITDA[(2)] consists of loss from continuing operations 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)] is a useful estimate of the core business's contribution to cash flow from continuing 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 loss from continuing operations for the period to EBITDA[(2)]:

Reconciliation of net loss from continuing operations for the period to EBITDA[(2)]	12-week Period Ended November 18, 2007	12-week Period Ended November 19, 2006
	(in thousands of dollars) (unaudited)	
Net loss from continuing operations for the period	(1,087)	(2,204)
Add (deduct):		
Non-controlling interest in other subsidiary companies	(18)	-
Other expense (income)	(12)	108
Provision for impairment of investments and loans receivable	-	100
Unrealized foreign exchange (gain) loss	(153)	52
Interest expense - net	48	15
Interest on loan payable to SIR Royalty Income Fund	690	690
Non-controlling interest in SIR Royalty Limited Partnership	1,088	1,043
Other amortization	62	73
Amortization of restaurant assets	1,732	1,693
EBITDA[(2)]	**2,350**	**1,570**
Income from Class A & B GP Units of the Partnership [(3)] (Not included in EBITDA[(2)] above)	461	327
6% Royalty obligations under License and Royalty Agreement [(4)]	2,242	2,069

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

[(3)] *Includes the additional distribution paid to Class B GP Unitholders in December of each year, if any. There was no additional distribution in the 12-week periods ended November 18, 2007 or November 19, 2006, respectively.*

[(4)] *See the SIR Royalty Income Fund section of this document for the Royalty calculation. Pooled Revenue includes revenue from all restaurants included in the Royalty pool. On January 1st of each year, New Additional Restaurants are added and New Closed Restaurants are removed from the Royalty pool. Royalty obligations equal 6% of Pooled Revenue plus any Make-Whole Payments. The Royalty obligations for the 12-week period ended November 18, 2007 included a Make-Whole Payment for the closed Jack Astor's location in Burlington and the Royalty obligations for the 12-week period ended November 19, 2006 included a Make-Whole Payment for the closed Jack Astor's location in Don Mills, Ontario.*

Results of Operations

Reconciliation of Revenue from Unaudited Consolidated Financial Statements to Pooled Revenue	12-Week Period Ended November 18, 2007	12-Week Period Ended November 19, 2006
	(in thousands of dollars) (unaudited)	
Revenue reported in unaudited consolidated financial statements	39,966	36,413
Less: Revenue from corporate restaurant operations excluded from the Royalty pool[4]	2,848	2,620
Revenue for restaurants in the Royalty pool	**37,118**	**33,793**

Reconciliation of Revenue from Unaudited Consolidated Financial Statements to Same Store Sales[1]	12-week Period Ended November 18, 2007	12-week Period Ended November 19, 2006
	(in thousands of dollars) (unaudited)	
Revenue reported in unaudited consolidated financial statements	39,966	36,413
Less: Revenue from corporate restaurant operations excluded from same store sales[1]	3,040	954
Same store sales[1]	**36,926**	**35,459**

Same Store Sales[1] by Segment	12-week Period Ended November 18, 2007	12-week Period Ended November 19, 2006	% Fav. / (Unfav.)
	(in thousands of dollars) (Unaudited)		
Jack Astor's	21,713	21,053	3.1%
Alice Fazooli's!	4,437	4,186	6.0%
Canyon Creek	6,383	5,960	7.1%
Signature Restaurants	4,393	4,260	3.1%
Same store sales[1]	**36,926**	**35,459**	**4.1%**

Summary of Quarterly Results

Statement of Operations	1st Quarter Ended November 18, 2007 (12 weeks)	4th Quarter Ended August 26, 2007 (16 weeks)	3rd Quarter Ended May 6, 2007 (12 weeks)	2nd Quarter Ended February 11, 2007 (12 weeks)	1st Quarter Ended November 19, 2006 (12 weeks)	4th Quarter Ended August 27 2006 (16 weeks)	3rd Quarter Ended May 7, 2006 (12 weeks)	2nd Quarter Ended February 12, 2006 (12 weeks)
Corporate Restaurant Operations					(in thousands of dollars) (unaudited)			
Food and beverage revenue	39,966	53,659	38,790	38,351	36,413	47,233	35,975	35,774
Cost of corporate restaurant operations	36,603	49,394	34,863	34,874	33,868	43,260	32,117	32,212
Earnings from corporate restaurant operations	3,363	4,265	3,927	3,477	2,545	3,973	3,858	3,562
Net loss from continuing operations for the period	(1,087)	(960)	(373)	(845)	(2,204)	(1,376)	(496)	(1,098)
Net loss for the period	(1,087)	(953)	(258)	(857)	(2,243)	(1,405)	(392)	(1,222)

[1] *See footnote [1] on page 3*
[4] *See footnote [4] on page 6*

Selected Unaudited Consolidated Statement of Cash Flows Information	1st Quarter Ended November 18, 2007 (12 weeks)	4th Quarter Ended August 26, 2007 (16 weeks)	3rd Quarter Ended May 6, 2007 (12 weeks)	2nd Quarter Ended February 11, 2007 (12 weeks)	1st Quarter Ended November 19, 2006 (12 weeks)	4th Quarter Ended August 27, 2006 (16 weeks)	3rd Quarter Ended May 7, 2006 (12 weeks)	2nd Quarter Ended February 12, 2006 (12 weeks)
				(in thousands of dollars) (unaudited)				
Net cash provided by continuing operations	594	3,902	457	3,087	136	2,400	1,420	2,388
Net cash used in continuing investing activities	(2,722)	(3,202)	(2,765)	(2,309)	(2,847)	(3,286)	(3,897)	(3,479)
Net cash from (used in) continuing financing activities	2,016	(650)	39	(122)	(642)	4,924	(86)	(80)
Increase (decrease) in cash and cash equivalents during the period	(115)	(186)	(1,953)	661	(3,357)	4,060	(2,548)	(1,498)
Cash and cash equivalents – Beginning of period	3,377	3,563	5,516	4,855	8,212	4,152	6,700	8,198
Cash and cash equivalents – End of period	3,262	3,377	3,563	5,516	4,855	8,212	4,152	6,700

Revenue

There are a number of references to different revenue groupings used in the unaudited consolidated financial statements, the notes to the unaudited 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 unaudited consolidated statements of operations) – this is the total consolidated revenue of all restaurants for the period. The restaurants include the 40 SIR restaurants and the revenue from the continuing USA Jack Astor's. For the 12-week period ended November 18, 2007 this revenue was $40.0 million.

ii. Same Store Sales(1) – this is a sub-set of i above used for tracking comparable year-over-year sales. For Q1 fiscal 2008 and 2007, SSS(1) includes all SIR restaurants except for Jack Astor's in Hamilton, Ontario and Jack Astor's in Dartmouth, Nova Scotia because they were not open for the entire comparable period in fiscal 2007. It also excludes revenue from both the closed and new Jack Astor's locations in Burlington, Ontario because they were not open for the entire comparable periods in fiscal 2008 and 2007 (the US restaurant is not part of SIR Restaurants). For the 12-week period ended November 18, 2007, this revenue was $36.9 million.

iii. Pooled Revenue – is the revenue subject to the License and Royalty Agreement – this includes revenue from all restaurants included in the Royalty pool. The restaurants in the Royalty pool are adjusted on January 1st of each year for New Additional Restaurants and New Closed Restaurants. Currently there are 38 restaurants in the Royalty pool. For the 12-week period ended November 18, 2007, Pooled Revenue was $37.1 million. The applicable Royalty payable to the Partnership on the Pooled Revenue for this was $2.2 million and includes a Make-Whole Payment with respect to the closed Jack Astor's location in Burlington, for the period from the date of closure to November 18, 2007.

Same Store Sales(1)

SSSG(1) was 4.1% for the 12-week period ended November 18, 2007. The Concept Restaurants (Jack Astor's, Canyon Creek and Alice Fazooli's!) generate approximately 88.2% of YTD Pooled Revenue, while the Signature restaurants generate the other approximate 11.8% of YTD Pooled Revenue.

SSSG(1) for Jack Astor's, SIR's flagship Concept Restaurant brand which generates approximately 59.0% of YTD Pooled Revenue was 3.1% for the 12-week period ended November 18, 2007. All the existing Jack Astor's restaurants originally in the Royalty pool have now been evolved.

Canyon Creek continues to perform well, with SSSG(1) of 7.1% for the 12-week period ended November 18, 2007.

SSSG(1) of Alice Fazooli's! was 6.0% for the 12-week period ended November 18, 2007.

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

SSSG[(1)] of the downtown Toronto Signature Restaurants, which represent approximately 11.8% of YTD Pooled Revenue, was 3.1% for the 12-week period ended November 18, 2007. During the 12-week period ended November 19, 2006, reds was closed for 11 days for renovations. Management is pleased with the results of the renovations and reds has experienced strong sales growth since the renovation. During Q1 of fiscal 2008, renovations at Soul of the Vine took place in order to introduce an innovative bakery concept, Petit Four Bakery, which targets the lucrative catering and take-out markets in the downtown Toronto core. These increases in SSS[(1)] are partially offset by the decline in SSS[(1)] at Brasserie Frisco and the Armadillo Steak House/Loose Moose Tap & Grill. The Armadillo Steak House/Loose Moose Tap & Grill was closed for eight days during Q1 of fiscal 2008 while it underwent a renovation which accounts for some of the decline in SSS[(1)]. It is now operating as the Loose Moose Tap & Grill on both floors of the premises and, as a result, Management anticipates that SSS[(1)] will improve. The Brasserie Frisco is expected to close on December 22, 2007 with the expectation that a new Jack Astor's would open in the former Brasserie Frisco location in the first half of calendar year 2008. After evaluating a range of options, SIR determined that converting Brasserie Frisco into a new Jack Astor's is the best use of this prime downtown Toronto location.

Cost of Corporate Restaurant Operations

As a percentage of revenue, costs of corporate restaurant operations decreased to 91.6% for the 12-week period ended November 18, 2007 from 93.0% for the 12-week period ended November 19, 2006. The improvement in earnings from corporate restaurant operations in the three Canyon Creek restaurants which were opened in calendar year 2006 has helped to improve the costs as a percentage of revenue in Q1 of fiscal 2008. Management believes that the performance of all three new restaurants will continue to improve as awareness builds for these locations, in a manner similar to the build experienced for the previous four Canyon Creek openings.

Corporate costs

Corporate costs increased $0.08 million for the 12-week period ended November 18, 2007 as compared to the 12-week period ended November 19, 2006.

Interest expense - net

Interest expense increased $0.03 million for the 12-week period ended November 18, 2007 compared to the 12-week period ended November 19, 2006. The increase is due to the interest expense on the new capital lease obligation and new bank debt during the 12-week period ended November 18, 2007.

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 $0.7 million for both the 12-week periods ended November 18, 2007 and November 19, 2006, respectively.

The Fund's share of the income of the Partnership for the 12-week period ended November 18, 2007 and November 19, 2006 of $1.1 million and $1.0 million, respectively has been recorded as non-controlling interest in the unaudited consolidated statements of operations.

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

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

The unrealized foreign exchange gain for the continuing operations of JACL is $0.2 million for the 12-week period ended November 18, 2007. There was an unrealized foreign exchange loss of $0.05 million for the 12-week period ended November 19, 2006.

Provision for impairment of notes receivable

During the 12-week period ended November 19, 2006, SIR advanced $0.4 million to U.S. S.I.R. L.L.C. and its subsidiaries to facilitate the repayment of certain debt that became due. The advance is non-interest bearing, non-secured and due on demand. SIR determined that this advance is impaired based on estimated future cash flows of the remaining U.S. operations. Accordingly, the $0.4 million of advances and notes receivable from U.S. S.I.R. L.L.C. and its subsidiaries are written down to their net realizable value of $0.3 million. The provision of $0.1 million is included in the provision for impairment of notes receivable in the unaudited consolidated statements of operations for the 12-week period ended November 19, 2006. No advances have been made in Q1 of fiscal 2008. 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).

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

Other income (expense)

Other income is \$0.01 million for the 12-week period ended November 18, 2007 compared to an expense of \$0.1 million for the 12-week period ended November 19, 2006.

EBITDA[(2)]

EBITDA[(2)] is \$2.4 million for the 12-week period ended November 18, 2007, compared to \$1.6 million for the 12-week period ended November 19, 2006 (see Selected Consolidated Historical Financial Information - Reconciliation of net loss from continuing operations for the period to 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 SIR Loan bears interest at 7.5% per annum, 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 this credit facility (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.

Under the Interlender Agreement, absent a default or event of default under the Credit Agreement, 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, the 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.

Interest expense of \$0.7 million and \$0.7 million was charged to the unaudited consolidated statements of operations for the 12-week periods ended November 18, 2007 and November 19, 2006, 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 \$0.004 million and \$0.03 million has been recorded as interest expense in the unaudited consolidated statements of operations for the 12-week periods ended November 18, 2007 and November 19, 2006, respectively. In addition, the financing costs were reclassified on August 27, 2007 and are currently netted against the SIR Loan in the unaudited consolidated financial statements. Prior to fiscal 2008, these costs were recorded in intangible and other assets in the interim unaudited and annual audited consolidated financial statements (see Changes in Accounting Policies, Including Initial Adoption section).

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

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

	12-Week Period Ended November 18, 2007	12-Week Period Ended November 19, 2006
	(in thousands of dollars) (unaudited)	
Initial investment by the Fund	11,167	11,167
Non-controlling interest in earnings of the Partnership	1,088	1,043
Distributions declared on the Partnership's Units held by non-controlling interest	(1,088)	(1,043)
Non-controlling interest in the Partnership	11,167	11,167
Pooled Revenue [5]	37,118	33,793
Partnership Royalty income [6]	2,242	2,069
Other income	12	13
Partnership expenses	(15)	(22)
Net earnings of the Partnership	2,239	2,060
SIR's interest in the earnings of the Partnership:		
Income from Class A & B GP Units of the Partnership	(461)	(327)
Income from Class C GP Units of the Partnership	(690)	(690)
	(1,151)	(1,017)
Non-controlling interest in the earnings of the Partnership	1,088	1,043

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.

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.

The Partnership has 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 the Royalty pool (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 revenue 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 restaurants in the Royalty pool is equal to or greater than 68 or following October 12, 2019, whichever occurs first. On January 1 of each year (the "Adjustment Date"), the restaurants subject to the License and Royalty Agreement are adjusted for new SIR Restaurants opened for at least 60 days preceding such Adjustment Date. At each Adjustment Date, SIR will be entitled to convert its Class B GP Units of the Partnership to Class A GP Units of the Partnership 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 revenue 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 revenue. 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 revenue or there may be a reduction in the distributions to the Class A GP unitholders if revenues are less than 80% of the initial estimated revenue.

(5) Includes revenue from the SIR Restaurants subject to the License and Royalty Agreement and excludes revenue from JACL. On January 1, 2007, three restaurants were added to the Royalty pool. Revenues from these three restaurants have been included in Pooled Revenue for the period from January 1, 2007 to November 18, 2007. 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 the Royalty pool.

On January 1, 2007, three new SIR Restaurants, Canyon Creek in Scarborough, Canyon Creek in Vaughan, and the Canyon Creek restaurant located at the Fallsview Casino Resort in Niagara Falls, Ontario, were added to the Royalty pool in accordance with the License and Royalty Agreement. As consideration for the additional Royalty associated with the addition of three new restaurants on January 1, 2007, as well as the Second Incremental Adjustment for the two new SIR restaurants added to the Royalty Pooled Restaurants on January 1, 2006, 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 one SIR Restaurant during calendar year 2006. The net effect of these adjustments to the Royalty Pooled Restaurants was that SIR converted 421,004 Class B GP Units of the Partnership into 421,004 Class A GP Units of the Partnership on January 1, 2007 at an estimated fair value of $3.5 million. As a result of this exchange, SIR's interest in the Partnership increased to 21.4% effective January 1, 2007. As actual revenues, for the calendar year 2007, of the three new SIR Restaurants added to the Royalty pool on January 1, 2007 are not yet known, the additional Class B GP Units that may be converted to Class A GP Units and the additional distribution have not yet been determined. Currently, management expects to exceed 80% of the initial estimated revenue, which is expected to result in an additional distribution. The revenues of the two New Additional Restaurants added to the Royalty pool on January 1, 2006 exceeded 80% of the Initial Adjustment's estimated revenue and, as a result, an additional distribution of $0.2 million was declared in December 2006 and paid in cash to SIR in January 2007.

(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	12-week Period Ended November 18, 2007	12-week Period Ended November 19, 2006
	(in thousands of dollars) (unaudited)	
Net cash provided by continuing operations	594	136
Net cash used in continuing investing activities	(2,722)	(2,847)
Net cash from (used in) continuing financing activities	2,016	(642)
Decrease in cash and cash equivalents during the period	(115)	(3,357)
Cash and cash equivalents – Beginning of period	3,377	8,212
Cash and cash equivalents – End of period	3,262	4,855

Net cash provided by continuing operations increased by $0.5 million for the 12-week period ended November 18, 2007 as compared to the 12-week period ended November 19, 2006. The increase is mainly attributable to a decrease in net loss from continuing operations of $1.1 million offset by a decrease in the receipt of landlord inducements of $0.4 million.

During fiscal years 2005, 2006 and 2007, SIR has purchased property and equipment totalling approximately $36.7 million. This represents investments in new restaurants, (including eight completed as at November 18, 2007 and three in progress)**,** major renovations of 25 existing restaurants, certain other profit enhancing initiatives (such as new patios and patio expansions) and maintenance capital expenditures. Management expects that the investments in new and existing restaurants and the profit enhancing initiatives will contribute to improved earnings and cash flow from continuing operations going forward. SIR expects to continue to invest in new restaurants and restaurant renovations, although for the near future a smaller percentage of capital spending would be expected to be directed toward renovations.

Net cash used in investing activities from continuing operations for the 12-week periods ended November 18, 2007 and November 19, 2006 was $2.7 million and $2.8 million, respectively. Purchases of property and equipment and restaurant preopening costs amounted to $2.8 million and $2.4 million for the 12-week periods ended November 18, 2007 and November 19, 2006, respectively. Fiscal 2008 purchases are a result of the first quarter renovations of Soul of the Vine and the Loose Moose Tap & Grill, the construction costs of the new Jack Astor's location in Burlington, Ontario and the continuing construction costs for the new Jack Astor's and Canyon Creek restaurants expected to open in calendar year 2008. Purchases in the 12-week period ended November 19, 2006, are a result of the renovation of the fifth Alice Fazooli's! location, the renovation of *reds* and the construction costs of the Jack Astor's locations in Hamilton Ontario and Dartmouth, Nova Scotia. SIR advanced $0.4 million to U.S. S.I.R. L.L.C. and its subsidiaries during the 12-week period ended November 19, 2006. There were no advances made during the 12-week period ended November 18, 2007. The advance is non-interest bearing, non-secured and due on demand.

Net cash provided by continuing financing activities was $2.0 million for the 12-week period ended November 18, 2007 compared to net cash used in continuing financing activities of $0.6 million for the 12-week period ended November 19, 2006. In Q1 of fiscal 2008, the bank indebtedness increased $0.6 million and SIR received $1.5 million from the issuance of long-term debt. In Q1 of fiscal 2007, SIR made payments to non-controlling interest in subsidiary companies of $0.2 million and principal repayments on long-term debt of $0.4 million.

The two new Canyon Creek restaurants that opened in Scarborough and Vaughan, Ontario, during fiscal 2006 and the one that opened at the Fallsview Casino Resort in Niagara Falls, Ontario in Q1 of fiscal 2007, on August 28, 2006, were added to the Royalty Pooled Restaurants effective January 1, 2007. At that time SIR received additional Class A GP Units in accordance with the formula for adjustment for addition of restaurants added to the Royalty pool. The amount of Class A GP Units received was adjusted for a reduction related to the closure of one restaurant in 2006 and the Second Incremental Adjustment for the two new additional restaurants that were added to the Royalty Pooled Restaurants on January 1, 2006. Under the terms of the Exchange Agreement, SIR has the right to convert some or all of the Class A GP Units into Fund Units on a one-for-one basis.

As of November 18, 2007, SIR had current assets of $9.6 million (August 26, 2007 - $9.5 million) and current liabilities of $22.1 million (August 26, 2007- $22.0 million) resulting in a working capital deficit of $12.5 million (August 26, 2007- $12.5 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 and its financing arrangements to fund its working capital requirements and current commitments for estimated construction costs for new restaurants. During fiscal 2007, SIR entered into a $16.0 million credit facility. The credit facility consists 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 structure of the facility may be in the form of direct advances, Bankers' Acceptances, Letters of Credit or Guarantee, and the fixed term loan (up to a five-year term). The rates of interest on the financing are Bankers' Acceptance rate plus 1.75% and 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. The financing arrangement contains certain financial and non-financial covenants. As at November 18, 2007, SIR had outstanding borrowings of $0.9 million and $1.5 million on its Operating Line and Construction Line, respectively. Subsequent to Q1 of fiscal 2008, SIR has requested a further draw of $0.8 million on its Construction Line. In addition, during fiscal 2007 SIR entered into a capital lease arrangement to lease restaurant equipment for up to $0.4 million. Subsequent to November 18, 2007, SIR entered into a second capital lease arrangement to lease restaurant equipment for up to $0.6 million. As at November 18, 2007, SIR had drawn $0.4 million on these facilities and a further $0.1 million has been drawn subsequent to Q1 of fiscal 2008. 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.

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. These loans of $1.5 million (U.S. $1.5 million) are currently non-compliant with respect to certain financial and non-financial covenants. As a result, these loans are presented as a current liability in SIR's unaudited consolidated financial statements. All payments due on the loans have been made to date and the borrowers have not received any notices of default. The loans are secured by the assets of JACL and a pledge of the shares in JACL by SIR.

Contractual Obligations

The Partnership has 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 the Royalty pool. 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 unaudited 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 a Make-Whole Payment in respect of a closed restaurant following the date on which the number of restaurants in the Royalty pool is equal to or greater than 68, or following October 12, 2019, whichever occurs first. On January 1 of each year (the "Adjustment Date"), the restaurants subject to the License and Royalty Agreement are adjusted for new SIR restaurants opened for at least 60 days preceding such Adjustment Date. At each Adjustment Date, 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.

Two 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 and on September 29, 2007, the Jack Astor's in Burlington, Ontario was closed. SIR has also announced that Brasserie Frisco will close on December 22, 2007. The Don Mills location has been demolished by the landlord and is to be redeveloped into a major "lifestyle mall". It is expected that this project will be completed in the second half of 2008 and a new Jack Astor's would open in this location at that time. The Burlington location was replaced with a new Jack Astor's in a different location in Burlington, which opened on October 15, 2007 and it is anticipated that this new location will provide higher revenues and therefore a greater Royalty stream to the Partnership. Under the terms of the License and Royalty Agreement, SIR was required to pay a Make-Whole Payment for the Don Mills location from the date of the closure until December 31, 2006. In accordance with the License and Royalty Agreement, on January 1, 2007, the revenue of this closed restaurant was netted against the revenue of the new SIR Restaurants opened from November 2, 2005 to November 1, 2006, 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. Similarly, SIR is or will be required to pay a Make-Whole Payment for the closed Burlington location and Brasserie Frisco, respectively, from the date of closure to December 31, 2007. Effective January 1, 2008, it is expected that these restaurants will be 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. SIR has five commitments to lease properties on which SIR plans to build six restaurants. Currently SIR has begun construction on three of these restaurants. SIR expects to spend an additional $5.5 million to complete the construction of these three restaurants. At the current date, SIR has not entered into any construction contracts for the remaining three restaurants, but expects to do so in the near future. Final costs of construction are subject to uncertainties as to their amounts and timing. Such things as finalization of design and final construction quotes could change the total cost of these projects. SIR anticipates financing these constructions costs with the Construction Line under its new credit facility.

SIR has entered into capital lease arrangements to lease restaurant equipment for up to $1.0 million and as at November 18, 2007, SIR had drawn $0.4 million. Subsequent to Q1 of fiscal 2008, SIR drew a further $0.1 million on this facility. In addition, SIR has been approved for a $16.0 million credit facility to help facilitate SIR's restaurant expansion plans. As at November 18, 2007, SIR had bank indebtedness of $0.9 million and had drawn $1.5 million on its Construction line. Subsequent to Q1 of fiscal 2008, SIR has requested a further draw of $0.8 million on its Construction Line (see Liquidity and Capital Resources section).

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 three shareholders of SIR in the amounts of $0.2 million for the 12-week period ended November 18, 2007 (November 19, 2006 - $0.3 million).
- SIR leases its head office space directly or indirectly from certain shareholders of SIR. SIR paid $0.04 million for the 12-week period ended November 18, 2007 (November 19, 2006 - $0.05 million). SIR has a lease commitment to certain shareholders of SIR related to its head office premises that expires on December 31, 2010. The payments under this lease will be $0.2 million, $0.2 million and $0.1 million for fiscal years 2008, 2009 and 2010, respectively.
- Payment for consulting fees provided by one shareholder of SIR in the amount of $0.01 million for the 12-week period ended November 18, 2007 (November 19, 2006 - $0.01 million).
- Payment for consulting fees provided indirectly by one of SIR's directors in the amount of $0.03 million for the 12-week period ended November 18, 2007 (November 19, 2006 - $0.03 million).

Transactions with the SIR Royalty Income Fund

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

	November 18, 2007	August 26, 2007
	(in thousands of dollars) (unaudited)	
Advances receivable	(1,252)	(1,047)
Interest payable on SIR Loan	424	483
Partnership distributions payable	2,316	1,824
Payable to the Fund and its subsidiaries – net	1,488	1,260

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

During the 12-week periods ended November 18, 2007 and November 19, 2006, distributions of $1.1 million and $1.0 million, respectively 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.

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 $0.006 million for the 12-week period ended November 18, 2007 ($0.006 million, for the 12-week period ended November 19, 2006) which was the amount of consideration agreed to by the related parties.

Interest expense on the SIR Loan totalled $0.7 million and $0.7 million for the 12-week periods ended November 18, 2007 and November 19, 2006, respectively. The SIR Loan bears interest at 7.5% per annum.

Critical Accounting Estimates

Management believes that there have been no substantial changes in the nature of critical accounting estimates since the year ended August 26, 2007. The reader will find this information in the annual MD&A for the year ended August 26, 2007.

Changes in Accounting Policies, Including Initial Adoption

Handbook Section 3855, Financial Instruments - Recognition and Measurement, prescribes when a financial asset, financial liability, or non-financial derivative is to be recognized on the balance sheet, and at what amount – in certain instances using fair value and in others using cost-based measures. It also specifies how financial instrument gains and losses are to be presented. SIR has adopted this standard effective August 27, 2007.

Effective August 27, 2007, SIR elected to classify its cash and cash equivalents as held for trading which are carried at fair value and to classify its accounts receivable and notes receivable as loans and receivables which are carried at amortized cost. SIR's trade accounts payable and accrued liabilities, construction accounts payable and accrued liabilities, amount due to related parties, long-term debt and loan payable to SIR Royalty Income Fund, are classified as other liabilities and are also carried at amortized cost.

Effective August 27, 2007, deferred financing fees of $5.2 million are recognized as an offset to the carrying value of the SIR Loan and long-term debt and are amortized using the effective interest rate method. Prior to August 27, 2007, deferred financing fees related to the SIR Loan and long-term debt are presented as a separate asset on the unaudited consolidated balance sheet and are amortized on a straight-line basis.

Handbook Section 1530, Comprehensive Income, introduces a new requirement to temporarily present certain gains and losses outside net income. SIR has adopted this standard effective August 27, 2007. Financial statements of prior periods are required to be restated for certain comprehensive income items. In addition, an enterprise is encouraged, but not required, to present reclassification adjustments in comparative financial statements provided for earlier periods. SIR has determined that it does not have any comprehensive income items requiring restatement or reclassification, except for the currency translation adjustment. Effective August 27, 2007, the currency translation adjustment is disclosed as an accumulated other comprehensive income item in shareholders' deficiency on the unaudited consolidated balance sheets.

Handbook Section 3865, Hedges, establishes standards for when and how hedge accounting may be applied. Hedge accounting is optional. Retroactive application is not permitted. SIR has adopted this standard effective August 27, 2007. SIR has no arrangements for hedging, and the adoption of this standard did not have any impact on SIR.

Recently Issued Accounting Pronouncements

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. This standard is effective for SIR for interim and annual financial statements beginning on September 1, 2008. Management has not yet determined the impact of the adoption of this change on the disclosure in its financial statements.

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. This standard is effective for SIR for interim and annual financial statements beginning on September 1, 2008. Management has not yet determined the impact of the adoption of this change on the disclosure in its financial statements.

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. This standard is effective for SIR for interim and annual financial statements beginning on September 1, 2008. Management does not expect the adoption of this standard to have a material impact on presentation in its financial statements.

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 reviewing the transition to IFRS on SIR's financial statements and has not yet determined the impact.

Financial Instruments and Other Instruments

SIR's financial instruments consist of cash and cash equivalents, accounts receivable, advances, loans and notes receivable, 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, notes receivable and long-term debt, the fair values of these items do not differ significantly from their carrying values. 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. 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 is exposed to interest rate risk arising from fluctuations in interest rates. 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 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 30, 2007 Annual Information Form for further discussion on risks and uncertainties related to SIR.

SIR is the 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 October 31, 2006, the Federal Department of Finance announced a plan that proposes changes to the manner in which distributions from certain publicly listed flow-through entities ("FTE's") including income funds are taxed. The proposed changes to the current legislation would have certain distributions of FTEs' income subject to tax at corporate income tax rates and investors in the FTE would be taxed as though the distributions were dividends. Existing Income Trusts would not be subject to this proposed taxation of distributions until the 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 proposed 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. The proposed legislation was enacted in June, 2007. As a result, the Fund recorded a future income tax expense in their interim financial statements.

SIR is considering this announcement and the possible impact of the proposed rules to it and to the Fund. The proposed rules may adversely affect the value and marketability of SIR's indirect interests in the Fund, and at such time as the proposed rules apply to the Fund, the distributable cash of the Fund may be materially reduced. As a result, the proposed 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 growing existing restaurant revenues and expanding the number of SIR Restaurants subject to the SIR Rights in Canada.

During fiscal 2007, SIR started operating two new Jack Astor's restaurants located in Hamilton, Ontario and Dartmouth, Nova Scotia. On October 15, 2007, SIR started operating a new Jack Astor's located in Burlington, Ontario. It is anticipated that these restaurants will be added to the Royalty Pooled Restaurants effective January 1, 2008.

SIR has announced that the Brasserie Frisco will close on December 22, 2007. After evaluating a range of options, SIR determined that converting Brasserie Frisco into a new Jack Astor's is the best use of this prime downtown Toronto location. The new Jack Astor's is expected to open in the first half of calendar year 2008. Brasserie Frisco will be treated as a 2007 Closed Restaurant and, in accordance with the License and Royalty Agreement, it is expected to removed from the Royalty pool on January 1, 2008.

SIR expects to reopen the Jack Astor's location in Don Mills, Ontario in the second half of calendar year 2008. SIR has also secured four additional sites for Jack Astor's and Canyon Creek restaurants, with expected openings in calendar year 2008. One site is located at the corner of Dundas and Yonge Streets in Toronto, Ontario, two sites are located near the Toronto Pearson International Airport and one site is located in Boisbriand, Quebec. In addition, SIR plans to continue to seek high quality new sites for Jack Astor's and Canyon Creek restaurants**.**

SIR has completed its successful Jack Astor's evolution program by completing the evolution of the last of the original Jack Astor's restaurants subsequent to Q1 of fiscal 2008. The renovation of the fifth Alice Fazooli's! location was completed during Q1 of fiscal 2007

During Q1 of fiscal 2008, renovations at Soul of the Vine took place in order to introduce an innovative bakery concept, Petit Four Bakery, which targets the lucrative catering and take-out markets in the downtown Toronto core. Initial media coverage of this new concept has been positive and Management anticipates increased SSS[(1)]. Petit Four Bakery is not being treated as a New Restaurant under the License and Royalty Agreement. The revenue of Petit Four Bakery has been added to Pooled Revenue from the date of opening and SIR will not be converting any Class B GP Units into Class A GP Units of the Partnership in exchange for this additional revenue stream.

During the fourth quarter of fiscal 2007, Alice Fazooli's! and Canyon Creek launched their first major radio campaigns. The impact on revenue has been favourable and both concepts have continued to use radio advertising in the first quarter of fiscal 2008. Jack Astor's has also continued its radio advertising program.

Management expects to continue to focus on improving revenue and earnings in the Loose Moose Tap & Grill. During Q1 of fiscal 2008, SIR renovated the Armadillo Steak House/the Loose Moose Tap & Grill and is now operating the entire space as the Loose Moose Tap & Grill. Management expects that this change will provide higher revenues and increased profits.

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

Management believes that there are sufficient cash resources retained in SIR from its cash generated by operations and its financing arrangements to fund its working capital requirements and current commitments for estimated construction costs for new restaurants. SIR has entered into capital lease arrangements to lease restaurant equipment for up to $1.0 million. In addition, a lender has approved a $16.0 million credit facility to help facilitate SIR's restaurant expansion plans (see Liquidity and Capital Resources section).

On October 31, 2006, the Federal Department of Finance announced a plan that proposes changes to the manner in which distributions from certain publicly listed flow-through entities ("FTE's") including income funds are taxed. However, existing Income Trusts would not be subject to this proposed taxation of distributions until the 2011 taxation year so long as the Fund meets the requirements for "normal growth". The proposed legislation was enacted in June, 2007. As a result, the Fund recorded a future income tax expense in their interim financial statements. The Trustees of the Fund and senior management of SIR will continue to monitor this development.

During the 12-week period ended November 18, 2007, the U.S. operating losses of JACL consumed cash flow of $0.1 million ($0.7 million for the 12-week period ended November 19, 2006). In fiscal 2007, additional cash was required to fund the renovation that occurred at the U.S. location, at the end of fiscal 2006 and to repay certain debt.

During fiscal 2008, SIR expects to continue to make significant investments in both new and existing restaurants, although a smaller percentage of capital spending is expected to be directed toward renovations. This will set in place a foundation for anticipated sales growth and improved earnings. Management is committed to maximizing the performance of all of its restaurants.

Forward Looking Information

Certain statements in this document may constitute "forward-looking" statements which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of SIR 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 are such words as "may", "will", "expect", "believe", "plan", "anticipate", "intend", "estimate" and other similar terminology. These statements reflect Management's current expectations regarding future events and operating performance and speak only as of the date of this document. These forward-looking statements involve a number of risks and uncertainties. SIR expressly disclaims any obligation or undertaking to publicly release any updates or revisions to any forward-looking statements contained herein to reflect any change in expectations with regard thereto or any changes in events, conditions or circumstances on which any statement is based. This Management's Discussion and Analysis is provided as of December 20, 2007.

In formulating the forward-looking statements contained herein, management has assumed, among other things, that business and economic conditions affecting SIR's restaurants will continue substantially in the ordinary course, including without limitation with respect to industry conditions, general levels of economic activity (including in downtown Toronto), 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 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. In particular, in estimating the revenues for the three new Canyon Creek restaurants, management has assumed that they will operate consistent with other Canyon Creek restaurants. See also "Risk Factors" in the SIR Royalty Income Fund March 30, 2007 Annual Information Form.

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