



SIR CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED AUGUST 27, 2006

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FOR 52-WEEK PERIOD ENDED AUGUST 27, 2006

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FOR THE 52-WEEK PERIOD ENDED AUGUST 27, 2006

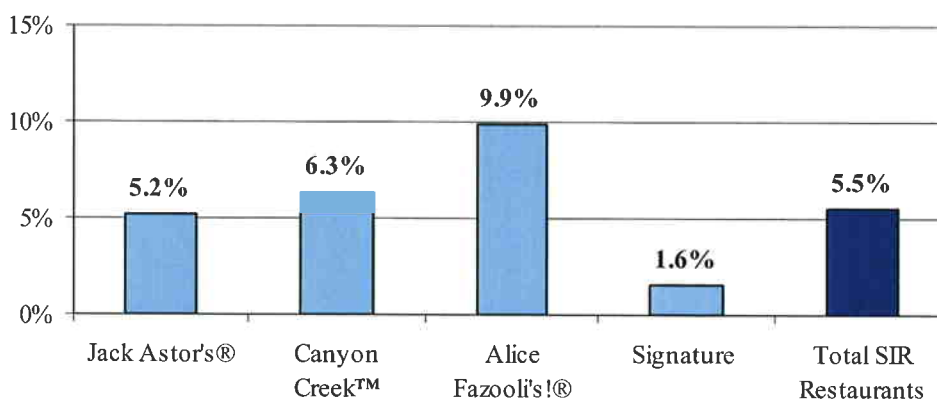
Executive Summary

SIR Corp.'s ("SIR") fourth quarter of fiscal 2006 ("Q4") was from May 8, 2006 to August 27, 2006 inclusive. SIR's year-to-date ("YTD") Q4 fiscal 2006 was from August 29, 2005 to August 27, 2006 inclusive. During Q4 and YTD fiscal 2006, SIR experienced significant increases in both total and same store sales and continued with its strategy of re-investing in its existing and new restaurants to drive anticipated future increases in sales and earnings.

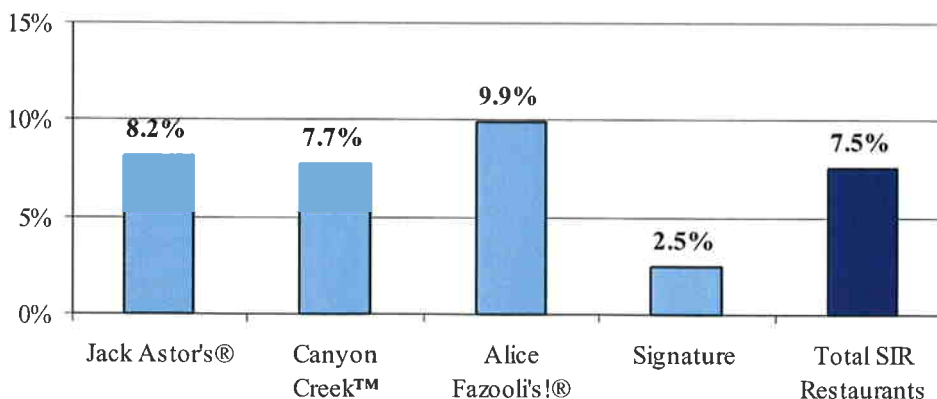
Highlights for SIR's fourth quarter and year-to-date of fiscal 2006 include:

- **Growth in both consolidated revenue and same store sales (unaudited):**
 - Corporate restaurant operations' food and beverage revenue from corporate restaurant operations for the quarter was \$47.2 million and \$153.1 million YTD. This represents a \$5.2 million or 12.3% increase over the prior year for the quarter and \$20.1 million or 15.1% increase over the prior year for the YTD.
 - Same store sales growth ("SSSG") for restaurants in the Royalty pool was 5.5% and 7.5% for the 16 and 52-week periods ended August 27, 2006, respectively, compared to the corresponding periods a year ago.

Same Store Sales Growth for the 16-week period ended August 27, 2006 vs same period in prior year



Same Store Sales Growth for the 52-week period ended August 27, 2006 vs same period in prior year



- SSSG for the Concept Restaurants (Jack Astor's®, Canyon Creek™ and Alice Fazooli's!®), which generate approximately 87% of YTD Pooled Revenue, was 6.1% and 8.4% for the 16 and 52-week periods ended August 27, 2006, respectively, versus the corresponding periods in the prior year.
- SSSG for Jack Astor's®, SIR's flagship Concept Restaurant brand that generates approximately 64% of YTD Pooled Revenue, was 5.2% and 8.2% for the 16 and 52-week periods ended August 27, 2006, respectively, versus the corresponding periods in the prior year.

- Canyon Creek™ continues to perform well, with SSSG of 6.3% and 7.7% for the 16 and 52-week periods ended August 27, 2006, respectively, versus the corresponding periods in the prior year.
- For the 16 and 52-week periods ended August 27, 2006, SSSG of Alice Fazooli's!® was 9.9% each, versus the corresponding periods in the prior year.
- SSSG of the downtown Toronto Signature Restaurants, which represent approximately 13% of YTD Pooled Revenue, was 1.6% and 2.5% for the 16 and 52-week periods ended August 27, 2006, respectively, versus the corresponding periods in the prior year.
- **Investment in existing restaurants**
 - During the fourth quarter of fiscal 2006, one more Jack Astor's® evolution in Canada was completed. This is in addition to the five evolutions that were completed in the first three quarters of this year. The evolution program started in 2004 and now only 1 of the Jack Astor's® currently operating remains to be evolved. Average revenue increases in the first full year after each evolution have been in excess of 10%, and those restaurants now in their second year have averaged further increases in excess of 4% over and above their first-year increase. An evolution of the U.S. location, which is not part of the Royalty pool, was also done in Q4.
 - Renovations were completed at three of the five Alice Fazooli's!® restaurants in fiscal 2005, with average sales increases in excess of 10% continuing throughout fiscal 2006. A fourth location was renovated in the third quarter of fiscal 2006 and the fifth location was renovated in October, 2006. The renovation of the fifth location, Alice Fazooli's!® Mississauga was completed subsequent to August 27, 2006.
 - A major renovation of Far Niente® was completed on November 7, 2005. The restaurant was closed for approximately three weeks in the first quarter. This investment has resulted in increased sales growth. Subsequent to August 27, 2006, reds® was closed for 11 days for renovations. Management is pleased with the results of the renovations at reds®.
 - Continued Jack Astor's® advertising program with a leading marketing firm.
- **Investment in new restaurants**
 - A new Jack Astor's® restaurant was opened in Whitby, Ontario on August 31, 2005. This restaurant, along with the Jack Astor's® that opened on February 2, 2005 in downtown Toronto, became part of the Royalty Pooled Restaurants effective January 1, 2006.
 - Two new Canyon Creek™ restaurants opened in Scarborough, and Vaughan, Ontario on March 6, 2006 and May 17, 2006, respectively. Subsequent to August 27, 2006 a third location at the Fallsview Casino Resort in Niagara Falls, Ontario opened (August 28, 2006 opening date). Each of these three restaurants is expected to be added to the Royalty Pooled Restaurants effective January 1, 2007.
 - SIR has secured two additional sites for Jack Astor's restaurants which are planned to open in calendar 2007.
- **Closed restaurant**
 - During Q4, the Jack Astor's® in Don Mills, Ontario was closed. This location has been demolished by the landlord and is to be redeveloped into a major "lifestyle mall". It is expected that this project will be completed in the second half of 2008 and a new Jack Astor's® would open in this location at that time.
- **Loss from Continuing Operations**
 - The loss from continuing operations for Q4 of \$1.4 million was \$3.0 million favourable to the same period in the prior year.
 - The YTD loss from continuing operations of \$4.9 million is \$9.0 million favourable to the prior year.
- **Adjusted EBITDA***
 - Adjusted EBITDA* is a non-GAAP measure. Please refer to the reconciliation of loss from continuing operations to EBITDA* and Adjusted EBITDA* on page 7 of this document.
 - Adjusted EBITDA* for the fourth quarter of \$3.1 million was \$0.9 million favourable to prior year. YTD Adjusted EBITDA* of \$10.2 million was \$3.8 million favourable to prior year.

References to EBITDA are to SIR's net loss from continuing operations before non-controlling interest in other subsidiary companies, provision for (recovery of) income taxes, other expense (income), provisions for impairment of investments and loans receivable, long-lived assets and goodwill, interest expense-net, unrealized foreign exchange (gain) loss, interest on loan payable to SIR Royalty Income Fund, non-controlling interest in SIR Royalty Limited Partnership, loss from equity accounted investments, other amortization and amortization of restaurant assets. References to Adjusted EBITDA are to SIR's EBITDA plus contract cancellation expense that is a significant unusual item and not expected to recur. Management believes that, in addition to net earnings or loss, EBITDA and Adjusted EBITDA are useful supplemental measures in evaluating SIR's performance. EBITDA and Adjusted EBITDA are not a financial measure recognized by Canadian generally accepted accounting principles ("GAAP") and does not have a standardized meaning prescribed by GAAP. Management cautions investors that EBITDA 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.

• **Discontinued Operations**

- During the second quarter of fiscal 2006, substantially all of the assets of one of the US restaurant operations were sold. As a result, the restaurant's balances and transactions have been shown as a discontinued operation in the financial statements. One restaurant was closed during the fourth quarter of fiscal 2005. Both of these restaurants' results have been reclassified as discontinued operations for fiscal 2005. Neither of these restaurants are part of the Royalty pool and therefore, their closures have no effect on Pooled Revenue (see Discontinued Operations).

• **Outlook**

- Following the successful launch of the SIR Royalty Income Fund (the "Fund"), in fiscal 2005, SIR began a sales building initiative by investing in new and existing restaurants. It began in fiscal 2005 with the sales building evolutions of nine Jack Astor's® and three Alice Fazooli's!®, and the opening of a Jack Astor's® on the corner of University Avenue and Front Street in downtown Toronto. This was followed in fiscal 2006 with the opening of a Jack Astor's® in Whitby, Ontario, the opening of two new Canyon Creek™ locations in Scarborough and Vaughan, Ontario, six more Jack Astor's® evolutions, an Alice Fazooli's!® renovation and a major renovation of Far Niente®. The Jack Astor's® evolution program started in 2004 and now only 1 of the Jack Astor's® currently operating remains to be evolved. The Jack Astor's® location in the U.S. was evolved in Q4. Subsequent to August 27, 2006, the fifth of the five Alice Fazooli's® locations and reds® was renovated. In addition, a new Canyon Creek™ opened just after year end, on August 28, 2006, in a prime location at the Fallsview Casino Resort in Niagara Falls, Ontario. All of this work is being done to set in place a foundation for anticipated sales growth and improved earnings for SIR. Management is committed to maximizing the performance of all of its restaurants.
- On October 31, 2006, the Federal Department of Finance announced a "Tax Fairness Plan" that proposes changes to the manner in which distributions from publicly listed flow-through entities ("FTE's") including income funds are taxed. The Trustees of the Fund and senior management of SIR will continue to monitor this development.

Overview

SIR is a private company amalgamated under the Business Corporations Act of Ontario. As at August 27, 2006, SIR operates 37 Concept and Signature Restaurants in Canada (in Ontario, Quebec, Alberta and Nova Scotia). The Concept Restaurants are Jack Astor's® Bar and Grill, Canyon Creek Chop House® and Alice Fazooli's!®. The Signature Restaurants are reds®, Far Niente®/Soul of the Vine®, Brasserie Frisco™, and the Armadillo Steak House®/the Loose Moose Tap & Grill®. For the 52-week period ended August 27, 2006, 36 SIR Restaurants were included in the SIR Royalty Pooled Restaurants. The two new Jack Astor's® which opened during calendar 2005 (downtown Toronto in February and one in Whitby, Ontario in late August) were added to the Royalty Pooled Restaurants on January 1, 2006. Two new Canyon Creek™ restaurants were opened in Scarborough and Vaughan, Ontario, during the year. A third Canyon Creek™ location located at the Fallsview Casino Resort in Niagara Falls, Ontario was opened subsequent to year end. These three Canyon Creek™ locations are expected to be added to the Royalty Pooled Restaurants in January 2007. SIR owns 100% of all its Canadian restaurants, except for Jack Astor's® Don Mills Limited (50%). SIR also has an investment in one Jack Astor's® restaurant in the USA which is not included in the Royalty Pooled Restaurants. Substantially all the assets of SIR's other U.S. restaurant were sold on February 10, 2006 (see Discontinued Operations). During the year SIR closed the Jack Astor's® location in Don Mills, Ontario.

On October 1, 2004, the Fund filed a final prospectus for a public Offering of Units of the Fund and the Offering closed on October 12, 2004. The net proceeds of the Offering of \$51,166,670 were used by the Fund to acquire the SIR Loan and indirectly, through the SIR Holdings Trust (the "Trust"), the SIR Rights owned or licensed by SIR or its subsidiaries and used in connection with the operation of SIR's restaurants in Canada. The Partnership granted SIR a 99-year license to use the SIR Rights in most of Canada in consideration for a Royalty, payable by SIR to the Partnership, equal to 6% of the revenue of the restaurants included in the Royalty Pooled Restaurants. The Partnership also issued its own securities to SIR in return for the SIR Rights acquired. In accordance with Variable Interest Entities, Accounting Guideline-15 ("AcG-15"), SIR has consolidated the Partnership effective October 12, 2004.

Also, as a result of implementing requirements under AcG-15 in fiscal 2005, SIR now consolidates certain other investments that it previously accounted for as equity accounted investments (see Changes in Accounting Policies including Initial Adoption).

SIR's fiscal year is comprised of 13 periods of four weeks each, ending on the last Sunday in August. To preserve this year-end, an additional week must be added approximately every five years. Fiscal quarters of SIR consist of accounting periods of 12, 12, 12 and 16 (or 17) weeks.

Seasonality

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

Selected Consolidated Historical Financial Information

The following tables set out selected financial information of SIR for the 16 and 52-week periods ended August 27, 2006 and August 28, 2005. The financial statements of SIR are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are presented in Canadian dollars. This information should be read in conjunction with the annual audited consolidated financial statements of SIR, including the notes thereto.

Selected Consolidated Financial Information

Statement of Operations	16-Week	16-Week	52-Week	52-Week
	Period Ended Aug. 27, 2006	Period Ended Aug. 28, 2005**	Period Ended Aug. 27, 2006	Period Ended Aug. 28, 2005**
	(in thousands of dollars)			
	(unaudited)	(unaudited)		
Corporate restaurant operations:				
Food and beverage revenue	47,233	42,074	153,065	132,960
Cost of corporate restaurant operations	43,260	39,190	139,035	121,964
Earnings from corporate restaurant operations	3,973	2,884	14,030	10,996
Loss from continuing operations	(1,376)	(4,398)	(4,892)	(13,875)
Net loss for the period	(1,405)	(5,339)	(5,051)	(14,840)

Balance Sheet	August 27, 2006	August 28, 2005
	(in thousands of dollars)	
Total assets	67,241	66,485
Total long-term liabilities	57,724	55,648

** Prior period balances reflect the reclassification of discontinued operations (see Discontinued Operations).

EBITDA* and Adjusted EBITDA*

EBITDA* and Adjusted EBITDA* are non-GAAP measures used by SIR to supplement its reporting of loss from continuing operations and net cash flow from continuing operations. EBITDA* consists of loss from continuing operations for the period excluding certain non-cash expenses and other expenses that SIR considers not to be of an operating nature. Adjusted EBITDA* excludes these items, as well as significant unusual items that are not expected to recur. SIR believes that EBITDA* and Adjusted EBITDA* are useful estimates of the core business's contribution to cash flow from continuing operations and uses these measures as a supplemental measure of SIR's performance. Similarly, SIR believes that certain investors may also find these non-GAAP measures to be a useful measure for their independent evaluation of SIR's performance.

The following table reconciles loss from continuing operations for the period to EBITDA* and Adjusted EBITDA*:

Reconciliation of loss from continuing operations for the period to EBITDA* and Adjusted EBITDA* (Unaudited)	16-Week	16-Week	52-Week	52-Week
	Period Ended Aug. 27, 2006	Period Ended Aug. 28, 2005**	Period Ended Aug. 27, 2006	Period Ended Aug. 28, 2005**
	(in thousands of dollars)			
Loss from continuing operations for the period	(1,376)	(4,398)	(4,892)	(13,875)
Add (deduct):				
Non-controlling interest in other subsidiary companies	141	(123)	147	(112)
Provision for (recovery of) income taxes	72	(9)	243	1,840
Other expense (income)	(806)	217	(550)	386
Provision for impairment of investments and loans receivable	-	154	135	781
Provision for impairment of long-lived assets	332	1,066	332	1,066
Provision for impairment of goodwill	-	697	-	697
Unrealized foreign exchange (gain) loss	7	(18)	(175)	(152)
Interest expense - net ⁽¹⁾	89	423	380	2,308
Interest on loan payable to SIR Royalty Income Fund	921	921	2,992	2,634
Non-controlling interest in SIR Royalty Limited Partnership	1,383	1,174	4,488	3,353
Loss from equity accounted investments	-	43	-	169
Other amortization	112	121	339	403
Amortization of restaurants assets	2,246	1,948	6,795	6,008
EBITDA*	3,121	2,216	10,234	5,506
Contract cancellation expense	-	-	-	900
Adjusted EBITDA*	3,121	2,216	10,234	6,406
Income from Class A GP Units of the Partnership ⁽²⁾ (Not included in EBITDA* above)	410	236	1,106	668
6% Royalty obligations under License and Royalty Agreement ⁽³⁾	2,746	2,367	8,683	6,742
6% Royalty on proforma Pooled Revenue – see footnote ⁽⁴⁾ on page 8				7,596

*References to EBITDA are to SIR's net loss from continuing operations before non-controlling interest in other subsidiary companies, provision for (recovery of) income taxes, other expense (income), provisions for impairment of investments and loans receivable, long-lived assets and goodwill, interest expense-net, unrealized foreign exchange (gain) loss, interest on loan payable to SIR Royalty Income Fund, non-controlling interest in SIR Royalty Limited Partnership, loss from equity accounted investments, other amortization and amortization of restaurant assets. References to Adjusted EBITDA are to SIR's EBITDA plus contract cancellation expense that is a significant unusual item and not expected to recur. Management believes that, in addition to net earnings or loss, EBITDA and Adjusted EBITDA are useful supplemental measures in evaluating SIR's performance. EBITDA and Adjusted EBITDA are not a financial measure recognized by Canadian generally accepted accounting principles ("GAAP") and does not have a standardized meaning prescribed by GAAP. Management cautions investors that EBITDA 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.

** Prior period balances reflect the reclassification of discontinued operations (see Discontinued Operations).

Results of Operations

As a result of implementing the requirements under AcG-15 in fiscal 2005, SIR now consolidates certain investments that it previously accounted for as equity accounted investments. Details of this change are explained under Changes in Accounting Policies including Initial Adoption. SIR implemented this change effective August 29, 2004, and reflected this change in its August 28, 2005 balances. However, SIR was not required to implement the change for its interim reporting periods during fiscal 2005 because SIR is a private company. Therefore SIR has now reflected the retroactive application of this change in accounting policy for the 16-week period ended August 28, 2005.

⁽¹⁾ Interest expense - net includes amortization of the deferred financing costs arising from SIR's share of the October 2004 SIR Royalty Income Fund initial public offering, interest on the Jack Astor's (Cary & Las Colinas) Limited loans (excluding discontinued operations), interest on SIR's redeemable Class A special shares and interest income. In fiscal 2005, interest expense - net also included the write-off of deferred financing fees from the previous bank financing and interest on bank and shareholder loans prior to October 12, 2004.

⁽²⁾ Income from the initial 595,185 Class A GP Units is subordinated to the distributions to the Fund Units (refer to the SIR Royalty Income Fund section of this document).

⁽³⁾ See the SIR Royalty Income Fund section of this document for the Royalty calculation. Royalty obligations commenced on October 12, 2004, the date of closing of the Fund's public offering. On January 1, 2006, two restaurants were added to the Royalty pool. Revenues from these two restaurants have been included in Pooled Revenue for the period from January 1, 2006 to August 27, 2006. The Royalty obligation for the 16 and 52-week periods ended August 27, 2006 include a Make-Whole Payment for the closed Jack Astor's® location in Don Mills, Ontario.

Reconciliation of Revenue from Consolidated Financial Statements to Pooled Revenue	16-Week Period Ended August 27, 2006 ⁽³⁾	16-Week Period Ended August 28, 2005** ⁽³⁾	52-Week Period Ended August 27, 2006 ⁽³⁾	52-Week Period Ended August 28, 2005** ⁽⁴⁾
	(in thousands of dollars)			
	(unaudited)	(unaudited)		
Revenue reported in consolidated financial statements	47,233	42,074	153,065	132,960
Less: Revenue from corporate restaurant operations excluded from the Royalty pool	2,212	2,635	9,099	6,363
Revenue for restaurants in the Royalty pool	45,021	39,439	143,966	126,597

** Prior period balances reflect the reclassification of discontinued operations (see Discontinued Operations).

Same Store Sales	16-Week Period Ended Aug. 27, 2006	16-Week Period Ended Aug. 28, 2005	% Fav. / (Unfav.)	52-Week Period Ended Aug. 27, 2006	52-Week Period Ended Aug. 28, 2005	% Fav. / (Unfav.)
	(in thousands of dollars) (unaudited)					
Jack Astor's®	25,405	24,150	5.2%	80,566	74,468	8.2%
Alice Fazooli's!®	5,697	5,185	9.9%	18,342	16,685	9.9%
Canyon Creek™	4,328	4,071	6.3%	15,809	14,678	7.7%
Signature Restaurants	5,111	5,031	1.6%	18,173	17,738	2.5%
Same store sales	40,541	38,437	5.5%	132,890	123,569	7.5%

Note: same store sales do not equal the segmented revenue information reported in note 21 of the consolidated financial statements due to adjustments made to exclude revenue from restaurants which are not included in the Royalty pool, and to exclude revenue from restaurants opened or closed during the current or prior year and therefore not open for the full period in both years.

Summary of Quarterly Results	4 th Quarter Ended Aug. 27, 2006 (16 weeks)	3 rd Quarter Ended May 7, 2006 (12 weeks)	2 nd Quarter Ended Feb. 12, 2006 (12 weeks)	1 st Quarter Ended Nov. 20, 2005 (12 weeks)	4 th Quarter Ended Aug. 28, 2005 (16 weeks)	3 rd Quarter Ended May 8, 2005** (12 weeks)	2 nd Quarter Ended Feb. 13, 2005** (12 weeks)	1 st Quarter Ended Nov. 21, 2004** (12 weeks)
Statement of Operations	(in thousands of dollars) (unaudited)							
Corporate restaurant operations:								
Food and beverage revenue	47,233	35,975	35,774	34,083	42,074	31,798	29,957	29,131
Cost of corporate restaurant operations	43,260	32,117	32,212	31,446	39,190	29,104	27,312	26,358
Earnings from corporate restaurant operations	3,973	3,858	3,562	2,637	2,884	2,694	2,645	2,773
Loss from continuing operations	(1,376)	(496)	(1,098)	(1,922)	(4,398)	(2,139)	(3,866)	(3,472)
Net loss for the period	(1,405)	(392)	(1,222)	(2,032)	(5,339)	(2,238)	(3,990)	(3,273)

** Prior period balances reflect the retroactive application of AcG-15 (see Changes in Accounting Policies including Initial Adoption) and the reclassification of discontinued operations (see Discontinued Operations).

⁽³⁾ See footnote (3) on previous page

⁽⁴⁾ The SIR Royalty Income Fund public offering closed on October 12, 2004. Therefore, revenue of Royalty Pooled Restaurants, earned prior to October 12, 2004, is not eligible for calculating Royalties payable to the SIR Royalty Limited Partnership. However, for comparison purposes, it is included in the 52-week period ended August 28, 2005 as Proforma Pooled Revenue.

Revenue

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

- i) Revenue (per the SIR consolidated statements of operations) – this is the total consolidated revenue of all restaurants for the period. The restaurants include the 37 SIR restaurants and the revenue from the continuing USA Jack Astor's®. For the 16 and 52-week periods ended August 27, 2006 this revenue was \$47.2 million and \$153.1 million, respectively.
- ii) Same Store Sales ("SSS") – this is a sub-set of i) above used for tracking comparable year-over-year sales. For Q4 fiscal 2006 and 2005, SSS includes all SIR restaurants except for Jack Astor's® on Front Street, Jack Astor's® in Whitby, Canyon Creek™ in Scarborough and Canyon Creek™ in Vaughan because they were not open for the entire comparable period in fiscal 2005 (USA restaurants are not part of SIR restaurants). SSS also excludes revenue for the Jack Astor's® in Don Mills because it was closed during Fiscal 2006. For the 16 and 52-week periods ended August 27, 2006, this revenue was \$40.1 million and \$132.9 million, respectively.
- iii) Pooled Revenue - this is the revenue subject to the License and Royalty Agreement – this includes the 34 restaurants included in the Royalty pool as of October 12, 2004 plus the two new Jack Astor's® restaurants for the period from January 1, 2006 to August 27, 2006. For the 16 and 52-week periods ended August 27, 2006, this revenue is \$45 million and \$144 million, respectively. The applicable Royalty payable to the Partnership on the Pooled Revenue for these periods was \$2.7 million and \$8.7 million, respectively and includes a Make-Whole Payment with respect to the closed Jack Astor's® location in Don Mills.
- iv) Proforma Pooled Revenue – includes the Pooled Revenue noted above, plus the revenue for the period prior to October 12, 2004 for the 34 restaurants initially in the Royalty pool. Proforma revenue is applicable for the 52-week period ended August 28, 2005 only and was \$126.6 million.

Same Store Sales

SSSG was 5.5% and 7.5% for the 16 and 52-week periods ended August 27, 2006 respectively, versus the comparable period in the prior year. The Signature Restaurants, which are located in downtown Toronto, benefited from the return of the NHL in October 2005. Signature Restaurant revenue in the first quarter was impacted by the approximate three-week shutdown of Far Niente® for renovations. Excluding the Signature Restaurants, SSSG for the Concept Restaurants only (Jack Astor's®, Canyon Creek™ and Alice Fazooli's!®), which generate approximately 87% of YTD Pooled Revenue, was 6.1% and 8.4% for the 16 and 52-week periods ended August 27, 2006, respectively, versus the corresponding period in the prior year.

SSSG for Jack Astor's®, SIR's flagship Concept Restaurant brand which generates approximately YTD of Pooled Revenue, was 5.2% and 8.2% for the 16 and 52-week periods ended August 27, 2006, respectively, as compared to the corresponding period a year ago. During the period from August 29, 2005 to August 27, 2006, six Jack Astor's®, in Canada, were closed for four to six days each to undergo the evolution process (two in Q1, two in Q2, one in Q3, and one in Q4). To date, all but one existing Jack Astor's® restaurants originally in the Royalty pool have been evolved. Average revenue increases in these evolved Jack Astor's® restaurants are in excess of 10% in the year of evolution and average in excess of 4% over and above their first-year increases for restaurants now in their second year following evolution. The velocity of the Jack Astor's SSSG slowed somewhat in Q4 as 42% of the evolved locations are now in their second year following the evolution and another 5% are in their third year following the evolution. Additionally patio sales were softer in Q4 of 2006 compared to prior year. Management attributes the softer patio sales to less favourable weather this summer and the negative effect that the Smoke-Free Ontario Act (effective May 30, 2006) had on some of our patios and bars (those which previously were Designated Smoking Rooms). Management believes the negative effect of the Smoke-Free Ontario Act will be mitigated over time as non-smoking guests replace smoking guests and smoking guests return.

Canyon Creek™ continues to perform well, with SSSG of 6.3% and 7.7% for the 16 and 52-week periods ended August 27, 2006, respectively, versus the corresponding periods in the prior year.

The performance of Alice Fazooli's!® continues to improve with SSSG of 9.9% for both the 16 and 52-week periods ended August 27, 2006, respectively, versus the corresponding periods in the prior year. This is driven by renovations in four of the locations, three in fiscal 2005 and one in the third quarter of fiscal 2006. On average, these renovations are delivering revenue increases in excess of 10% in the year of renovation versus the prior year. Subsequent to August 27, 2006, the fifth of the five Alice Fazooli's® locations was renovated.

SSSG of the downtown Toronto Signature Restaurants, which represent approximately 13% of YTD Pooled Revenue, was 1.6% and 2.5% for the 16 and 52-week periods ended August 27, 2006, respectively, versus the corresponding periods in the prior year. The slower velocity of SSSG in Q4 was driven by sales declines at Brasserie Frisco™ and reds®, which partially offset the SSSG experienced at Far Niente®/Soul of the Vine® and at The Armadillo Texas Grill®/The Loose Moose®. Subsequent to August 27, 2006, reds® was closed for 11 days for renovations.

Management is pleased with the results of the renovations at reds®. The favourable impact of the return of the NHL, in October 2005 on certain of the Signature Restaurants, was partially offset by the impact of the approximate three-week shutdown of Far Niente® in Q1 for major renovations. The renovation at Far Niente® has resulted in increased guest counts and SSSG. Subsequent to August 27, 2006, reds® was renovated.

Cost of Corporate Restaurant Operations

As a percentage of revenue, costs of corporate restaurant operations decreased to 91.6% for the 16-week period ended August 27, 2006 from 93.1% for the 16-week period ended August 28, 2005. The improved percentage is a result of increased revenues, partly driven by increased marketing initiatives to date relative to the prior year. The percentage decreased to 90.8% for the 52-week period ended August 27, 2006 from 91.7% for the 52-week period ended August 28, 2005. The decrease is smaller on a year to date basis due to an increase in direct cost of restaurant operations, including increased utilities and spending on marketing. The closure of Far Niente® for three weeks also affected this percentage of revenue in the first quarter of fiscal 2006.

Corporate costs

Corporate costs decreased by \$0.01 million for the 52-week period ended August 27, 2006. This is a result of a decrease in salaries, including lower termination costs and higher professional fees incurred in the first two quarters of fiscal 2005 relating to the launch of the Fund. These factors were slightly offset by increased general and administration costs. Corporate costs increased by \$0.5 million for the 16-week period ended August 27, 2006 compared to the 16-week period ended August 28, 2005. The increase is a result of increased salaries and general and administration costs in the fourth quarter compared to the prior year.

Contract cancellation cost

On January 16, 2005, SIR agreed to pay \$0.9 million to terminate the management fee agreements with two companies controlled by shareholders of SIR. As a result, SIR is no longer obligated to pay a management fee equal to 4% of the net sales of Alice Fazooli's!® (Adelaide Street location) and Brasserie Frisco™ to these related parties.

Interest expense - net

Interest expense decreased \$1.9 million for the 52-week period ended August 27, 2006 compared to the 52-week period ended August 28, 2005. SIR used proceeds received from the issuance of the Partnership Units and the SIR Loan to repay shareholder loans and Canadian term bank debt in full, in the first quarter of fiscal 2005, resulting in decreased interest expense in fiscal 2006. In addition, all unamortized deferred financing fees (\$1.4 million) relating to the former bank debt were included in interest expense in the first quarter of fiscal 2005. Interest expense decreased \$0.3 million for the 16-week period ended August 27, 2006 compared to the 16-week period ended August 28, 2005 because the Class A special shares were converted to common shares during the fourth quarter.

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

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

Interest on the SIR Loan totalled \$0.9 million and \$3.0 million for the 16 and 52-week periods ended August 27, 2006, respectively. The interest was \$0.9 million and \$2.6 million for the 16 and 52-week periods ended August 28, 2005, respectively. The year to date interest expense is lower in fiscal 2005 because the SIR Loan was issued part way through the first quarter of that year.

The Fund's share of the income of the Partnership for the 16 and 52-week periods ended August 27, 2006 of \$1.4 million and \$4.5 million, respectively, has been recorded as non-controlling interest in the audited consolidated statements of operations. It is higher than the same period in fiscal 2005 due to the timing of the completion of the initial public offering and due to increased earnings in the Partnership in fiscal 2006 (see SIR Royalty Income Fund section).

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

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

During the second quarter, SIR's investment in JACL was reduced when the operations of Jack Astor's Las Colinas, LLC, a subsidiary of JACL, were closed and substantially all of its assets were sold. An unrealized foreign exchange gain, related to the operations of this entity of \$0.1 million, for the 52-week period ended August 27, 2006 is included in net loss from discontinued operations in the consolidated statements of operations. The unrealized foreign exchange gain was \$0.4 million for the 52-week period ended August 28, 2005 (see Discontinued Operations).