SIR Corp.

Consolidated Financial Statements
August 29, 2010 and August 30, 2009

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Auditors' Report

To the Shareholders of
SIR Corp.

We have audited the consolidated balance sheets of **SIR Corp.** as at August 29, 2010 and August 30, 2009 and the consolidated statements of operations and comprehensive income (loss), deficit and cash flows for the 52-week periods then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at August 29, 2010 and August 30, 2009 and the results of its operations and its cash flows for the 52-week periods then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

SIR Corp.

Consolidated Balance Sheets

(in thousands of dollars)

	August 29, 2010 $	**August 30, 2009 $ (note 3)**
Assets		
Current assets		
Cash and cash equivalents	9,618	8,183
Accounts receivable	2,870	2,787
Inventories	2,536	2,540
Prepaid expenses, deposits and other assets	616	538
Current portion of loans and advances (note 6)	375	250
	16,015	14,298
Loans and advances (note 6)	1,065	877
Property and equipment (notes 7 and 14)	44,661	49,702
Goodwill (note 8)	5,410	5,410
Intangible and other assets (note 9)	415	711
	67,566	70,998

SIR Corp.

Consolidated Balance Sheets …*continued*

(in thousands of dollars)

	August 29, 2010 $	August 30, 2009 $ (note 3)
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	21,533	19,513
Construction accounts payable and accrued liabilities	829	256
Current portion of long-term debt (note 10)	3,214	2,982
Current portion of other long-term liabilities (note 12)	1,387	1,483
Amounts due to SIR Royalty Income Fund - net (note 11(c))	1,744	1,380
	28,707	25,614
Long-term debt (note 10)	22,133	11,550
Loan payable to SIR Royalty Income Fund (note 11(a))	35,575	35,552
Non-controlling interest in SIR Royalty Limited Partnership (note 11(b))	11,167	11,167
Other long-term liabilities (note 12)	8,882	9,006
Future income taxes (note 17)	108	97
	106,572	92,986
Shareholders' Deficiency		
Capital stock (note 13)	11,571	17,605
Accumulated other comprehensive loss	(202)	(202)
Deficit	(50,375)	(39,391)
	(39,006)	(21,988)
	67,566	70,998

Contingencies and commitments (note 15)

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

Approved by the Board of Directors

(signed) Grey Sisson	(signed) Peter Fowler
Director	Director

SIR Corp.

Consolidated Statements of Operations and Comprehensive Income (Loss)

(in thousands of dollars)

	52-week period ended August 29, 2010 $	52-week period ended August 30, 2009 $ (note 3)
Corporate restaurant operations (note 1)		
Food and beverage revenue (note 19)	200,883	196,705
Costs of corporate restaurant operations		
Food and beverage	60,101	59,790
Labour	65,819	64,177
Direct costs of restaurant operations (note 14)	48,229	46,157
Amortization of restaurant assets	7,816	8,609
	181,965	178,733
Earnings from corporate restaurant operations	18,918	17,972
Corporate costs (note 14)	(9,763)	(8,904)
Restructuring costs (note 20)	-	(228)
Other amortization	(277)	(294)
	(10,040)	(9,426)
Earnings before the following items	8,878	8,546
Interest expense - net (note 10)	(2,351)	(1,365)
Interest on loan payable to SIR Royalty Income Fund (note 11(a))	(2,992)	(2,992)
Non-controlling interest in SIR Royalty Limited Partnership (note 11(b))	(4,618)	(4,679)
Unrealized foreign exchange gain (loss)	71	(79)
Goodwill impairment (note 8)	-	(237)
Recovery of impairment of loans and advances (note 6)	700	700
Other income (expense) (note 18)	327	(635)
Earnings (loss) before income taxes and non-controlling interests in other subsidiary companies	15	(741)
Provision for (recovery of) income taxes (note 17)	4	(48)
Earnings (loss) before non-controlling interests in other subsidiary companies	11	(693)
Non-controlling interests in other subsidiary companies	-	32
Net earnings (loss) and comprehensive income (loss) for the period	11	(661)

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

SIR Corp.
Consolidated Statements of Deficit

(in thousands of dollars)

	52-week period ended August 29, 2010 $	52-week period ended August 30, 2009 $ (note 3)
Deficit - Beginning of period, as previously reported	(36,734)	(35,690)
Change in accounting policies		
Goodwill and intangible assets (note 3)	(2,657)	(3,040)
Deficit - Beginning of period, as restated	(39,391)	(38,730)
Net earnings (loss) for the period	11	(661)
Change arising from related party transaction (note 13)	(265)	-
Excess of purchase price of capital stock for cancellation (note 13)	(10,730)	-
Deficit - End of period	(50,375)	(39,391)

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

SIR Corp.

Consolidated Statements of Cash Flows

(in thousands of dollars)

	52-week period ended August 29, 2010 $	52-week period ended August 30, 2009 $ (note 3)
Cash provided by (used in)		
Operating activities		
Net earnings (loss) for the period	11	(661)
Items not affecting cash		
Amortization	8,093	8,903
Non-controlling interests in other subsidiary companies	-	(32)
Future income taxes (note 17)	11	22
Recovery of impairment of loans and advances (note 6)	(700)	(700)
Goodwill impairment (note 8)	-	237
Non-cash interest expense	456	764
Amortization of leasehold inducements	(553)	(716)
Unrealized foreign exchange (gain) loss	(71)	79
Other (note 16)	301	303
Leasehold and other inducements received	221	1,103
Net change in working capital items (note 16)	2,202	2,655
Net cash provided by operations	9,971	11,957
Investing activities		
Purchase of property and equipment	(2,474)	(7,731)
Purchase of intangible assets	(8)	-
Proceeds from sale of property and equipment	2	11
Acquisition of non-controlling interest (note 5)	-	(250)
Purchase of loan receivable	(265)	-
Repayment of loans and advances	538	541
Net cash used in investing activities	(2,207)	(7,429)
Financing activities		
Decrease in bank indebtedness	-	(905)
Proceeds from issuance of long-term debt	26,027	3,700
Principal repayment of long-term debt	(14,534)	(445)
Financing fees	(1,056)	(180)
Repurchase of capital stock (note 13)	(16,764)	-
Net cash provided by (used in) financing activities	(6,327)	2,170
Effect of foreign exchange rates on cash	(2)	2
Increase in cash and cash equivalents during the period	1,435	6,700
Cash and cash equivalents - Beginning of period	8,183	1,483
Cash and cash equivalents - End of period	9,618	8,183

Supplemental information (note 16)

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

1 Nature of operations and fiscal year

Nature of operations

SIR Corp. (the Company) is a private company amalgamated under the Business Corporations Act of Ontario. As at August 29, 2010, the Company operated a total of 45 (August 30, 2009 - 45) Concept and Signature restaurants in Canada (in Ontario, Quebec, Alberta and Nova Scotia) (the SIR Restaurants). The Concept restaurants are Jack Astor's Bar and Grill® (Jack Astor's®), Canyon Creek Chop House® (Canyon Creek®) and Alice Fazooli's®, and the Signature restaurants are reds®, Far Niente®/FOUR™/Petit Four™ and the Loose Moose Tap & Grill®. The Company also owns Jack Astor's (Cary & Las Colinas) Limited, which operates one Jack Astor's restaurant in the United States. On October 25, 2010, the Company opened a new Jack Astor's restaurant.

On October 1, 2004, SIR Royalty Income Fund (the Fund) filed a final prospectus for a public offering of units of the Fund. The net proceeds of the offering of $51,167,000 were used by the Fund to acquire certain bank debt of the Company (the SIR Loan) (note 11) and, indirectly, through SIR Holdings Trust (the Trust), all of the Ordinary LP units of SIR Royalty Limited Partnership (the Partnership). On October 12, 2004, the Partnership acquired from the Company the Canadian trademarks used in connection with the operation of the majority of the Company's restaurants in Canada (note 11).

Fiscal year

The Company's fiscal year is made up of 52- or 53-week periods ending on the last Sunday in August. The fiscal quarters for the Company consist of accounting periods of 12, 12, 12 and 16 or 17 weeks, respectively. The fiscal years for 2010 and 2009 consisted of 52 weeks.

2 Summary of significant accounting policies

Basis of presentation

These consolidated financial statements include the accounts of the Company and its wholly owned, majority owned and other subsidiaries where the Company is exposed to the majority of the expected losses or returns. All intercompany accounts and transactions have been eliminated. During 2009, the Company acquired the non-controlling interest in Jack Astor's Don Mills Limited (note 5) and now owns 100% of its subsidiaries, with the exception of the Partnership (note 11(b)).

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and disclosures applicable to private companies. When public company disclosure provides additional meaningful information, management has incorporated such disclosure in these consolidated financial statements.

Seasonality

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

A summary of the significant accounting policies followed in the preparation of these consolidated financial statements is as follows.

Use of estimates

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

Revenue recognition

Revenue from restaurant operations is recognized when services are rendered.

The Company recognizes gift certificate revenue as gift certificates are redeemed. Gift certificates that are not redeemed within two years of the issuance date are recognized as other income in the consolidated statements of operations based on historical redemption rates.

Cash and cash equivalents

Cash and cash equivalents are defined as cash and short-term investments with original maturities of three months or less.

Inventories

Inventories, which consist of food, beverage and merchandise, are valued at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method.

Property and equipment

Property and equipment are recorded at cost, less accumulated amortization. Amortization is calculated as follows:

Buildings	20 years straight-line
Corporate furniture, fixtures and equipment	5 years straight-line
Computer equipment and software	5 years straight-line
Restaurant furniture, fixtures and equipment	10 years straight-line
Leasehold improvements	over the lease term on a straight-line basis to a maximum of 10 years

Intangible and other assets

Intangible lease assets arising on business combinations comprise the present value of the amount by which market lease rates exceeded the contractual lease rates on the date of acquisition and are being amortized on a straight-line basis over the remaining life of the respective leases (note 9).

Intangible computer software is recorded at cost, less accumulated amortization, and is amortized over five years on a straight-line basis.

Impairment of long-lived assets

An impairment charge is recognized for long-lived assets, including intangible assets with finite lives, when an event or change in circumstances causes an asset's carrying value to exceed the total undiscounted cash flows expected from its use and eventual disposition. The impairment loss is calculated as the difference between the fair value of the asset and its carrying value.

Leases of equipment

Leases of equipment on terms that transfer substantially all of the benefits and risks of ownership to the Company are accounted for as capital leases. All other leases of equipment are accounted for as operating leases. Operating lease payments are expensed on a straight-line basis over the term of the lease.

Goodwill

Goodwill represents the excess of the cost of investments in subsidiaries and businesses acquired over the fair value of the net assets acquired. Goodwill is not amortized. The Company performs an impairment review of goodwill at least annually, or whenever events or changes in circumstances indicate that the carrying amounts may be impaired. The need for any writedown of goodwill due to an impairment in its value is based on the assessment of the fair value of the individual business units and the related goodwill.

Loans and advances

Loans and advances are recorded at cost and are written down to their estimated realizable amount when there is evidence of an impairment. Loans and advances are reviewed for impairment on an individual basis and are reduced to the estimated recoverable amount measured by expected future cash flows. When the amounts and timing of future cash flows cannot be estimated with reasonable reliability, the loans and advances are measured at the fair value of the underlying security, net of expected costs of realization. The accrual of interest is suspended if collection becomes doubtful.

Supplier rebates

Supplier rebates are upfront payments received under supplier agreements, which are recognized as a reduction of the cost of purchases over the term of the supplier agreements.

Leasehold inducements

Leasehold inducements represent payments received from landlords at the time of construction and are deferred and amortized on a straight-line basis over the term of the lease.

Financial instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, loans and advances, accounts payable and accrued liabilities, construction accounts payable and accrued liabilities, long-term debt, amounts due to SIR Royalty Income Fund and loan payable to SIR Royalty Income Fund. The Company accounts for its cash and cash equivalents at fair value and all other financial instruments are accounted for using amortized cost.

Future income taxes

Future income taxes are provided on the asset and liability method whereby future income tax assets are recognized for deductible temporary differences and operating loss carry-forwards, and future income tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the amounts of assets and liabilities recorded for income tax and financial reporting purposes. Future income tax assets are recognized only to the extent that management determines it is more likely than not that the future income tax assets will be realized. Future income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment or substantive enactment.

Stock-based compensation and other stock-based payments

Effective September 1, 2003, the Company adopted the provisions of The Canadian Institute of Chartered Accountants (CICA) Handbook Section 3870, Stock-Based Compensation and Other Stock-Based Payments, for awards to non-employees and employee awards modified after September 1, 2003. For all other awards, the Company implemented the recommendations of CICA Handbook Section 3870 in fiscal 2006. Compensation expense is recognized based on the fair value method of accounting for stock options granted under the Company's stock option plan, for options issued after September 1, 2003. Any consideration paid by employees or directors on exercising stock options is credited to capital stock.

Foreign currency translation

Until August 29, 2004, the operations of the Company's foreign subsidiary were considered to be self-sustaining and were therefore translated into Canadian dollars using the current rate method. Under this method, assets and liabilities are translated using year-end exchange rates while revenues and expenses are translated at the average rates during the period. Exchange gains and losses on translation are recorded in accumulated other comprehensive loss.

Effective August 30, 2004, the operations of the foreign subsidiary are considered integrated with those of the Company. Monetary items are now translated into Canadian dollars at the exchange rate in effect at the dates of the consolidated balance sheets, non-monetary items are translated at historical exchange rates and results of operations are translated at the average exchange rate for the period. Exchange gains and losses on the translation of the integrated foreign subsidiary are included in net earnings (loss) for the period.

The exchange gains and losses accumulated in the currency translation adjustment account will be realized when there is a reduction in the Company's net investment in the operations that gave rise to the exchange gains and losses.

Asset retirement obligations

CICA Handbook Section 3110, Asset Retirement Obligations, establishes standards for the recognition, measurement and disclosure of liabilities for asset retirement obligations and the associated asset retirement cost. The standard applies to legal obligations associated with the retirement of tangible long-lived assets. The standard applies to obligations for both lessors and lessees in connection with leased assets. The Company has adopted the provisions of this standard with respect to estimated lease-end remediation costs.

Long-term debt and loan payable to SIR Royalty Income Fund

Deferred financing fees represent transaction costs paid to obtain financing and are netted against the related debt. The deferred financing fees are amortized over the term of the related debt using the effective interest rate method.

3 Changes to accounting policies and recently issued accounting pronouncements

Changes to accounting policies

Goodwill and Intangible Assets

CICA Handbook Section 3064, Goodwill and Intangible Assets, replaced CICA Handbook Sections 3062, Goodwill and Other Intangible Assets, and 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 38, Intangible Assets. The Company adopted CICA Handbook Section 3064 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 change in accounting policy has been applied retroactively.

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

	Balance as reported $	Impact of new standard $ (in thousands of dollars)	Balance as restated $
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 consolidated statement of operations for the 52-week period ended August 30, 2009 is as follows:

	Balance as reported $	Impact of new standard $ (in thousands of dollars)	Balance as restated $
Cost of corporate restaurant operations			
Food and beverage	59,751	39	59,790
Labour	63,974	203	64,177
Direct cost of restaurant operations	45,783	374	46,157
Amortization of restaurant assets	9,595	(986)	8,609
Recovery of income taxes	35	13	48
Net loss for the period	(1,044)	383	(661)

Financial Instruments - Disclosures

CICA Handbook Section 3862, Financial Instruments - Disclosures, increases the disclosures currently required that will enable users to evaluate the significance of financial instruments to 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. The Company adopted this standard effective September 1, 2008 (note 4).

During the 52-week period ended August 29, 2010, the Company adopted the amendments to the disclosure requirements under CICA Handbook Section 3862 for all financial assets and liabilities that are recognized at fair value in the consolidated financial statements. These amendments expand the disclosure requirements around fair value and establish a fair value hierarchy for valuation inputs. The hierarchy prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. The amendments to this standard have not had a material impact on the consolidated financial statements.

Recently issued accounting pronouncements not yet effective

Accounting Standards for Private Enterprises

The Canadian Accounting Standards Board has finalized a new set of standards for private enterprises; the Company will adopt Accounting Standards for Private Enterprises effective for its fiscal 2012 year. Management is evaluating the new standards and has not yet determined the impact of this change on the Company's consolidated financial statements.

Business Combinations, Consolidated Financial Statements and Non-Controlling Interests

CICA Handbook Sections 1582, Business Combinations, 1601, Consolidated Financial Statements, and 1602, Non-Controlling Interests, replace the former CICA Handbook Sections 1581, Business Combinations, and 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 International Financial Reporting Standard 3, Business Combinations, and International Accounting Standard 27, Consolidated and Separate Financial Statements. CICA Handbook Section 1582 is effective for the Company for business combinations for which the acquisition date is on or after the reporting period beginning on or after August 29, 2011. CICA Handbook Sections 1601 and 1602 are 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 this change on the Company's consolidated financial statements.

4 Financial instruments

Classification

The classifications of the financial instruments, as well as their carrying and fair values, are as follows:

		August 29, 2010 $		August 30, 2009 $	
	Classification	**Carrying value** (in thousands of dollars)	**Fair value**	**Carrying value** (in thousands of dollars)	**Fair value**
Cash and cash equivalents	Held-for-trading	9,618	9,618	8,183	8,183
Accounts receivable	Loans and receivables	2,870	2,870	2,787	2,787
Loans and advances	Loans and receivables	1,440	1,440	1,127	1,127
Accounts payable and accrued liabilities	Other financial liabilities	21,533	21,533	19,513	19,513
Construction accounts payable and accrued liabilities	Other financial liabilities	829	829	256	256
Amounts due to SIR Royalty Income Fund - net	Other financial liabilities	1,744	1,744	1,380	1,380
Long-term debt	Other financial liabilities	25,347	26,107	14,532	14,663
Loan payable to SIR Royalty Income Fund	Other financial liabilities	35,575	see below	35,552	see below

Carrying and fair values

Cash and cash equivalents, accounts receivable, loans and advances, accounts payable and accrued liabilities, construction accounts payable and accrued liabilities and amounts due to SIR Royalty Income Fund are short-term financial instruments whose fair values approximate the carrying values, given that they will mature in the short term or, in the case of loans and advances, fair values do not differ significantly from their carrying values. The fair value of long-term debt is determined based on the estimated contractual schedule of payments and, in the case of the US loan payable and capital lease obligations, the rate on the debt instruments is not materially different from current market interest rates. The fair value of the loan payable to SIR Royalty Income Fund could only be determined through the valuation of the debt. As a result, the determination of its fair value is not practicable within the constraints of timeliness and cost.

Objectives and policy relating to financial risk management

Financial risk management is carried out by the management of the Company and its Board of Directors. The Company's main financial risk exposure, as well as its risk management policy, is detailed as follows.

Interest rate risk

The loan payable to SIR Royalty Income Fund, the US loan payable and the capital lease obligations have fixed interest rates. Accordingly, changes in interest rates would not impact the consolidated statements of operations and comprehensive income (loss) or the carrying value of these financial liabilities. However, the fair value of these financial liabilities will vary with changes in interest rates.

The Company currently has $24,677,000 in floating rate debt. The Company incurred $1,622,000 of interest expense on this debt during the 52-week period ended August 29, 2010. An increase or decrease of 1.0% in the three-month Canadian dollar banker's acceptance rate would have resulted in an increase or decrease, respectively, in net earnings and comprehensive income of $247,000 for the 52-week period ended August 29, 2010.

The Company's policy is to invest excess cash in short-term investments. It is not the Company's practice to hedge against changes in interest rates.

Credit risk

Credit risk is defined as the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit risk in its cash and cash equivalents, accounts receivable and loans and advances. The Company minimizes the credit risk of cash and cash equivalents by depositing funds with reputable financial institutions. The Company's accounts receivable primarily comprise amounts due from major credit card companies; therefore, management believes that the Company's accounts receivable credit risk exposure is limited. The Company monitors the collectibility of its loans and advances, predominantly due from related parties, by reviewing them for impairment on an individual basis and recording the instrument at its net realizable value. The Company has determined that the loans and advances to U.S. S.I.R. L.L.C. are impaired based on estimated future cash flows of the remaining US operations. Accordingly, the carrying values of the loans and advances are recorded at their net realizable values, which were determined by discounting the expected future cash flows. Due to the improvement in the estimated future cash flows of the US operations, a recovery of impairment of $700,000 (52-week period ended August 30, 2009 - $700,000) was recognized in the consolidated statements of operations. In addition, the Company has begun to receive payments on these loans and advances and, accordingly, recognized interest income of $151,000 during the 52-week period ended August 29, 2010 (52-week period ended August 30, 2009 - $87,000).

Foreign currency exchange risk

The Company is exposed to foreign currency exchange rate risk with respect to its one Jack Astor's restaurant operating in the United States and to its loans and advances from U.S. S.I.R. L.L.C. and its subsidiaries. As at August 29, 2010, the Company had financial assets of US$245,000 and financial liabilities of US$2,176,000. A

5% depreciation or appreciation in the Canadian dollar against the US dollar, assuming that all other variables had remained the same, would have resulted in an increase or decrease, respectively, in net earnings and comprehensive income of $88,000 for the 52-week period ended August 29, 2010.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Management believes that there are sufficient cash resources retained in the Company from cash generated by operations to fund its working capital requirements and current commitments for estimated construction costs for new restaurants. The Company prepares budgets and forecasts to evaluate its ability to meet future cash obligations.

In accordance with CICA Accounting Guideline 15, Consolidation of Variable Interest Entities, the Company consolidates its investment in the Partnership. Included in cash and cash equivalents is $1,937,000 (August 30, 2009 - $1,591,000) of cash of the Partnership. These funds can only be utilized by the Partnership and are not available to the Company for other general corporate purposes. The funds are maintained in separate bank accounts of the Partnership.

The estimated contractual payments required for the financial liabilities are as follows:

	2011 $	2012 $	2013 $	2014 $	2015 $	Thereafter $
			(in thousands of dollars)			
Accounts payable and accrued liabilities	21,533	-	-	-	-	-
Construction accounts payable and accrued liabilities	829	-	-	-	-	-
Long-term debt	2,242	2,192	21,074	225	246	128
Amounts due to SIR Royalty Income Fund - net	1,744	-	-	-	-	-
Loan payable to SIR Royalty Income Fund	-	-	-	-	-	40,000
	26,348	2,192	21,074	225	246	40,128

5 Acquisition of non-controlling interest

Effective April 13, 2009, the Company acquired the non-controlling interest’s shares in Jack Astor’s Don Mills Limited for cash consideration of $250,000. The purchase price exceeded the non-controlling interest in the acquired net assets by $102,000. This amount has been allocated based on the fair value of the assets and liabilities acquired to intangible and other assets, goodwill, future income taxes and other long-term liabilities.

6 Loans and advances

	August 29, 2010 $	August 30, 2009 $
	(in thousands of dollars)	
Loan receivable from U.S. S.I.R. L.L.C., with interest at 10%, interest only repayable annually, due August 31, 2003	1,180	1,180
Advances to and receivables from U.S. S.I.R. L.L.C., non-interest bearing, due on demand	3,971	4,358
Advances to and receivables from subsidiaries of U.S. S.I.R. L.L.C., non-interest bearing, due on demand	398	398
	5,549	5,936
Provision for impairment	(4,109)	(4,809)
	1,440	1,127
Current portion	(375)	(250)
	1,065	877

Loans and advances are reviewed for impairment on an individual basis. The assessment of impairment is based on the expected ability of the payor to make the required payments when due. Interest income is not recorded when a loan becomes impaired.

Prior to 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. The Company determined that these advances are impaired based on estimated future cash flows of the remaining US operations. Accordingly, the loans and advances have been recorded at their estimated net realizable value of $1,440,000 (August 30, 2009 - $1,127,000). During 2010, the Company received payments of $538,000 (52-week period ended August 30, 2009 - $541,000) and, as a result, recognized interest income of $151,000 (52-week period ended August 30, 2009 - $87,000) in the current year. The Company also recorded a recovery of impairment of $700,000 (52-week period ended August 30, 2009 - $700,000) in the current year based on the expected future payments to be received from U.S. S.I.R. L.L.C.

Prior to 2008, the Company acquired the rights to certain debt owed by U.S. S.I.R. L.L.C. from certain shareholders. The loan of $2,284,000 bears interest at 10% and has no set terms of repayment. In addition, on November 13, 2009, the Company acquired a loan receivable of $265,000 from a shareholder of the Company. The Company maintains the carrying value of the U.S. S.I.R. L.L.C. loans at $nil, which is the carrying value prior to acquisition.

A continuity of the loans and advances to U.S. S.I.R. L.L.C. and subsidiaries is as follows:

	$ (in thousands of dollars)
Balance - August 31, 2008	887
Payment received	(541)
Foreign exchange	(6)
Interest	87
Recovery of impairment	700
Balance - August 30, 2009	1,127
Payment received	(538)
Interest	151
Recovery of impairment	700
Balance - August 29, 2010	1,440

7 Property and equipment

		August 29, 2010 $	
	Cost	**Accumulated amortization** (in thousands of dollars)	**Net**
Corporate			
Furniture, fixtures and equipment	528	450	78
Leasehold improvements	238	232	6
Computer equipment and software	1,387	1,154	233
Restaurants			
Land	1,238	-	1,238
Buildings	1,722	812	910
Furniture, fixtures and equipment	37,587	19,922	17,665
Leasehold improvements	54,193	29,662	24,531
	96,893	52,232	44,661

			August 30, 2009 $
	Cost	**Accumulated amortization** (in thousands of dollars) (note 3)	**Net**
Corporate			
Furniture, fixtures and equipment	528	420	108
Leasehold improvements	238	211	27
Computer equipment and software	1,253	1,087	166
Restaurants			
Land	1,238	-	1,238
Buildings	1,713	732	981
Furniture, fixtures and equipment	36,495	16,986	19,509
Leasehold improvements	53,064	25,391	27,673
	94,529	44,827	49,702

Amortization of property and equipment charged to the consolidated statements of operations for the 52-week period ended August 29, 2010 was $7,929,000 (52-week period ended August 30, 2009 - $8,723,000 (note 3)).

Property and equipment includes $1,013,000 (August 30, 2009 - $250,000) of costs for restaurants under development that were not being amortized as at August 29, 2010.

Property and equipment includes computer equipment and furniture, fixtures and equipment held under capital leases with a cost of $942,000 (August 30, 2009 - $1,101,000) and net book value of $426,000 (August 30, 2009 - $671,000).

8 Goodwill

	$ (in thousands of dollars)
Balance - August 31, 2008	5,625
Goodwill arising upon acquisition of non-controlling interest (note 5)	22
Goodwill impairment	(237)
Balance - August 30, 2009 and August 29, 2010	5,410

During the 52-week period ended August 30, 2009, the Company recognized an impairment of goodwill of $237,000 relating to one restaurant in the Signature segment. The impairment was a result of declining sales and earnings of this restaurant. The fair value of this restaurant was estimated using a model where the estimated free cash flow was multiplied by an earnings multiple. Based on this fair value estimate and the estimated fair value of the net assets of the restaurant, it was determined that goodwill was impaired and was fully written off. No impairments were recorded during the 52-week period ended August 29, 2010.

9 Intangible and other assets

			August 29, 2010 $
	Cost	**Accumulated amortization** (in thousands of dollars)	**Net**
Computer software	824	756	68
Intangible lease assets	1,010	663	347
	1,834	1,419	415

			August 30, 2009 $
	Cost	**Accumulated amortization** (in thousands of dollars) (note 3)	**Net**
Computer software	817	699	118
Deferred transaction costs (note 10)	140	-	140
Intangible lease assets	1,147	694	453
	2,104	1,393	711

Amortization of intangible and other assets charged to the consolidated statements of operations for the 52-week period ended August 29, 2010 was $164,000 (52-week period ended August 30, 2009 - $180,000 (note 3)).

10 Bank indebtedness and long-term debt

	August 29, 2010 $	August 30, 2009 $
	(in thousands of dollars)	
Senior term debt (a)	23,916	-
Construction line (b)	-	12,608
Loan payable (US$1,083,000; August 30, 2009 - US$1,228,000), bearing interest at 9.01%, due February 1, 2016, repayable in monthly blended instalments of principal and interest of $22,000 (US$21,000) (c)	1,140	1,342
Loans payable to landlords, non-interest bearing, repayable in monthly instalments, matured June 22, 2010	-	15
Capital lease obligations, bearing interest between 4.8% and 10.8%, repayable in monthly instalments, maturing between September 15, 2010 and August 1, 2015	291	567
	25,347	14,532
Current portion	(3,214)	(2,982)
	22,133	11,550

a) On November 13, 2009, the Company entered into a new $26,000,000 senior term debt facility which, in turn, replaced its previous debt facility described below. The credit facility has a three-year term with a ten-year amortization. The rate of interest on the financing is equal to the greater of 7.8% per annum and the three-month Canadian dollar banker's acceptance rate plus 7.55% per annum, calculated monthly, not in advance. The debt is repayable in estimated monthly blended instalments of principal and interest of $313,000. The bank debt is collateralized by a general security agreement and entitles the lender to a first charge on all of the Company's assets, including a pledge of all shares and the investment in the Partnership and a specific assignment of the rights under the Licence 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 that the Company is in compliance with as at August 29, 2010. In addition, the debt is guaranteed by the majority shareholder of the Company, for which a guarantee fee of $30,000 (52-week period ended August 30, 2009 - $nil) was paid to the related party and included in other income (expense) in the consolidated statements of operations (note 18). The Company also issued 26 warrants to the majority shareholder of the Company to acquire Class S Special Shares of the Company concurrent with this transaction. These warrants have been pledged to the new senior lender (note 13).

b) Prior to the $26,000,000 facility described in (a), the Company had a $16,000,000 credit facility. The credit facility consisted of a two-year revolving credit facility (operating line) for up to $2,000,000, a two-year revolving construction credit facility (construction line) for up to $13,000,000 and a treasury management facility for up to $1,000,000. Outstanding balances under the construction line for completed restaurants converted into a five-year amortizing term loan at the end of the committed period or earlier to be determined by the Company and the lender. The construction line and the operating line were two-year committed facilities, renewable annually thereafter at the lender's sole discretion for a 364-day period. The structure of the facility was in the form of direct advances, banker's acceptances, letters of credit or guarantee and a fixed term loan (up to a five-year term). The rates of interest on the financing were banker's acceptance rate plus 1.75% or prime rate plus 0.25%. The financing arrangement was collateralized by a general security agreement and entitled the lender to a first charge on all of the Company's assets, including a pledge of all shares and the investment in the Partnership and a specific assignment of the rights under the Licence and Royalty Agreement. However, the lender did not have a pledge over the assets of the Partnership. The financing arrangement contained certain financial and non-financial covenants.

Effective July 30, 2009, the lender approved the extension of the credit facilities for 364 days, maturing on July 31, 2010, at which time the construction line, if not extended, would be converted into a five-year term loan due in 60 equal monthly instalments. The rates of interest on the financing were revised to banker's acceptance rate plus 3.75% or prime rate plus 2.25%. All other terms and conditions remained the same.

The unused portions of the operating line and construction line as at August 30, 2009 were $1,924,000 and $260,000, respectively.

The operating line and construction line were replaced by the senior term debt facility in (a).

c) This loan was entered into by Jack Astor's Cary, LLC, a subsidiary of Jack Astor's (Cary & Las Colinas) Limited, in fiscal 2001 and is guaranteed by the Company. The loan is currently non-compliant with respect to certain financial and non-financial covenants; as a result, the loan is presented as a current liability. All payments due on the loan have been made to date and no notices of default have been received by the borrowers. The loan is secured by the assets of Jack Astor's (Cary & Las Colinas) Limited and a pledge of the shares in Jack Astor's (Cary & Las Colinas) Limited.

d) As at August 29, 2010, the Company has outstanding letters of credit and a purchasing card totalling $71,000 (August 30, 2009 - $76,000).

e) In compliance with CICA Handbook Section 3855, Financial Instruments - Recognition and Measurement, the Company has recorded its long-term debt at amortized cost. The Company has netted the transaction costs against the respective debt and amortizes these costs over the expected life of the long-term debt using the effective interest rate method. Amortization of deferred financing fees of $566,000 (52-week period ended August 30, 2009 - $822,000) has been charged to interest expense in the consolidated statements of operations. Unamortized transaction costs netted against the debt at August 29, 2010 were $760,000 (August 30, 2009 - $131,000).

f) The principal amount of long-term debt is repayable as follows:

	$ (in thousands of dollars)
2011	2,242
2012	2,192
2013	21,074
2014	225
2015	246
Thereafter	128
	26,107

g) A summary of the effective interest rate on long-term debt and interest expense, in thousands of dollars, is as follows:

	August 29, 2010	**August 30, 2009**
Weighted average interest rate on long-term debt	7.0%	4.4%
Interest expense relating to long-term debt	$1,895	$633
Interest expense on capital lease obligations	$43	$77

11 SIR Royalty Income Fund

a) Loan payable to SIR Royalty Income Fund

The $40,000,000 SIR Loan bears interest at 7.5% per annum and is due October 12, 2044. On November 13, 2009, the Fund and the Partnership entered into a Subordination and Postponement Agreement to subordinate and postpone their claims against the Company in favour of the bank. The Fund and the Partnership have not guaranteed the current credit facility (note 10).

The bank debt is permitted indebtedness within the meaning of the agreements between the Fund, the Partnership and the Company and, as a result, the Fund and the Partnership have, as contemplated in the existing agreements, subordinated and postponed their claims against the Company to the claims of the bank. This subordination, which includes a subordination of the Partnership's rights under the Licence and Royalty Agreement between the Partnership and the Company whereby the Partnership licenses to the Company the right to use the trademarks and related intellectual property in return for royalty payments based on revenues, has been effected pursuant to the terms of the Subordination and Postponement Agreement.

Under the Subordination and Postponement Agreement, absent a default or event of default under the current credit facility, ordinary payments to the Fund and the Partnership can continue and the Partnership can exercise any and all of its rights to preserve the trademarks and related intellectual property governed by the Licence and Royalty Agreement. However, if a default or an event of default were to occur, then payments to the Fund and the Partnership could cease and the related rights of the Fund and the Partnership could be subject to a “standstill” obligation for a period of up to 120 days (which may be extended if the bank is pursuing remedies). The Subordination and Postponement Agreement also contains various other typical covenants of the Fund and the Partnership. In addition, the Company provided an undertaking to the Fund and the Partnership to restrict the amount of additional debt that the Company can incur without the consent of the Fund and the Partnership (which consent shall not be unreasonably withheld).

Interest expense charged to the consolidated statements of operations for the 52-week period ended August 29, 2010 was $2,992,000 (52-week period ended August 30, 2009 - $2,992,000).

The Company has the right to require the Fund to, indirectly, purchase its Class C GP units of the Partnership and assume a portion of the SIR Loan as consideration for the acquisition of the Class C GP units.

In compliance with CICA Handbook Section 3855, Financial Instruments - Recognition and Measurement, the Company has recorded the SIR Loan at amortized cost. The Company has netted the transaction costs against the SIR Loan and amortizes this cost over the term of the SIR Loan using the effective interest rate method. Amortization of deferred financing fees of $23,000 for the 52-week period ended August 29, 2010 (52-week period ended August 30, 2009 - $21,000) has been charged to interest expense in the consolidated statements of operations. Unamortized transaction costs netted against the SIR Loan at August 29, 2010 were $4,425,000 (August 30, 2009 - $4,448,000).

b) Non-controlling interest in SIR Royalty Limited Partnership

	52-week period ended August 29, 2010 $	**52-week period ended August 30, 2009 $**
	(in thousands of dollars)	
Initial investment by the Fund	11,167	11,167
Non-controlling interest in earnings of the Partnership	4,618	4,679
Distributions declared on the Partnership units held by the non-controlling interest	(4,618)	(4,679)
Non-controlling interest in the Partnership	11,167	11,167
Pooled revenue*	198,318	185,422
Partnership royalty income*	11,899	11,125
Other income	25	38
Partnership expenses	(95)	(123)
Net earnings of the Partnership	11,829	11,040
The Company's interest in the Partnership	(7,211)	(6,361)
Non-controlling interest in the Partnership	4,618	4,679

*Includes revenue from the SIR Restaurants subject to the Licence and Royalty Agreement. The Partnership owns the Canadian trademarks (the SIR Rights) formerly owned or licensed by the Company or its subsidiaries and used in connection with the operation of the majority of the Company's restaurants in Canada. Partnership royalty income is 6% of pooled revenue in accordance with the Licence and Royalty Agreement, plus a Make-Whole Payment for closed restaurants, from the date of closure to December 31 of the year closed.

On October 12, 2004, the Partnership issued Ordinary LP and GP Units to the Fund for cash of $11,167,000. The holders of the Ordinary LP Units are entitled to receive a pro rata share of all residual distributions of the Partnership.

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

Under the terms of the Licence and Royalty Agreement, the Company may be required to pay a Make-Whole Payment in respect of the reduction in revenue for restaurants closed during a reporting period. The Company is not required to pay any Make-Whole Payment in respect of a closed restaurant following the date on which the number of restaurants in the Royalty pool is equal to or greater than 68 or following October 12, 2019, whichever occurs first. On January 1 of each year (the Adjustment Date), the restaurants subject to the Licence and Royalty Agreement are adjusted for new SIR Restaurants opened for at least 60 days preceding such Adjustment Date. At each Adjustment Date, the Company will be entitled to convert its Class B GP Units into Class A GP Units based on the formula defined in the Partnership Agreement. Additional Class B GP Units may be converted into Class A GP Units in respect of these new SIR Restaurants if actual revenues of the new SIR Restaurants exceed 80% of the initial estimated revenue. Conversely, converted Class A GP Units may be returned by the Company if the actual revenues are less than 80% of the initial estimated revenue. In December of each year, an additional distribution 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.

On January 1, 2010, nil (January 1, 2009 - six) new SIR restaurants were added to the Royalty Pooled Restaurants in accordance with the Partnership Agreement. As consideration for the additional Royalty associated with the addition of nil new restaurants on January 1, 2010 (January 1, 2009 - six), as well as the Second Incremental Adjustment for the six new SIR restaurants added to the Royalty Pooled Restaurants on January 1, 2009 (January 1, 2008 - three), the Company converted its Class B GP Units into Class A GP Units based on the formula defined in the Partnership Agreement. The net effect of these adjustments to the Royalty Pooled Restaurants was that the Company 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 $1,237,000 (January 1, 2009 - $5,972,000). As a result of this exchange, the Company’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 the Royalty pool on January 1, 2009 exceeded 80% of the Initial Adjustment’s estimated revenue and, as a result, an additional distribution of $337,000 was declared in December 2009 (December 2008 - $178,000) and paid the following January. Since there were no new restaurants added to the Royalty Pooled Restaurants on January 1, 2010, an additional distribution on the Class B GP Units will not be required in December 2010.

c) Amounts due to SIR Royalty Income Fund

Amounts due to (from) SIR Royalty Income Fund and its subsidiaries consist of:

	August 29, 2010 $	**August 30, 2009 $**
	(in thousands of dollars)	
Advances receivable	(1,987)	(1,518)
Interest payable on SIR Loan (note 11(a))	489	247
Partnership distributions payable (note 11(b))	3,242	2,651
Payable to SIR Royalty Income Fund and its subsidiaries - net	1,744	1,380

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

During the 52-week period ended August 29, 2010, distributions of $4,618,000 (52-week period ended August 30, 2009 - $4,679,000) were declared to the Fund through the Partnership. The Fund, indirectly through the Trust, is entitled to receive a pro rata share of all residual distributions.

The Company, through the Partnership, has entered into an arrangement with the Fund and the Trust whereby the Partnership will provide or arrange for the provision of services required in the administration of the Fund and the Trust. The Partnership has arranged for these services to be provided by SIR GP Inc., in its capacity as the Managing General Partner. For the 52-week period ended August 29, 2010, the Partnership provided these services to the Fund and the Trust for consideration of $24,000 (52-week period ended August 30, 2009 - $24,000), which was the amount of consideration agreed to by the related parties.

12 Other long-term liabilities

	August 29, 2010 $	**August 30, 2009 $**
	(in thousands of dollars)	
Supplier rebates	298	397
Leasehold inducements and straight-line rent liability	5,612	5,700
Accrued management bonus (a)	3,916	3,965
Asset retirement obligation (b)	443	427
	10,269	10,489
Current portion	(1,387)	(1,483)
	8,882	9,006

a) The Company has a management bonus program that provides restaurant managers and area directors with the opportunity to earn a bonus based on the cash flow of the restaurant(s). The percentage of cash flow earned depends on the manager's and area director's years of service and ranges from 0% to 10%. The managers and area directors also have the opportunity to earn a bonus upon leaving the organization if he or she has completed at least five years of service. This bonus is based on a predetermined formula, using cash flows over a three-year period and a percentage that ranges from 2% to 10%. Upon leaving the program, the participant's bonus is paid in three instalments over a two-year period.

b) The Company has recorded an asset retirement obligation in respect of the estimated lease-end remediation costs. The asset retirement obligation was estimated based on a discounted cash flow analysis using the following key assumptions:

	August 29, 2010	**August 30, 2009**
Total undiscounted estimated cash flows, in thousands of dollars	$770	$784
Expected timing of repayments	0.3 to 13.2 years	1.3 to 14.2 years
Discount rate	4.5% to 7.5%	4.5% to 7.5%

13 Capital stock

Authorized
Unlimited Class S Special Shares
Unlimited common shares

Issued and outstanding
No Class S Special Shares are issued or outstanding as at August 29, 2010.
The issued and outstanding common shares and changes during the periods are as follows:

	August 29, 2010		**August 30, 2009**	
	Number of shares (in thousands)	**$** (in thousands of dollars)	**Number of shares** (in thousands)	**$** (in thousands of dollars)
Balance - Beginning of period	15,775	17,605	15,775	17,605
Repurchased	5,407	6,034	-	-
Balance - End of period	10,368	11,571	15,775	17,605

On November 13, 2009, the Company entered into a new $26,000,000 senior term debt facility (note 10). Part of the proceeds from this facility was used to repay $12,740,000 outstanding on the construction line. The remaining proceeds, as well as a portion of existing cash on hand, were used to repurchase 5,407,000 common shares of the Company from one shareholder as well as to acquire the rights to certain debts owed by U.S. S.I.R. L.L.C. from one shareholder of the Company and to pay professional fees and transaction costs relating to these transactions. The shareholder assigned its rights to certain debts owed by U.S. S.I.R. L.L.C. totalling $265,000. The loan bears interest at 10% and has no set terms of repayment. The transfer of the U.S. S.I.R. L.L.C. loan was recorded at its carrying value, prior to acquisition by the Company, of $nil. Accordingly, the difference between the carrying value and cash consideration of $265,000 was charged to deficit during the 52-week period ended August 29, 2010.

The consideration for the share repurchase was $16,764,000, including transaction costs of $29,000, representing the exchange amount between the Company and the shareholder. Of this amount, $6,034,000 was charged to capital stock and $10,730,000 was charged to deficit during the 52-week period ended August 29, 2010 representing the excess of the purchase price over book value of shares.

The Company also filed Articles of Amendment to authorize unlimited Class S Special Shares. The Class S Special Shares have 1,000,000 votes per share, are redeemable at the option of the holder for a redemption amount, as defined in the Articles of Amendment, and are redeemable at the option of the Company at any time following the third anniversary of the date of first issuance of any Class S Special Share, at the redemption amount. No Class S Special Shares are currently outstanding; however, as part of the new senior term debt agreement, the Company issued 26 warrants to acquire one Class S Special Share per warrant to a shareholder of the Company. The warrants have an exercise price of $1.00, expire on November 11, 2020 and can only be exercised upon the event of default by the Company with respect to its senior term debt facility. The warrants, which are a derivative financial instrument, were initially recorded at fair value of $nil.

In addition, 836,000 stock options with an exercise price of $0.01 were forfeited by a shareholder of the Company.

Stock option plan

There were 836,000 stock options forfeited and no stock options were granted or exercised during the 52-week period ended August 29, 2010. A summary of the status of the Company’s stock option plan as at August 29, 2010 and August 30, 2009 and changes during the periods is presented below:

	Number of options outstanding (in thousands)	**Weighted average exercise price per share** $
Balance - August 31, 2008 and August 30, 2009	2,181	0.03
Forfeited during 2010	(836)	0.01
Balance - August 29, 2010	1,345	0.04

As at August 29, 2010, the outstanding and exercisable options to purchase common shares are as follows:

	Options outstanding and exercisable			
Option price range	**Number of options** (in thousands)	**Weighted average remaining life (years)**	**Weighted average exercise price $**	
$nil (a)	34	(a)	-	
$0.01 (b)	1,276	10.5	0.01	
$1.00 (US) (c)	35	(c)	1.00	(US)
	1,345			

As at August 30, 2009, the outstanding and exercisable options to purchase common shares are as follows:

	Options outstanding and exercisable			
Option price range	**Number of options** (in thousands)	**Weighted average remaining life (years)**	**Weighted average exercise price $**	
$nil (a)	34	(a)	-	
$0.01 (b)	2,112	11.5	0.01	
$1.00 (US) (c)	35	(c)	1.00	(US)
	2,181			

a) These options have all vested. Upon death, permanent disability or resignation of employment with the Company, the Company retains the right to purchase the employee’s remaining interest at a negotiated price, which shall be paid over three years. These options do not expire.

b) The options vested at the date of grant and expire on the 20th anniversary after the date of grant.

c) These options have all vested. In the event of death, disability, or resignation or replacement as a director, the Company retains the right to purchase the optionee’s remaining interest at a negotiated price, which shall be paid over three years. These options do not expire.

14 Related party transactions

In addition to the transactions disclosed elsewhere in these consolidated financial statements, the Company entered into the following related party transactions:

	August 29, 2010 **$**	**August 30, 2009** **$**
	(in thousands of dollars)	
Corporate costs		
Paid operational services provided by two shareholders and directors of the Company	629	530
Paid consulting fees indirectly to one of the Company's directors	27	21
Paid consulting fees provided by two shareholders (one also a director) of the Company	101	-
Direct costs of restaurant operations		
Paid consulting fees indirectly to one of the Company's directors	7	149
Property and equipment		
Paid design fees provided by one shareholder of the Company	184	137
Deferred financing fees		
Paid consulting fees to one of the Company's shareholders and directors	55	-

The above 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.

15 Contingencies and commitments

In the normal course of business the Company is threatened from time to time with, or named as a defendant in, legal proceedings, including those relating to wrongful dismissal or personal injury. Many claims are covered by the Company's insurance policies and none of the current claims are expected to have a material adverse effect on the Company.

The Company and its subsidiaries have entered into operating leases relating to its head office and retail locations with minimum annual payments (excluding occupancy cost and percentage rent) as follows:

	$ (in thousands of dollars)
2011	10,435
2012	11,157
2013	10,764
2014	9,829
2015	8,916
Thereafter	31,131
	82,232

As at August 29, 2010, the Company had three commitments to lease new properties, has completed the construction of one restaurant subsequent to year-end and plans to build two new restaurants. The Company is committed to fulfilling its purchase obligations for the one completed restaurant and incurred approximately $1,400,000 to complete this restaurant subsequent to year-end. As at August 29, 2010, the Company 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.

16 Supplemental information to the consolidated statements of cash flows

The net change in working capital items is as follows:

	52-week period ended August 29, 2010 $	**52-week period ended August 30, 2009 $**
	(in thousands of dollars)	(note 3)
Accounts receivable	(92)	220
Inventories	3	266
Prepaid expenses, deposits and other assets	(79)	48
Accounts payable and accrued liabilities	2,055	2,702
Amounts due to SIR Royalty Income Fund	364	(144)
Accrued management bonus	(49)	(437)
	2,202	2,655

Other non-cash items consists of the following:

	52-week period ended August 29, 2010 $	**52-week period ended August 30, 2009 $**
	(in thousands of dollars)	
Loss on disposal of property and equipment	156	232
Straight-line rent expense	294	216
Supplier rebates	(149)	(145)
	301	303

Supplemental cash flow information is as follows:

	52-week period ended August 29, 2010 $	**52-week period ended August 30, 2009 $**
	(in thousands of dollars)	
Interest paid	4,575	3,606
Income taxes recovered	8	52
Purchase of property and equipment under capital leases	27	-

17 Income taxes

The components of the provision for (recovery of) income taxes are as follows:

	August 29, 2010 $	**August 30, 2009 $**
	(in thousands of dollars)	(note 3)
Current	(7)	(70)
Future	11	22
	4	(48)

The reconciliation of the Company's effective tax rate to the combined federal and provincial income tax rate is as follows:

	August 29, 2010 $	August 30, 2009 $
	(in thousands of dollars)	(note 3)
Earnings (loss) before income taxes and non-controlling interests in other subsidiary companies	15	(741)
Income tax provision (recovery) at Canadian statutory rate of 32.0% (August 30, 2009 - 33.2%)	5	(246)
Increase (decrease) by the effect of		
Non-controlling interest in SIR Royalty Limited Partnership	1,478	1,552
Non-deductible expenses	26	103
Deductible expenses - eliminated on consolidation	(1,907)	(1,617)
Differences in effective tax rates	(2)	73
Change in valuation allowance	(450)	121
Change in future tax rates	992	9
Non-taxable foreign exchange loss	23	(26)
Other	(161)	(17)
	4	(48)

Future income tax assets (liabilities) are summarized as follows:

	August 29, 2010 $	August 30, 2009 $
	(in thousands of dollars)	(note 3)
Property and equipment	(491)	(769)
Intangible and other assets	328	470
Deferred financing fees	(950)	(1,084)
Loss carry-forwards	9,255	8,380
Accrued management bonus	982	1,147
Leasehold inducements	1,421	1,636
Asset retirement obligation	109	121
Ontario tax harmonization	95	97
	10,749	9,998
Valuation allowance	(10,857)	(10,095)
	(108)	(97)

As at August 29, 2010, the Company and its subsidiaries have available non-capital losses of $30,874,000 (August 30, 2009 - $22,472,000) for income tax purposes, which expire as follows:

	$ (in thousands of dollars)
2014	858
2015	8,507
2024	2,189
2025	1,109
2026	3,084
2027	2,248
2028	3,223
2029	967
2030	8,689
	30,874

In addition, the Company has capital losses of $5,939,000 (August 30, 2009 - $5,473,000), which do not expire and are available to reduce future capital gains.

In aggregate, the Company has recognized $nil (August 30, 2009 - $nil) of the benefit of the non-capital losses and $nil (August 30, 2009 - $nil) of capital losses. The benefits of non-capital losses have been recognized to the extent that these can be offset by other future income tax liabilities.

18 Other income (expense)

The composition of other income (expense) is as follows:

	August 29, 2010 **$**	**August 30, 2009** **$**
	(in thousands of dollars)	
Loss on disposal of property and equipment	(156)	(232)
Income from gift certificates	467	62
Abandoned transaction costs (a)	-	(610)
Guarantee fee (b)	(30)	-
Other	46	145
	327	(635)

a) During the 52-week period ended August 29, 2010, the Company expensed $nil (52-week period ended August 30, 2009 - $610,000) of professional fees relating to an abandoned transaction.

b) During the 52-week period ended August 29, 2010, the Company expensed $30,000 (52-week period ended August 30, 2009 - $nil) relating to a guarantee fee to the majority shareholder of the Company.

The guarantee fee is payable over a three-year period ending April 13, 2013 in equal quarterly payments of $45,000 and will be amortized over the remaining term of the new credit facility (note 10(a)).

19 Segmented operations

The Company operates a portfolio of restaurants in Canada and the United States, categorized as Concept or Signature restaurants. Concept restaurants are brands that have been rolled out to multiple locations; Signature restaurants are one-of-a-kind brands. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates the performance of each segment based on earnings (loss) from operations before income taxes, interest, other non-recurring gains and losses, corporate costs and amortization of non-restaurant assets.

Selected information about the Company's operating segments has been provided as follows:

	52-week period ended August 29, 2010 $	**52-week period ended August 30, 2009 $**
	(in thousands of dollars)	
Food and beverage revenue		
Canada		
Jack Astor's	136,491	131,783
Alice Fazooli's	19,189	18,881
Canyon Creek Chop House	27,657	28,220
Signature	14,981	14,740
	198,318	193,624
United States		
Jack Astor's	2,565	3,081
	200,883	196,705

20 Restructuring costs

During 2009, the Company restructured its operations and incurred severance costs of $228,000. All related severance costs were paid in fiscal 2009.

21 Capital management

The Company's capital consists of its capital stock and deficit of $11,571,000 and $50,375,000, respectively. The objectives in managing capital are to safeguard the Company's ability to continue as a going concern, to provide financial capacity and flexibility to meet its strategic objectives, to allow the Company to respond to changes in economic and/or marketplace conditions and to provide a return to its shareholders. The Company strives to maintain an optimal split between debt and equity with a view to balancing its flexibility while minimizing its cost of capital. The Company evaluates cash flow through its budgeting and forecasting process, to help plan and track its capital requirements to meet its strategic plans.

On November 13, 2009, the Company provided an undertaking to the Fund and the Partnership to restrict the amount of the additional debt that the Company can incur without the consent of the Fund and the Partnership (which consent shall not be unreasonably withheld).

The Company is required to issue common shares upon the exercise of stock options by shareholders, directors and employees.