SIR CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS

THIRD QUARTER FISCAL 2010

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE 12 AND 36-WEEK PERIODS ENDED MAY 9, 2010

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TABLE OF CONTENTS

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Executive Summary

SIR Corp.'s ("SIR's") third quarter of fiscal 2010 ("Q3") was from February 15, 2010 to May 9, 2010 inclusive. Highlights for SIR's third quarter include:

- ***Consolidated revenue and Same Store Sales[(1)] ("SSS") (unaudited):***
  - Food and beverage revenue from corporate restaurant operations for Q3 was $47.1 million and $137.9 million year to date (YTD). This represents a $2.1 million or 4.7% increase over the prior year for the quarter and a $2.6 million or 1.9% increase over the prior year for YTD.
  - There are some positive signs, with respect to same store sales growth[(1)] ("SSSG") for Royalty Pooled Restaurants in Q3, with all four operating segments posting SSSG[(1)]. SIR experienced SSSG[(1)] of 4.6% for the 12-week period ended May 9, 2010 and 0.8% for the 36-week period ended May 9, 2010. In its 2010 – 2014 Long Term Foodservice Forecast, the Canadian Restaurant and Foodservices Association ("CRFA") is projecting a modest increase in sales in calendar year 2010.
  - SIR's flagship Concept Restaurant brand, Jack Astor's®, that generates approximately 68% of YTD Pooled Revenue, had SSSG[(1)] of 4.8% and 1.8% for Q3 and YTD, respectively.
  - Canyon Creek® had SSSG[(1)] of 0.6% for Q3, but a SSS[(1)] decline of 2.7% YTD. Alice Fazooli's® had SSSG[(1)] of 5.8% and 1.1% for Q3 and YTD, respectively and the downtown Signature restaurants had SSSG[(1)] of 8.4% for Q3, but a SSS[(1)] decline of 1.1% YTD.
  - Management believes that the year-over-year SSS[(1)] declines in some operating segments of SIR and the reduced SSSG[(1)] in other operating segments is primarily driven by the weaker economic conditions experienced in 2009. Management also believes that restaurants with a higher average cheque, such as Canyon Creek and the downtown Toronto Signature restaurants tend to experience a greater decline in sales volumes during economic downturns. Jack Astor's was affected, but to a lesser extent than the other concepts and it is believed that it is due to its somewhat lower average cheque.

Investment in new and existing restaurants

- Two new Jack Astor's restaurants opened in Q1 of fiscal 2009: one near the corner of Don Mills Road and Lawrence Avenue in Toronto, Ontario on October 6, 2008, and the other at one of Toronto's busiest and most highly-visible locations; the corner of Yonge and Bloor Streets on October 31, 2008.
- These two restaurants along with the four new restaurants that opened in fiscal 2008, but still calendar year 2008 were added to the Royalty Pooled Restaurants, effective January 1, 2009. No new restaurants were added to the Royalty Pooled Restaurants effective January 1, 2010.
- In Q1 of fiscal 2009, 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.
- SIR has secured one new additional site for a Jack Astor's restaurant in Boisbriand, Quebec with an expected opening date later in calendar year 2010 and two new additional sites, at one location, at the corner of Yonge and Gerrard Streets in Toronto, Ontario, with expected opening dates in calendar year 2011. Management continues to monitor 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.

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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 2010 and fiscal 2009. 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 7 and to the definition of SSS in the Revenue section on page 8.

- ***Net Earnings (Loss)***
  - The net earnings for Q3 of $0.5 million were $0.1 million favourable to the net income of $0.4 million for the same period in the prior year.
  - The YTD net earnings of $0.3 million are $1.9 million favourable to the net loss of $1.6 million for the same period in the prior year.
  - SIR has continually managed restaurant costs, over the past year to obtain efficiencies, which is noted in the decrease in YTD restaurant costs as a percentage of sales of 0.8%. Although YTD corporate costs have also decreased from the prior year, the Q3 decrease was less significant, mainly due to increased professional consulting costs during Q3 to facilitate SIR's strategic planning process. The net earnings also include a recovery of impairment of loans and advances of $0.3 million and $0.5 million for Q3 and YTD, respectively and an increase in other income of $0.2 million and $0.3 million in Q3 and YTD, respectively. In addition, SIR experienced a YTD unrealized foreign exchange gain of $0.09 million compared to an unrealized foreign exchange loss of $0.2 million in the prior year. Furthermore, the YTD net loss for 2009 included $0.2 million in restructuring costs.
- ***Adjusted EBITDA***[(2)]
  - Adjusted EBITDA[(2)] for Q3 is $4.4 million and $4.3 million in the current and prior year, respectively.
  - YTD adjusted EBITDA[(2)] is $11.8 million and $11.3 million for the current and prior year, respectively.
- ***Outlook***
  - While the economy is showing some early signs of improvement, Management remains cautious with regard to growth and conservation of cash. 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 addition, three sites for new restaurants have been secured; one with an expected opening later in calendar year 2010 and two with expected openings in calendar year 2011. The development of the first of these three sites is expected to resume in quarter four of fiscal 2010. In addition, SIR completed a renovation of the Jack Astor's in Brampton, Ontario subsequent to Q3 of fiscal 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 unemployment rates. SIR believes that the economic conditions may continue to impact its sales and profit prospects in the near future, particularly in the higher cheque average Signature restaurants and Canyon Creek.
  - On November 13, 2009, SIR entered into a new $26.0 million credit facility with a new senior lender mainly to refinance and replace 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).

Overview

SIR is a private company amalgamated under the Business Corporations Act of Ontario. As at May 9, 2010, 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 May 9, 2010, 45 SIR Restaurants were included in SIR Royalty Pooled Restaurants.

(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 pre-opening and restructuring costs. Pre-opening costs are added back to EBITDA because Management views these costs as investments in new restaurants and not as on-going costs of operations. Restructuring costs are added back because management views these costs as non-recurring in nature. 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 6 of this document.

On April 13, 2009, SIR acquired the non-controlling interest in Jack Astor's Don Mills Limited. Therefore, SIR now owns 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 Royalty Pooled Restaurants.

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

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 2010 and 2009 consist of 52 weeks each.

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 12 and 36-week periods ended May 9, 2010 and May 10, 2009 respectively. 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 and 36-week periods ended May 9, 2010, including the notes thereto.

Statements of Operations	12-Week Period Ended May 9, 2010	12-Week Period Ended May 10, 2009[3]	36-Week Period Ended May 9, 2010	36-Week Period Ended May 10, 2009[3]
	(in thousands of dollars) (unaudited)			
Corporate restaurant operations:				
Food and beverage revenue	47,112	44,995	137,936	135,305
Cost of corporate restaurant operations	42,075	40,526	124,706	123,463
Earnings from corporate restaurant operations	**5,037**	**4,469**	**13,230**	**11,842**
Net earnings (loss) for the period	**452**	**373**	**302**	**(1,645)**

Balance Sheet	May 9, 2010	August 30, 2009[3]
	(in thousands of dollars) (unaudited)	
Total assets	66,125	70,998
Total long-term liabilities	78,056	67,372

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.

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

(3) *Prior period balances reflect the retroactive application of the change in accounting policy for goodwill and intangible assets as described in SIR's notes to the consolidated financial statements for the 12 and 36-week periods ended May 9, 2010. The capitalization of pre-opening costs is no longer permitted and therefore these costs are now reflected as an expense in the statements of operations and the related amortization has been removed. In addition, certain computer software costs have been reclassified from property and equipment to intangible and other assets.*

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

Reconciliation of net earnings (loss) for the period to EBITDA[(2)] and Adjusted EBITDA[(2)]	12-Week Period Ended May 9, 2010	12-Week Period Ended May 10, 2009[(3)]	36-Week Period Ended May 9, 2010	36-Week Period Ended May 10, 2009[(3)]
Net earnings (loss) for the period	452	373	302	(1,645)
Add (deduct):				
Non-controlling interest in other subsidiary companies	-	-	-	(32)
Provision for (recovery of) income taxes	10	(8)	(33)	(24)
Other expense (income)	(77)	109	(286)	56
Recovery of impairment of loans and advances	(300)	-	(500)	-
Unrealized foreign exchange (gain) loss	(18)	(162)	(86)	236
Interest expense – net	573	127	1,502	462
Interest on loan payable to SIR Royalty Income Fund	690	690	2,071	2,071
Non-controlling interest in SIR Royalty Limited Partnership	1,109	1,092	2,988	3,166
Other amortization	63	67	193	208
Amortization of restaurant assets	1,779	1,996	5,448	6,044
EBITDA[(2)]	**4,281**	**4,284**	**11,599**	**10,542**
Restructuring costs	-	-	-	228
Pre-opening costs	93	16	239	559
Adjusted EBITDA[(2)]	**4,374**	**4,300**	**11,838**	**11,329**
Income from Class A & B GP Units of the Partnership [(4)] (Not included in EBITDA[(2)] and Adjusted EBITDA[(2)] above)	979	840	3,064	2,199
6% Royalty obligations under License and Royalty Agreement [(5)]	2,792	2,651	8,167	7,494

Results of Operations

Reconciliation of Revenue from Consolidated Financial Statements to Pooled Revenue	12-Week Period Ended May 9, 2010	12-Week Period Ended May 10, 2009	36-Week Period Ended May 9, 2010	36-Week Period Ended May 10, 2009
		(in thousands of dollars) (unaudited)		
Revenue reported in consolidated financial statements	47,112	44,995	137,936	135,305
Less: Revenue from corporate restaurant operations excluded from the Royalty Pool	(590)	(804)	(1,825)	(10,399)
Revenue for Restaurants in the Royalty pool	**46,522**	**44,191**	**136,111**	**124,906**

(2) *See footnote (2) on page 4*
(3) *See footnote (3) on page 5*
(4) *The 36-week periods ended May 9, 2010 and May 10, 2009 include the additional distribution paid to Class B GP Unitholders in December of each year, if any.*
(5) *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.*

Reconciliation of Revenue from Consolidated Financial Statements to Same Store Sales[(1)]	12-Week Period Ended May 9, 2010	12-Week Period Ended May 10, 2009	36-Week Period Ended May 9, 2010	36-Week Period Ended May 10, 2009
	(in thousands of dollars) (unaudited)			
Revenue reported in consolidated financial statements	47,112	44,995	137,936	135,305
Less: Revenue from corporate restaurant operations excluded from same store sales[(1)]	(2,838)	(2,665)	(8,117)	(6,471)
Same store sales[(1)]	**44,274**	**42,330**	**129,819**	**128,834**

Same Store Sales[(1)] by Segment	12-Week Period Ended May 9, 2010	12-Week Period Ended May 10, 2009	% Fav. / (Unfav.)	36-Week Period Ended May 9, 2010	36-Week Period Ended May 10, 2009	% Fav. / (Unfav.)
	(in thousands of dollars) (unaudited)					
Jack Astor's	29,688	28,325	4.8%	85,532	84,009	1.8%
Canyon Creek	6,265	6,227	0.6%	19,915	20,469	(2.7%)
Alice Fazooli's	4,511	4,262	5.8%	13,235	13,096	1.1%
Signature Restaurants	3,810	3,516	8.4%	11,137	11,260	(1.1%)
Same store sales[(1)]	**44,274**	**42,330**	**4.6%**	**129,819**	**128,834**	**0.8%**

Summary of Quarterly Results

Statement of Operations	3rd Quarter Ended May 9, 2010 (12 weeks)	2nd Quarter Ended February 14, 2010 (12 weeks)	1st Quarter Ended November 22, 2009 (12 weeks)	4th Quarter Ended August 30, 2009[(3)] (16 weeks)	3rd Quarter Ended May 10, 2009[(3)] (12 weeks)	2nd Quarter Ended February 15, 2009[(3)] (12 weeks)	1st Quarter Ended November 23, 2008[(3)] (12 weeks)	4th Quarter Ended August 31, 2008[(3)] (17 weeks)
Corporate Restaurant Operations	(in thousands of dollars) (unaudited)							
Food and beverage revenue	47,112	46,213	44,611	61,400	44,995	45,231	45,079	65,298
Cost of corporate restaurant operations	42,075	41,664	40,967	55,270	40,526	40,757	42,180	59,497
Earnings from corporate restaurant operations	5,037	4,549	3,644	6,130	4,469	4,474	2,899	5,801
Net earnings (loss) for the period	452	472	(622)	984	373	141	(2,159)	(809)

(1) See footnote (1) on page 3
(3) See footnote (3) on page 5

Selected Unaudited Consolidated Statement of Cash Flows Information	3rd Quarter Ended May 9, 2010 (12 weeks)	2nd Quarter Ended February 14, 2010 (12 weeks)	1st Quarter Ended November 22, 2009 (12 weeks)	4th Quarter Ended August 30, 2009(3) (16 weeks)	3rd Quarter Ended May 10, 2009(3) (12 weeks)	2nd Quarter Ended February 15, 2009(3) (12 weeks)	1st Quarter Ended November 23, 2008(3) (12 weeks)	4th Quarter Ended August 31, 2008(3) (17 weeks)
	(in thousands of dollars) (unaudited)							
Net cash provided by operations	1,617	732	2,903	3,838	3,385	2,280	2,454	3,368
Net cash used in investing activities	(290)	(215)	(418)	(339)	(999)	(1,788)	(4,303)	(9,910)
Net cash provided by (used in) financing activities	(540)	(830)	(4,240)	(241)	(177)	(13)	2,601	5,005
Increase (decrease) in cash and cash equivalents during the period	787	(314)	(1,756)	3,256	2,201	479	764	(1,536)
Cash and cash equivalents – Beginning of period	6,113	6,427	8,183	4,927	2,726	2,247	1,483	3,019
Cash and cash equivalents – End of period	6,900	6,113	6,427	8,183	4,927	2,726	2,247	1,483

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 all SIR restaurants and the U.S. Jack Astor's restaurant. For the 12 and 36-week periods ended May 9, 2010, this revenue was $47.1 million and $137.9 million, respectively.

ii. Same Store Sales(1) – this is a sub-set of i above used for tracking comparable year-over-year sales. For Q3 fiscal 2010 and 2009, SSS(1) includes all SIR restaurants except 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 2009. The U.S. restaurant is not part of SIR Restaurants. For the 12 and 36-week periods ended May 9, 2010, this revenue was $44.3 million and $129.8 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 12 and 36-week periods ended May 9, 2010, Pooled Revenue was $46.5 million and $136.1 million, respectively. The applicable Royalty payable to the Partnership on the Pooled Revenue for these same periods was $2.8 million and $8.2 million, respectively.

Same Store Sales(1)

SSSG(1) for SIR was 4.6% and 0.8% for the 12 and 36-week periods ended May 9, 2010. Management believes that the economic conditions are the primary driver of the reduced SSSG(1) compared to prior years. 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 and fiscal 2010. Restaurants with a higher average cheque, such as 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 of SIR. The Canadian Restaurant and Foodservices Association is projecting a modest increase in sales, during the 2010 calendar year.

SSSG(1) for Jack Astor's, SIR's flagship Concept Restaurant brand, which generates approximately 68% of YTD Pooled Revenue, was 4.8% and 1.8% during the 12 and 36-week periods ended May 9, 2010, respectively. Canyon Creek experienced SSSG(1) of 0.6% for the 12-week period ended May 9, 2010 and a SSS(1) decline of 2.7% for the 36-week period ended May 9, 2010. The Alice Fazooli's SSSG(1) was 5.8% and 1.1% during the 12 and 36-week periods ended May 9, 2010, respectively. The downtown Toronto Signature Restaurants had SSSG(1) of 8.4% for the 12-week period ended May 9, 2010, but a SSS(1) decline of 1.1% for the 36-week period ended May 9, 2010, respectively.

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(1) See footnote (1) on page 3
(3) See footnote (3) on page 5

Cost of Corporate Restaurant Operations

As a percentage of revenue, costs of corporate restaurant operations for the 12 and 36-week periods ended May 9, 2010 was 89.3% and 90.4% compared to 90.1% and 91.2% for the 12 and 36-week periods ended May 10, 2009. Food and beverage costs and amortization are the primary drivers of the reduction in costs of corporate restaurant operations as a percentage of revenue for the 12 and 36-week periods ended May 9, 2010.

Corporate costs

Corporate costs increased $0.4 million and decreased $0.04 million for the 12 and 36-week periods ended May 9, 2010, respectively compared to the 12 and 36-week periods ended May 10, 2009. SIR continues to manage corporate costs and obtain efficiencies to improve profitability. The prior year restructuring occurred in Q2 so current quarterly salary and benefit costs are more comparable to the prior year and are therefore no longer contributing to the decrease in corporate costs. In addition, SIR begun to incur professional consulting costs, during Q3, to facilitate its strategic planning process.

Interest expense - net

Interest expense increased $0.4 million and $1.0 million for the 12 and 36-week periods ended May 9, 2010 compared to the 12 and 36-week periods ended May 10, 2009, respectively. Long-term debt and the related interest rates are currently higher than they were at this time in the prior year, resulting in higher interest costs. In addition, because the credit facilities were replaced with a new credit facility during Q1, the amortization of the deferred financing fees, related to the prior credit facility, was accelerated, resulting in higher interest amortization YTD fiscal 2010 compared to YTD fiscal 2009. Amortization of the new financing fees is also higher than the amount related to the previous debt, due to the higher fees and the shorter amortization period, resulting in higher interest expense in both Q3 and YTD.

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 and $2.1 million for both the 12 and 36-week periods ended May 9, 2010 and the 12 and 36-week periods ended May 10, 2009, respectively

The Fund's share of the income of the Partnership for the 12 and 36-week periods ended May 9, 2010 was $1.1 million and $3.0 million, respectively (12 and 36-week periods ended May 10, 2009 - $1.1 million and $3.2 million, respectively) and 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 (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 unaudited consolidated statements of operations.

There was an unrealized foreign exchange gain of JACL of $0.02 million and $0.09 million for the 12 and 36-week periods ended May 9, 2010 compared to an unrealized foreign exchange gain of $0.2 million and an unrealized foreign exchange loss of $0.2 million for the 12 and 36-week periods ended May 10, 2009, respectively. The value of the Canadian dollar versus the US dollar weakened during the first half of fiscal 2009, but has improved since then, resulting in these variances. The gain or loss is mainly related to the US denominated debt of JACL.

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 $1.4 million. During the 12 and 36-week periods ending May 9, 2010, U.S. S.I.R. L.L.C. repaid $0.2 million and $0.4 million of these advances to SIR, respectively ($0.3 million and $0.4 million for the 12 and 36-week periods ending May 10, 2009). Accordingly, SIR recognized interest income of $0.03 million and $0.1 million during the 12 and 36-week periods ended May 9, 2010, respectively ($0.02 million and $0.07 million for the 12 and 36-week periods ending May 10, 2009, respectively). The U.S. operations continue to have improved cash flows resulting in a recovery of impairment of $0.3 million and $0.5 million during the 12 and 36-week periods ended May 9, 2010. 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 (see Liquidity and Capital Resources section).

EBITDA[2] and Adjusted EBITDA[2]

EBITDA[2] is $4.3 million and $11.6 million for the 12 and 36-week periods ended May 9, 2010, respectively and $4.3 million and $10.5 million for the 12 and 36-week periods ended May 10, 2009, respectively. Adjusted EBITDA[2] is $4.4 million and $11.8 million for the 12 and 36-week periods ended May 9, 2010 and $4.3 million and $11.3 million for the 12 and 36-week periods ended May 10, 2009, respectively. (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 November 13, 2009, the Fund entered into an agreement to subordinate and postpone its claims against SIR in favour of the new senior lender. This agreement replaced the Interlender agreement related to SIR's prior credit facilities. The Partnership and the Fund have not guaranteed the new credit facility (see Liquidity and Capital Resources section).

The 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 senior lender. 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 the Subordination and Postponement Agreement.

Under the Subordination and Postponement Agreement, absent a default or event of default under the new 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 senior lender is pursuing remedies). The Subordination and Postponement Agreement also contains various other typical covenants of the Fund and the Partnership.

Interest expense on the SIR Loan of $0.7 million and $2.1 million was charged to the unaudited consolidated statements of operations for the 12 and 36-week periods ended May 9, 2010, respectively ($0.7 million and $2.1 million for the 12 and 36-weeks periods ended May 10, 2009, 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 incurred in fiscal 2005 in respect of the issuance of the SIR Loan and Partnership Units have been deferred and are being amortized over 40 years, the term of the SIR Loan, using the effective interest rate method. Amortization of $0.005 million and $0.016 million has been recorded as interest expense in the unaudited consolidated statements of operations for the 12 and 36-week periods ended May 9, 2010, respectively ($0.005 million and $0.015 million for the 12 and 36-week periods ended May 10, 2009, respectively). The financing costs are netted against the SIR Loan in the unaudited consolidated financial statements.

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

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

	12-Week Period Ended May 9, 2010	12-Week Period Ended May 10, 2009	36-week Period Ended May 9, 2010	36-week Period Ended May 10, 2009
Initial investment by the Fund	11,167	11,167	11,167	11,167
Non-controlling interest in earnings of the Partnership	1,109	1,092	2,988	3,166
Distributions declared on the Partnership's Units held by non-controlling interest	(1,109)	(1,092)	(2,988)	(3,166)
Non-controlling interest in the Partnership	11,167	11,167	11,167	11,167
Pooled Revenue (6)	46,522	44,191	136,111	124,906
Partnership royalty income (7)	2,792	2,651	8,167	7,494
Other income	6	7	17	31
Partnership expenses	(20)	(36)	(61)	(89)
Net earnings of the Partnership	2,778	2,622	8,123	7,436
SIR's interest in the earnings of the Partnership:				
Income from Class A & B GP Units of the Partnership	(979)	(840)	(3,064)	(2,199)
Income from Class C GP Units of the Partnership	(690)	(690)	(2,071)	(2,071)
	(1,669)	(1,530)	(5,135)	(4,270)
Non-controlling interest in the earnings of the Partnership	1,109	1,092	2,988	3,166

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 and the Class A GP Units, which are held by SIR, are entitled to receive their 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.

(6) *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 May 9, 2010. 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 May 9, 2010. 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.*

(7) *6% of Pooled Revenue plus a Make-Whole Payment for closed locations, if applicable, included in Royalty Pooled Restaurants.*

On January 1, 2010, nil (January 1, 2009 - six) 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 nil (January 1, 2009 – six) new restaurants on January 1, 2010, as well as the Second Incremental Adjustment for the six (January 1, 2008 – three) new SIR restaurants added to Royalty Pooled Restaurants on January 1, 2009, SIR converted its Class B GP Units into Class A GP Units based on the formula defined in the Partnership Agreement. The effect of these adjustments to the Royalty Pooled Restaurants was that SIR converted 244,000 (January 1, 2009 – 1,077,000) Class B GP Units into 244,000 (January 1, 2009 – 1,077,000) Class A GP Units on January 1, 2010 at an estimated fair value of $1.2 million (January 1, 2009 - $6.0 million). As a result of this exchange, SIR's interest in the Partnership increased to 35.7% effective January 1, 2010. In addition, the revenues of six (January 1, 2008 – three) new SIR Restaurants added to Royalty Pooled Restaurants on January 1, 2009 exceeded 80% of the Initial Adjustment's estimated revenues and, as a result, an Additional Distribution of $0.3 million was declared in December 2009 (December 2008 - $0.2 million) and paid in cash the following January. Since there were no new restaurants added to the Royalty Pooled Restaurants on January 1, 2010, the Additional Distribution on the Class B GP units will not be required in December, 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	12-Week Period Ended May 9, 2010	12-Week Period Ended May 10, 2009[3]	36-week Period Ended May 9, 2010	36-week Period Ended May 10, 2009[3]
	(in thousand of dollars) (unaudited)			
Net cash provided by operations	1,617	3,385	5,252	8,119
Net cash used in investing activities	(290)	(999)	(923)	(7,090)
Net cash provided by (used in) financing activities	(540)	(177)	(5,610)	2,411
Increase (decrease) in cash and cash equivalents during the period	787	2,201	(1,283)	3,444
Cash and cash equivalents – Beginning of period	6,113	2,726	8,183	1,483
Cash and cash equivalents – End of period	6,900	4,927	6,900	4,927

Net cash provided by operations decreased by $1.8 million for the 12-week period ended May 9, 2010 as compared to the 12-week period ended May 10, 2009. Net earnings for the period increased $0.1 million, but there was a decrease in amortization of $0.2 million, an increase in the recovery of loans and advances of $0.3 million, a decrease in leasehold inducements received of $0.1 million and a decrease in the net change in working capital items of $1.4 million. Net cash provided by operations decreased by $2.9 million for the 36-week period ended May 9, 2010 as compared to the 36-week period ended May 10, 2009. The change in net earnings/loss for the period was favourable by $1.9 million, but amortization decreased $0.6 million, the recovery of loans and advances increased $0.5 million and there was a favourable change in the unrealized foreign exchange gain/loss of $0.3 million. There was also a decrease in leasehold and other inducements received of $1.0 million and a decrease in net change in working capital items of $2.7 million. The working capital change is due to timing of payments and purchases.

Net cash used in investing activities for the 12-week periods ended May 9, 2010 and May 10, 2009 was $0.3 million and $1.0 million, respectively. Net cash used in investing activities for the 36-week periods ended May 9, 2010 and May 10, 2009 was $0.9 million and $7.1 million, respectively. Purchases of property and equipment amounted to $0.4 million and $1.0 million for the 12 and 36-week periods ended May 9, 2010, respectively and $0.8 million and $7.3 million for the 12 and 36-week periods ended May 10, 2009, respectively. Capital expenditures have decreased in the current year as compared to the prior year due to SIR reducing its growth plans. YTD fiscal 2009 expenditures are mainly the result of the two new Jack Astor's that opened during Q1 of fiscal 2009 and the renovations at Alice Fazooli's near the Square One shopping mall in Mississauga, Ontario.

During fiscal years 2005 to 2009, and Q1, Q2 and Q3 of fiscal 2010, SIR has purchased property and equipment totalling approximately $60.5 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 this period of weaker economic conditions.

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(3) *See footnote (3) on page 5*

During Q1 of fiscal 2010, SIR acquired the rights to certain debts owed by U.S. S.I.R. L.L.C. from one shareholder of SIR for $0.3 million. In addition, during the 12 and 36-week periods ended May 9, 2010, SIR received $0.2 million and $0.4 million, respectively in payments on its loans and advances from U.S. S.I.R. L.L.C. and its subsidiaries (12 and 36-week periods ended May 10, 2009 - $0.1 million and $0.4 million, respectively).

Net cash used in financing activities was $0.5 million and $5.6 million for the 12 and 36-week periods ended May 9, 2010. Net cash used in financing activities was $0.2 million for the 12-week period ended May 10, 2009 and net cash provided by financing activities was $2.4 million for the 36-week period ended May 10, 2009. Bank indebtedness decreased $0.9 million in 36-week period ended May 10, 2009. Proceeds received from the new credit facility were $26.0 million during Q1 of fiscal 2010. These proceeds were used to repay $12.7 million outstanding on the previous credit facility and to repurchase capital stock for $16.8 million, including transaction costs paid of $0.03 million. Financing fees related to the new credit facility of $1.1 million were paid YTD for fiscal 2010. Proceeds from issuance of long-term debt from the previous credit facility of $3.7 million were received YTD for fiscal 2009.

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. At this time, SIR received additional Class A GP Units in accordance with the formula for adjustment for the addition of restaurants added to Royalty Pooled Restaurants. 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 May 9, 2010, SIR had current assets of $14.2 million (August 30, 2009 - $14.3 million) and current liabilities of $26.8 million (August 30, 2009 - $25.6 million) resulting in a working capital deficit of $12.6 million (August 30, 2009 - $11.3 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 currently there are sufficient cash resources retained in SIR from its cash generated by operations to fund its working capital requirements.

During Q1, on November 13, 2009, SIR entered into a new Credit Agreement ("Credit Agreement") with a new senior lender, a copy of which is filed on SEDAR, to refinance its previous 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 $16.8 million, including transaction costs of $0.03 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 voting 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 an event of default on the Credit Agreement and entitles the holder to one Class S Special Share per warrant exercised. The warrants have 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.

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 May 9, 2010 was 8.18%. 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 was 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 senior lender 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).

As at May 9, 2010, SIR also had an obligation of $0.4 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.

Management continues to monitor the economy and evaluate its potential impact on the Canadian business environment, particularly in relation to consumer confidence and unemployment rates. SIR believes that the economic conditions may continue to impact sales and profit prospects in the near future, particularly in the higher cheque average Signature restaurants and Canyon Creek . [

Certain 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 $1.2 million (U.S. $1.1 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 unaudited 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 November 13, 2009, the Fund entered into an agreement to subordinate and postpone its claims against SIR in favour of the senior lender. This agreement replaced the Interlender agreement related to SIR's prior credit facility. 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 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"), 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 a formula defined in the Partnership Agreement.

SIR and its subsidiaries have entered into operating leases relating to its head office and restaurant locations with minimum annual payments. As at May 9, 2010, SIR has three commitments to lease properties upon which it plans to build three new restaurants. Currently, SIR has begun the planning and design of one of these restaurants and expects to spend an additional $2.2 million to complete this restaurant. At the current date, SIR has not entered into any construction contracts for the two remaining 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 May 9, 2010, SIR had an obligation of $0.4 million. During Q1, on November 13, 2009, SIR entered into a new senior debt facility to refinance its current revolving line of credit and construction facility and to repurchase certain shares. As at May 9, 2010, $25.3 million was outstanding on this credit facility (see Liquidity and Capital Resources section).

Off-Balance Sheet Arrangements

SIR has off-balance sheet arrangements with respect to its operating leases. These arrangements have not changed during the quarter. The reader will find this information in the annual Management Discussion and Analysis for the year ended August 30, 2009 (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 and directors of SIR in the amount of $0.1 million and $0.4 million for the 12 and 36-week periods ended May 9, 2010, respectively ($0.2 million and $0.4 million for the 12 and 36-week periods ended May 10, 2009, respectively).
- Payment for design fees, charged to property and equipment, provided by one shareholder of SIR in the amount of $0.04 for each of the 12 and 36-week periods ended May 9, 2010, respectively ($0.02 million and $0.1 million for the 12 and 36-week periods ended May 10, 2009, respectively).
- Payment for consulting services, charged to deferred financing fees, provided by one shareholder and director of SIR in the amount of $0.05 million for the 36-week period ended May 9, 2010.
- Payment for consulting fees provided indirectly by three (2009 - one) of SIR's directors in the amount of $0.04 million and $0.1 million for the 12 and 36-week periods ended May 9, 2010, respectively ($0.01 million and $0.1 million for the 12 and 36-week periods ended May 10, 2009, respectively).
- Payment for the purchase of certain debts owed by U.S. S.I.R. L.L.C. of $0.3 million to one shareholder and director of SIR during the 36-week period ended May 9, 2010.
- Payment to one shareholder and director of SIR for the repurchase of common shares of $16.7 million during the 36-week period ended May 9, 2010.

Transactions with the SIR Royalty Income Fund

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

	May 9, 2010	August 30, 2009
	(in thousands of dollars) (unaudited)	
Advances receivable	(1,866)	(1,518)
Interest payable on SIR Loan	318	247
Partnership distributions payable	2,711	2,651
Payable to the Fund and its subsidiaries – net	1,163	1,380

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

During the 12 and 36-week periods ended May 9, 2010, distributions of $1.1 million and $3.0 million were declared to the Fund by the Partnership, respectively ($1.1 million and $3.2 million for the 12 and 36-week periods ended May 10, 2009, respectively). 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 $0.7 million and $2.1 million for the 12 and 36-week periods ended May 9, 2010, respectively ($0.7 million and $2.1 million for the 12 and 36-week periods ended May 10, 2009, respectively). 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 $0.006 million and $0.017 million for both the 12 and 36-week periods ended May 9, 2010, respectively ($0.006 million and $0.017 million for the 12 and 36-week periods ended May 10, 2009, respectively) which was the amount of consideration agreed to by the related parties.

Critical Accounting Estimates

Management believes that there have been no substantial changes in the nature of critical accounting estimates since the year ended August 30, 2009. The reader will find this information in the annual MD&A for the year ended August 30, 2009.

Changes in Accounting Policies, Including Initial Adoption

CICA Handbook Section 3064 replaced Handbook Section 3062 – Goodwill and Intangible Assets and CICA 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 adopted this standard effective August 31, 2009. Management determined that the capitalization of restaurant pre-opening costs is no longer permitted and that certain computer software costs require reclassification from property and equipment to intangible and other assets.

The effect of applying this change in accounting policy on the unaudited consolidated balance sheet as at August 30, 2009, is as follows:

	Balance as reported	Impact of new standard	Balance as restated
		(in thousands of dollars) (unaudited)	
Assets			
Property and equipment	49,820	(118)	49,702
Intangible and other assets	3,291	(2,580)	711
Liabilities			
Future income taxes	138	(41)	97
Shareholders' deficiency			
Deficit	(36,734)	(2,657)	(39,391)

The effect of applying this change in accounting policy on the unaudited consolidated statement of operations for the 12-week period ended May 10, 2009 is as follows:

	Balance as reported	Impact of new standard	Balance as restated
		(in thousands of dollars) (unaudited)	
Cost of corporate restaurant operations			
Food and beverage	13,677	2	13,679
Direct cost of restaurant operations	10,400	14	10,414
Amortization of restaurant assets	2,229	(233)	1,996
Recovery of (provision for) income tax	(5)	13	8
Net earnings for the period	143	230	373

The effect of applying this change in accounting policy on the unaudited consolidated statement of operations for the 36-week period ended May 10, 2009 is as follows:

	Balance as reported	Impact of new standard	Balance as restated
		(in thousands of dollars) (unaudited)	
Cost of corporate restaurant operations			
Food and beverage	41,314	39	41,353
Labour	43,838	194	44,032
Direct cost of restaurant operations	31,708	326	32,034
Amortization of restaurant assets	6,728	(684)	6,044
Recovery of income tax	11	13	24
Net earnings (loss) for the period	(1,783)	138	(1,645)

Recently Issued Accounting Pronouncements

Business Combinations, Consolidated Financial Statements and Non-Controlling Interests: CICA 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, trade accounts payable and accrued liabilities, construction accounts payable and accrued liabilities, long-term debt, loan payable to the Fund and warrants. 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 $26.8 million and the fair value of the warrants is nil. 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 new credit facility because it has 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 business and economic conditions, availability of credit, 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, 2010 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 $50.0 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. These conversion rules will extend until December 31, 2012.

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 carefully monitoring costs in light of the economic conditions in Canada.

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 later in calendar year 2010 and two with planned openings in calendar year 2011. The development of the first of these three sites is expected to resume in quarter four of fiscal 2010. In addition, SIR completed a renovation of the Jack Astor's in Brampton, Ontario subsequent to Q3 of fiscal 2010. Given the economic environment, SIR has determined that the most prudent course of action is to continue to remain conservative in its growth plans in the near term. Management continues to monitor the 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 three new Jack Astor's and one new Canyon Creek that opened in fiscal 2008 and two new Jack Astor's that opened in fiscal 2009.

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 later in calendar year 2010**.** The remaining two new sites are at one location, at the corner of Yonge and Gerrard Streets, in Toronto, Ontario and are expected to open in calendar year 2011.

In Q1 of fiscal 2009, 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 SSS(1) in the full service restaurant industry have been negatively impacted by the economic conditions. However, the CFRA is projecting a modest increase in sales, during the 2010 calendar year, compared to a decline in 2009. Management believes that these weak economic conditions have contributed to the year-over-year SSS(1) declines in some of SIR's operating segments and reduced SSSG(1) in others. Management believes that

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(1) See footnote (1) on page 3

restaurants with a higher average cheque, such Canyon Creek and the downtown Toronto Signature Restaurants, tend to experience a greater decline in sales volumes. Jack Astor's, which accounts for approximately 68% 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. Both Jack Astor's and Alice Fazooli's posted SSSG(1) in Q2 of fiscal 2010 and all four operating segments posted SSSG(1) in Q3, which are positive signs for SIR.

Management believes that currently 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 previous 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).

While the economy is showing some early signs of improvement, Management remains cautious with regard to growth and conservation of cash. Management is carefully monitoring the effects on SIR's business of the continued weakness in economic conditions and consumer confidence. SIR expects that these economic conditions may continue to impact its sales and profit prospects in the near future, particularly in the higher cheque average Signature restaurants and Canyon Creek. As previously mentioned, SIR intends to resume some limited new restaurant development and to continue to focus on sustaining and growing restaurant sales and profits while managing costs.

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. For fiscal 2010, SIR has decided to return to its regular advertising initiatives including radio-based advertising. During Q1 of fiscal 2010, SIR launched a 4-week media campaign for Canyon Creek that included print, television, on-line and radio advertisements. During Q2 of fiscal 2010, SIR focused on gift card advertising initiatives, starting with a bonus program, followed by consumer awareness initiatives, including targeted direct mail and on-line and television advertising. SIR is expected to proceed with more radio advertising for Jack Astor's, in Q4.

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 challenging economic times. SIR management is committed to maximizing the performance of all of its restaurants.

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 June 17, 2010.

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

In formulating the forward-looking statements contained herein, Management has assumed that business and economic conditions affecting SIR's restaurants and the Fund will continue substantially in the ordinary course, including without limitation with respect to general 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 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. These assumptions, although considered reasonable by Management at the time of preparation, may prove to be incorrect. For more information concerning the Fund's risks and uncertainties, please refer to the October 2004 final prospectus, and/or its March 31, 2010 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