SIR Corp.

Consolidated Financial Statements
August 28, 2005

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
Chartered Accountants
21 King Street West, Main Floor
Hamilton, Ontario
Canada L8P 4W7
Telephone +1 905 777 7000
Facsimile +1 905 777 7060

November 11, 2005

Auditors' Report

To the Shareholders of
SIR Corp.

We have audited the consolidated balance sheets of **SIR Corp.** as at August 28, 2005 and August 29, 2004 and the consolidated statements of operations, 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 28, 2005 and August 29, 2004 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

Hamilton, Ontario

SIR Corp.

Consolidated Balance Sheets

	August 28, 2005 $	August 29, 2004 $ (see note 2)
Assets		
Current assets		
Cash and cash equivalents	12,324,002	4,643,790
Accounts receivable	2,298,011	2,080,462
Receivable from equity accounted investments – net of provision of $Nil (August 29, 2004 - $92,000)	-	12,585
Current portion of advances and notes receivable (note 4)	-	41,118
Inventories	2,111,824	1,877,314
Prepaids, deposits and other assets	600,301	664,378
Income taxes receivable	84,583	101,872
Future income taxes (note 19)	-	278,694
Current assets of discontinued operations (note 3)	-	139
	17,418,721	9,700,352
Investments, advances and notes receivable (note 4)	549,519	144,478
Due from shareholders (note 6)	2,006,319	-
Property, plant and equipment (note 7)	33,676,862	31,842,508
Goodwill (note 8)	5,735,675	6,432,518
Intangible and other assets (note 9)	7,097,727	3,683,755
Future income taxes (note 19)	-	1,273,756
	66,484,823	53,077,367

SIR Corp.

Consolidated Balance Sheets …*continued*

	August 28, 2005 $	August 29, 2004 $ (see note 2)
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	15,270,725	13,237,953
Current portion of long-term debt (note 10)	5,338,351	22,264,682
Current portion of other long-term liabilities (note 12)	716,125	900,462
Current portion of due to shareholders (note 13)	24,090	7,823,883
Current portion of redeemable shares (note 14)	3,659,556	-
Amounts due to SIR Royalty Income Fund – net (note 11(c))	906,266	-
	25,915,113	44,226,980
Long-term debt (note 10)	159,180	259,500
Loan payable to SIR Royalty Income Fund (note 11(a))	40,000,000	-
Non-controlling interest in SIR Royalty Limited Partnership (note 11(b))	11,166,671	-
Other long-term liabilities (note 12)	4,265,798	4,541,626
Redeemable shares (note 14)	-	3,318,493
Future income taxes (note 19)	56,265	-
	81,563,027	52,346,599
Non-controlling interest in other subsidiary companies	146,261	591,104
Shareholders' Equity (Deficiency)		
Capital stock (note 14)	8,702,912	8,857,140
Contributed surplus (note 14)	-	11,896
Currency translation adjustment	(93,717)	(93,717)
Deficit	(23,833,660)	(8,635,655)
	(15,224,465)	139,664
	66,484,823	53,077,367

Contingencies and commitments (note 17)

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

Approved by the Board of Directors

(signed)
Grey Sisson
Director

(signed)
Del McMillan
Director

SIR Corp.

Consolidated Statements of Operations

	52-week period ended August 28, 2005 $	52-week period ended August 29, 2004 $ (see note 2)
Corporate restaurant operations (note 1)		
Food and beverage revenue	135,727,149	132,712,234
Cost of corporate restaurant operations		
Food and beverage	43,174,786	43,060,424
Labour	42,159,579	42,215,743
Direct cost of restaurant operations (note 15)	33,538,987	31,727,026
Amortization of restaurant assets	6,333,958	5,968,666
	125,207,310	122,971,859
Earnings from corporate restaurant operations	10,519,839	9,740,375
Corporate costs (note 15)	(10,599,480)	(7,392,164)
Other amortization	(402,518)	(422,452)
Contract cancellation expenses (note 16)	(900,000)	-
	(11,901,998)	(7,814,616)
Earnings (loss) before the following items	(1,382,159)	1,925,759
Interest expense – net	(2,307,935)	(2,586,657)
Interest on loan payable to SIR Royalty Income Fund (note 11)	(2,633,562)	-
Non-controlling interest in SIR Royalty Limited Partnership (note 11)	(3,352,570)	-
Foreign exchange gain	599,232	-
Goodwill impairment (note 8)	(696,843)	(35,337)
Provision for impairment of investment and loans receivable (note 4)	(780,867)	(3,036,813)
Provision for impairment of long-lived assets (note 7)	(2,065,183)	-
Other expense (note 20)	(389,060)	(179,541)
Loss before income taxes, loss from equity accounted investments and non-controlling interest in other subsidiary companies	(13,008,947)	(3,912,589)
Recovery of (provision for) income taxes (note 19)	(1,839,760)	1,582,228
Loss before loss from equity accounted investments and non-controlling interest in other subsidiary companies	(14,848,707)	(2,330,361)
Loss from equity accounted investments (note 4)	(169,090)	(264,513)
Non-controlling interest in other subsidiary companies	374,843	336,974
Net loss from continuing operations	(14,642,954)	(2,257,900)
Net loss from discontinued operations (note 3)	(197,000)	(190,468)
Net loss for the year	(14,839,954)	(2,448,368)

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

SIR Corp.

Consolidated Statements of Deficit

	52-week period ended August 28, 2005 $	52-week period ended August 29, 2004 $ (see note 2)
Deficit – Beginning of year, as previously reported	(8,790,354)	(5,349,691)
Change in accounting policies		
Asset retirement obligations (note 2)	(115,536)	(94,652)
Consolidation of variable interest entities (note 2)	270,235	280,832
Deficit – Beginning of year, as restated	(8,635,655)	(5,163,511)
Net loss for the year	(14,839,954)	(2,448,368)
Charge arising from related party transaction (note 4(a))	-	(1,023,776)
Purchase of capital stock for cancellation (note 14)	(358,051)	-
Deficit – End of year	(23,833,660)	(8,635,655)

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

SIR Corp.
Consolidated Statements of Cash Flows

	52-week period ended August 28, 2005 $	52-week period ended August 29, 2004 $ (see note 2)
Cash provided by (used in)		
Operating activities		
Net loss from continuing operations for the year	(14,642,954)	(2,257,900)
Items not affecting cash		
Amortization	6,736,476	6,391,118
Loss from equity accounted investments (note 4)	169,090	264,513
Non-controlling interest	(374,843)	(336,974)
Future income taxes (note 19)	1,608,715	(1,633,394)
Provision for impairment of investment and loan receivable (note 4)	780,867	3,036,813
Goodwill impairment	696,843	35,337
Provision for impairment of long-lived assets	2,065,183	-
Non-cash interest expense	1,792,565	770,172
Amortization of leasehold inducements	(470,270)	(496,577)
Deferred revenue	(55,277)	(68,589)
Unrealized foreign exchange gain	(599,232)	-
Stock-based compensation (note 14)	15,393	78,141
Other items	524,331	359,599
Net change in working capital items (note 18)	1,086,784	1,502,787
Net cash from continuing operations	(666,329)	7,645,046
Net cash used in discontinued operations (note 3)	(192,880)	(303,415)
	(859,209)	7,341,631
Investing activities		
Purchase of property, plant and equipment	(8,581,425)	(5,389,896)
Proceeds on sale of property, plant and equipment	73,640	33,387
Increase in due from shareholders	(1,958,568)	-
Increase in investments, advances and notes receivable (note 4)	(1,407,975)	(2,656,341)
Acquisitions (note 5)	(67,000)	(1,508,480)
Restaurant pre-opening costs (note 9)	(889,350)	(301,182)
Net cash used in continuing investing activities	(12,830,678)	(9,822,512)
Proceeds from sale of discontinued operations (note 3)	-	1,106,100
	(12,830,678)	(8,716,412)
Financing activities		
Advances from (payments to) shareholders – net	(7,799,793)	2,580,662
Repayment of capital lease obligations	-	(31,488)
Proceeds from issuance of Partnership units	11,166,671	-
Payments to non-controlling interest in subsidiary companies	(70,000)	(227,727)
Proceeds from issuance of long-term debt	40,009,174	8,610,451
Principal repayment of long-term debt	(16,558,385)	(8,111,089)
Financing fees	(4,832,280)	(911,039)
Proceeds from issuance of capital stock (note 14)	-	2,284,412
Proceeds from exercise of stock options (note 14)	39,742	61,636
Repurchase capital stock (note 14)	(579,310)	-
Net cash from continuing financing activities	21,375,819	4,255,818
Effect of foreign exchange rates on cash	(5,720)	(2,029)
Increase in cash during the year	7,680,212	2,879,008
Cash and cash equivalents – Beginning of year	4,643,790	1,764,782
Cash and cash equivalents – End of year	12,324,002	4,643,790

Supplemental information (note 18)

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. The Company operates a total of 36 (2004 – 34) Concept and Signature restaurants in Canada (in Ontario, Quebec, Alberta and Nova Scotia) (the “SIR Restaurants”). The Concept restaurants are Jack Astor’s®, Canyon Creek Chop House®, and Alice Fazooli’s!®, and the Signature restaurants are *reds*®, Far Niente®/Soul of the Vine®, Brasserie Frisco™ and the Armadillo Texas Grill™/the Loose Moose Tap & Grill®.

The Company also has investments in two Jack Astor’s® restaurants in the United States.

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 $51,166,670 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. In accordance with Accounting Guideline 15 (“AcG-15”) of the Canadian Institute of Chartered Accountants (“CICA”), Consolidation of Variable Interest Entities (“VIEs”), the Company has consolidated the Partnership effective October 12, 2004. The Fund’s investment in the ordinary LP units of the Partnership has been recorded as non-controlling interest (note 11).

Also, as a result of implementing requirements under AcG-15, the Company now consolidates certain investments that it previously accounted for as equity accounted investments (note 2).

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 2005 and 2004 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 and majority-owned subsidiaries where the Company is exposed to the majority of the expected losses or returns. All intercompany accounts and transactions have been eliminated.

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 foodservice 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 disclosure of contingent liabilities at the date 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 statement of operations.

Cash and cash equivalents

Cash is 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, plant and equipment

Property, plant 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

Intangibles and other assets

Intangible lease assets, arising on business combinations, comprise the present value of the amount by which market lease rates exceeds the contractual lease rates on the date of acquisition and are being amortized over the remaining life of the respective leases (notes 5 and 9).

Pre-opening costs, which comprise expenses incurred to bring restaurants to the operational stage, are deferred and amortized on a straight-line basis over five years commencing with the date of the opening of each location.

Deferred financing fees represent bank and professional fees paid to obtain financing and are amortized over the term of the related debt.

Impairment of long-lived assets

An impairment charge is recognized for long-lived assets, including intangible assets with definite 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.

Disposal of long-lived assets and discontinued operations

The Company has adopted Handbook Section 3475, Disposal of Long-Lived Assets and Discontinued Operations, of the Canadian Institute of Chartered Accountants ("CICA"), which provides guidance for the recognition, measurement, presentation and disclosure of the disposal of long-lived assets as well as standards for the presentation and disclosure of discontinued operations.

Leased 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.

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 reviews the recoverability of goodwill at least annually or whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. The measurement of possible impairment is based on fair value.

Investments, advances and notes receivable

Investments in companies in which the Company has significant influence are accounted for by the equity method, whereby the Company includes its proportionate share of earnings and losses of such companies in earnings. Other long-term investments are recorded at cost and are written down to their estimated realizable amount when there is evidence of an impairment. Advances, loans and notes receivable are reviewed for impairment on an individual basis and are reduced to 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 advances, loans and notes receivable 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.

Deferred revenue

Deferred revenue represents payments received under supplier agreements, which are recognized as a reduction of the cost over the term of the supplier agreements as earned.

Leasehold inducements

Leasehold inducements represent payments received from landlords at the time of construction and are deferred and amortized over the term of the lease.

Financial instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, advances, loans, notes receivable, investments, advances from shareholders, accounts payable and accrued liabilities, long-term debt, amounts due to shareholders, loan payable to SIR Royalty Income Fund and redeemable shares. The fair values of these instruments approximate their carrying amounts due to their short-term maturity, or in the case of the loans, notes receivable, equity accounted investment, advances from shareholders and long-term debt, the fair values of these items do not differ significantly from their carrying values. The fair value of the loan payable to SIR Royalty Income Fund could only be determined through the valuation of the debt. As a result, the determination of the fair value is not practicable within the constraints of timeliness and cost.

The Company's financial instruments exposed to credit risk include cash and cash equivalents and shareholder loans. The Company places its cash and cash equivalents with institutions of high creditworthiness. The Company reviews the shareholder loans for impairment on an individual basis and maintains provisions for uncollectible amounts. The Company's accounts receivable primarily comprise amounts due from major credit card companies and therefore management believes that its accounts receivable credit risk exposure is limited. The Company is exposed to interest rate risk arising from fluctuations in interest rates. The Company is exposed to exchange rate risk in respect of transactions and certain guarantees denominated in U.S. dollars.

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 that 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 Handbook Section 3870, Stock-Based Compensation and Other Stock-Based Payments ("Handbook Section 3870"), of the CICA for awards to non-employees and employee awards modified after September 1, 2003. For all other awards, the Company is required to implement the recommendations of 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.

For awards issued and modified prior to September 1, 2003, no adjustment has been made in these consolidated financial statements to reflect the compensation cost had Handbook Section 3870 been applicable. The pro forma disclosures had the fair value method been applied to all other awards are not significant.

Foreign currency translation

Until August 29, 2004, the operations of the Company's foreign subsidiary were considered to be self-sustaining and therefore translated to Canadian dollars using the current rate method. Under the current rate method, assets and liabilities are translated using year-end exchange rates while revenues and expenses are translated at the average rates during the year. Exchange gains and losses on translation are accumulated as a separate component of shareholders' equity (cumulative translation adjustment).

Effective August 30, 2004, the operations of the foreign subsidiary are considered integrated with those of the Company. As a result of the subsidiary's continuing losses from operations, the Company has been financing the subsidiary's operations and therefore the Company's exposure to risk of fluctuations in foreign exchange has changed. Monetary items are now translated into Canadian dollars at the exchange rate in effect at the balance sheet date, non-monetary items are translated at historical exchange rates and results of operations are translated at the average exchange rate for the year. Exchange gains and losses on the translation of the integrated foreign subsidiary are included in the net loss for the year.

The exchange gains and losses accumulated in the cumulative 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.

Changes in accounting policies

Asset retirement obligations

Handbook Section 3110, Asset Retirement Obligations, of the CICA 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 effective August 30, 2004 with respect to estimated lease end remediation costs. Accordingly, the Company has recorded leasehold improvements of $66,076 (August 29, 2004 - $85,667) in property, plant and equipment, an asset retirement liability of $281,563 (August 29, 2004 - $263,414) in other long-term liabilities, and a future tax asset of $75,421 (August 29, 2004 - $62,111) as at August 28, 2005. This change in accounting policy has been applied retroactively and accordingly, there is a charge to the Company's deficit of $115,536 as at August 29, 2004 (2003 - $94,652). Prior period balances have been restated.

Consolidation of Variable Interest Entities ("VIEs"), Accounting Guideline – 15

Effective August 30, 2004, the Company adopted Accounting Guideline – 15 ("AcG-15") of the Canadian Institute of Chartered Accountants ("CICA"), Consolidation of Variable Interest Entities ("VIEs") which requires the consolidation of VIEs by the primary beneficiary. A VIE is an entity where (a) its equity investment at risk is insufficient to permit the entity to finance its activities without additional subordinate support from others and/or where certain essential characteristics of a controlling financial interest are not met, and (b) it does not meet specified exemption criteria. The primary beneficiary is the enterprise that will absorb or receive the majority of the VIE's expected losses, expected residual returns, or both.

The Company has determined that two entities that it previously accounted for as equity investments are VIE's under AcG-15. These entities and their respective ownership are as follows:

	August 28, 2005	**August 29, 2004**
Jack Astor's® Don Mills Limited	50.0%	50.0%
Jack Astor's® Cary/Las Colinas Limited	73.3%	65.0%

Therefore the Company has consolidated the above entities for its fiscal years ended August 28, 2005 and August 29, 2004. Prior year results have been restated to include the balances and transactions of these entities.

The Company has also determined that the Partnership is a VIE under AcG-15 and has consolidated the Partnership effective October 12, 2004.

In fiscal 2004, the Company acquired additional common shares of Alice Fazooli's!® (Oakville) Limited and Jack Astor's® Dundas Limited. Prior to that, these entities were accounted for as equity accounted investments. The Company has determined that these entities were VIE's under AcG-15. Therefore, the consolidated statement of operations for the 52-week period ended August 29, 2004 has been restated to consolidate their results of operations for the period September 1, 2003 to May 9, 2004, the date of acquisition.

The effect of these changes in accounting policies on the consolidated balance sheet as at August 29, 2004 is as follows:

	Balance as previously reported $	**Adjustment $**	**Balance as restated $**
Current assets	9,138,031	562,321	9,700,352
Investments, advances and notes receivable	310,664	(166,186)	144,478
Property, plant and equipment	24,515,625	7,326,883	31,842,508
Intangible and other assets	3,368,168	315,587	3,683,755
Future income taxes	1,292,046	(18,290)	1,273,756
Current liabilities, excluding current portion of long-term debt	21,003,917	958,381	21,962,298
Long-term debt, including current portion	16,428,887	6,095,295	22,524,182
Other long-term liabilities	4,238,969	302,657	4,541,626
Non-controlling interest in subsidiary companies	-	591,104	591,104
Deficit	(8,790,354)	154,699	(8,635,655)

The effect of these changes in accounting policies on the consolidated statement of operations for the 52-week period ended August 29, 2004 is as follows:

	Balance as previously reported $	Adjustment $	Balance as restated $
Food and beverage revenue	119,050,894	13,661,340	132,712,234
Cost of corporate restaurant operations	109,206,095	13,765,764	122,971,859
Earnings from corporate restaurant operations	9,844,799	(104,424)	9,740,375
Management fee income	382,895	(382,895)	-
Interest expense – net	(1,933,539)	(653,118)	(2,586,657)
Provision for impairment of investment and loans receivable	(3,123,551)	86,738	(3,036,813)
Other income (expense)	(143,986)	(35,555)	(179,541)
Provision for (recovery of) income taxes	(1,607,442)	25,214	(1,582,228)
Loss from equity accounted investments	(984,619)	720,106	(264,513)
Non-controlling interest	(25,809)	362,783	336,974
Net loss for the year	(2,416,887)	(31,481)	(2,448,368)

Recently issued accounting pronouncements

Financial Instruments – Recognition and Measurement, Handbook Section 3855

Section 3855 prescribes when a financial asset, financial liability, or non-financial derivative is to be recognized on the balance sheet and at what amount – in certain instances using fair value and in others using cost-based measures. It also specifies how financial instrument gains and losses are to be presented.

Section 3855 applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. Earlier adoption is permitted only as of the beginning of a fiscal year ending on or after December 31, 2004. The Company plans to adopt this standard for its 2008 fiscal year. Transitional provisions for this Section are complex and vary based on the type of financial instrument under consideration.

The Company is currently evaluating the effect of this standard.

Comprehensive Income, Handbook Section 1530

Section 1530 introduces a new requirement to temporarily present certain gains and losses outside net income.

Section 1530 applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. Earlier adoption is permitted only as of the beginning of a fiscal year ending on or after December 31, 2004. The Company plans to adopt this standard for its 2008 fiscal year. Financial statements of prior periods are required to be restated for certain comprehensive income items. In addition, an enterprise is encouraged, but not required, to present reclassification adjustments in comparative financial statements provided for earlier periods.

The Company is currently evaluating the effect of this standard.

Hedges – Handbook Section 3865

Section 3865 establishes standards for when and how hedge accounting may be applied. Hedge accounting is optional. This Section applies for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. Retroactive application is not permitted. Earlier adoption is permitted only as of the beginning of a fiscal year that ends on or after December 31, 2004.

The Company plans to adopt this standard for its 2008 fiscal year. The Company has no arrangements for hedging, and the adoption of this standard is not expected to have any impact on the Company at this time.

3 Discontinued operations

On July 3, 2005, the Company closed the operations of Leoni's Italian Kitchen® (note 5(a)).

During fiscal 2004, the Company sold the restaurant assets of two underperforming restaurants:

(a) Alice Fazooli's!® (Kanata) Limited

On September 29, 2003, the Company sold the assets of Alice Fazooli's!® (Kanata) Limited for cash consideration of $500,000 and a note receivable of $125,000.

(b) Jack Astor's® (Signal Hill) Inc.

On November 14, 2003, the Company sold the assets of Jack Astor's® (Signal Hill) Inc. for cash consideration of $606,100.

As a result of these divestitures, the results of the restaurants were reported as discontinued operations. The net proceeds from the sale of Alice Fazooli's® (Kanata) Limited and Jack Astor's® (Signal Hill) Inc. were used to repay a portion of the Company's long-term debt.

The summarized statement of operations for the discontinued operations are as follows:

	August 28, 2005 $	August 29, 2004 $
Food and beverage revenue	263,245	398,802
Cost of revenue	460,245	589,270
Loss from discontinued operations	(197,000)	(190,468)

The net assets of discontinued operations consist of accounts receivable of $Nil (2004 - $139).

4 Investments, advances and notes receivable

	August 28, 2005 $	August 29, 2004 $ (see note 2)
Loan and advances to U.S. S.I.R. L.L.C. and subsidiaries (a)	534,193	87,261
Notes receivable (b)	15,326	98,335
	549,519	185,596
Less: Current portion of advances and notes receivable	-	41,118
	549,519	144,478

(a) Loans and advances to U.S. S.I.R. L.L.C. and subsidiaries

	August 28, 2005 $	August 29, 2004 $
Loan receivable from U.S. S.I.R. L.L.C., with interest at 10%, interest only repayable annually, due August 31, 2003	1,180,240	1,180,240
Advances to and receivables from U.S. S.I.R. L.L.C., non-interest bearing, due on demand. It is not the Company's intention to demand payment within the next year.	4,476,734	3,464,024
Advances to and receivables from subsidiaries of U.S. S.I.R. L.L.C.	598,484	462,835
	6,255,458	5,107,099
Less: Provision for impairment	5,721,265	5,019,838
	534,193	87,261

On August 27, 2004, the Company acquired the rights to certain debts owed by U.S. S.I.R. L.L.C. from certain shareholders for cash consideration of $2,284,412. 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 has been recorded at its carrying value, prior to acquisition by the Company, of $Nil and accordingly, the difference between the carrying value and cash consideration of $2,284,412 has been charged to shareholders' equity. The shareholders of the Company have elected to have $1,260,636 allocated to contributed surplus (note 14) and the remaining balance of $1,023,776 was charged to the deficit.

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

During 2004, the Company determined that the balance of loans and advances to U.S. S.I.R. L.L.C. was impaired due to the uncertainty of the amounts and timing of repayment of these loans. Accordingly, an impairment charge was recorded to reduce the carrying value of the loans and advances to their estimated fair value of $87,261.

During 2005, further 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 has determined that these advances are impaired based on estimated future cash flows of the remaining U.S. operations. Accordingly, the loan and advances receivable are written down to their net realizable value of $534,193.

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

	Loans and advances to U.S. S.I.R. L.L.C. and subsidiaries $
Balance, August 31, 2003	2,007,803
Advances and receivables	267,759
Provision for impairment	(2,188,301)
Balance, August 29, 2004	87,261
Advances and receivable	1,148,359
Provision for impairment	(701,427)
Balance, August 28, 2005	534,193

(b) Notes receivable

	August 28, 2005 $	**August 29, 2004** $ (see note 2)
Advances to equity accounted investment (note 4(c)), non-interest bearing, due on demand	172,011	74,771
Note receivable, bearing interest at 7% per annum, due September 29, 2006, payable in monthly blended instalments of $3,860	86,146	92,860
Advances to shareholders, non-interest bearing, due on demand	5,475	5,475
	263,632	173,106
Less: Provision for impairment	248,306	74,771
	15,326	98,335
Less: Current portion	-	41,118
	15,326	57,217

(c) The Company has a 35% equity investment in 1100255 Ontario Inc. (operating as the Second City™/Leoni's Italian Kitchen® venture).

A continuity of the investment in equity accounted investments is as follows:

	August 28, 2005 **$**	**August 29, 2004** **$** (see note 2)
Balance - Beginning of period	-	869,245
Investments	169,090	78,750
Equity losses	(169,090)	(264,513)
Provision for impairment of investment	-	(683,482)
Balance - End of period	-	-

During 2004, the Company recognized an impairment loss of $683,482 in its investment in 1100255 Ontario Inc. (operating as the Second City™/Leoni's Italian Kitchen® venture) based on the reduction in the estimated fair value of the investment.

During 2005, 1100255 Ontario Inc. underwent a deemed bankruptcy. The Company continued to make advances to 1100255 Ontario Inc. to facilitate the orderly dissolution of the business and the Company's share of losses, up to the total advanced, have been recorded in loss from equity accounted investment.

5 Business acquisitions

On April 30, 2005, the Company acquired the business of Leoni's Italian Kitchen® (which had previously been part of 1100255 Ontario Inc. and accounted for using the equity method) for cash consideration of $67,000. The acquisition was accounted for using the purchase method.

The Company's share of the net assets acquired and liabilities assumed from this acquisition, at fair values, is summarized below:

	$
Inventory	12,500
Property, plant and equipment	54,500
	67,000

On July 3, 2005, the Company closed the operations of this business (note 3).

Effective May 10, 2004, the Company acquired additional shares in five subsidiary entities: Jack Astor's® Dundas Limited, Alice Fazooli's!® (Oakville) Limited, 918962 Ontario Inc. (operating as Jack Astor's® Burlington), Jack Astor's® (Brampton) Limited and Jack Astor's® (Halifax) Limited for cash consideration of $1,508,480. The purchase price exceeded the minority share of the acquired net assets by $565,810. This amount has been allocated based on the fair value of the assets and liabilities acquired as follows:

	$
Property, plant and equipment	(161,706)
Intangible lease asset	19,024
Leasehold allowance	(194,594)
Shareholder loans	25,305
Goodwill	773,755
Future income taxes – net	104,026
	565,810

Changes in the Company's ownership in 2004 as a result of the acquisitions are summarized below:

	Ownership		
	Prior to acquisition %	Interest Acquired in 2004 %	Total %
Jack Astor's®			
918962 Ontario Inc. (operating as Jack Astor's® Burlington)	75.00	25.00	100.00
Jack Astor's® (Brampton) Limited	78.00	22.00	100.00
Jack Astor's® (Halifax) Limited	83.33	16.67	100.00
Jack Astor's® Dundas Limited	48.04	51.96	100.00
Alice Fazooli's!®			
Alice Fazooli's!® (Oakville) Limited	50.00	50.00	100.00

6 Due from shareholders

During the year, the Company advanced $1,958,568 to four shareholders of the Company to facilitate the exercise of stock options held by these shareholders with other shareholders of the Company. The loans bear interest at prime plus 1%, with principal and interest due February 16, 2007. The Company can demand payment with 90 days written notice after February 16, 2006. The loans are secured by 1,010,248 common shares of the Company. This transaction has not had any impact on the outstanding common stock or options of the Company.

Interest income related to the loans receivable for the 52-week period ended August 28, 2005 was $47,751 (52-week period ended August 29, 2004 - $Nil). No interest was paid during the year.

7 Property, plant and equipment

			August 28, 2005
	Cost **$**	**Accumulated amortization** **$**	**Net** **$**
Corporate			
Furniture, fixtures and equipment	372,779	355,656	17,123
Leasehold improvements	268,853	133,145	135,708
Computer equipment and software	1,583,375	1,406,297	177,078
Restaurants			
Land	2,927,368	-	2,927,368
Buildings	2,460,703	882,678	1,578,025
Furniture, fixtures and equipment	21,714,356	8,697,682	13,016,674
Leasehold improvements	26,371,298	10,546,412	15,824,886
	55,698,732	22,021,870	33,676,862

			August 29, 2004
	Cost **$** (see note 2)	**Accumulated amortization** **$** (see note 2)	**Net** **$** (see note 2)
Corporate			
Furniture, fixtures and equipment	370,020	345,606	24,414
Leasehold improvements	210,134	117,488	92,646
Computer equipment and software	1,494,744	1,310,398	184,346
Restaurants			
Land	2,927,368	-	2,927,368
Buildings	3,654,935	699,293	2,955,642
Furniture, fixtures and equipment	17,297,274	6,674,218	10,623,056
Leasehold improvements	24,214,981	9,179,945	15,035,036
	50,169,456	18,326,948	31,842,508

Amortization of property, plant and equipment charged to the statement of operations for the 52-week period ended August 28, 2005 was $5,909,922 (52-week period ended August 29, 2004 - $5,479,850).

Property, plant and equipment includes $1,300,659 (August 29, 2004 - $80,366) of costs for restaurants under development which are not being amortized at August 28, 2005.

As a result of a decline in sales and earnings from certain restaurants, the Company conducted an impairment analysis of these restaurants' property, plant and equipment. The analysis showed that the estimated future cash flows were not sufficient to recover the carrying value of the property, plant and equipment and accordingly, an impairment provision of $2,065,183 was recorded to write down the assets to their fair values. The fair values were determined by discounting the estimated future cash flows related to the restaurants and obtaining estimates of fair values for land and buildings. Leasehold improvements were written down to reflect this impairment in the following operating segments:

	$
Canada	
Jack Astor's®	22,411
Alice Fazoolis!®	201,583
Signature	534,623
	758,617

Buildings were written down to reflect the following impairment:

	$
United States	
Jack Astor's®	1,306,566

8 Goodwill

			August 28, 2005
	Cost $	Accumulated amortization $	Net $
Goodwill	5,914,726	179,051	5,735,675

			August 29, 2004
	Cost $	Accumulated amortization $	Net $
Goodwill	7,693,167	1,260,649	6,432,518

The Company recognized an impairment of $696,843 (2004 - $35,337) related to one restaurant in the Signature segment (2004 – United States Jack Astor's®). The impairment is a result of declining sales and earnings of the restaurant.

9 Intangible and other assets

			August 28, 2005
	Cost $	**Accumulated amortization** $	**Net** $
Restaurant pre-opening costs	4,438,516	3,192,896	1,245,620
Intangible lease assets	1,778,579	656,531	1,122,048
Deferred financing fees	4,832,280	102,221	4,730,059
	11,049,375	3,951,648	7,097,727

			August 29, 2004
	Cost $ (see note 2)	**Accumulated amortization** $ (see note 2)	**Net** $ (see note 2)
Restaurant pre-opening costs	3,549,166	2,644,504	904,662
Intangible lease assets	1,778,579	378,369	1,400,210
Deferred financing fees	1,777,813	398,930	1,378,883
	7,105,558	3,421,803	3,683,755

Restaurant pre-opening costs include $392,644 (2004 - $301,182) of costs which are not being amortized at August 28, 2005 because the pre-operating period has not been completed.

During 2005, the Company used proceeds received from the issuance of the Partnership units and the SIR Loan to repay shareholder loans and bank debt in full. As a result, all unamortized deferred financing fees, of $1,378,883, related to the former bank debt have been charged to the statement of operations for the 52-week period ended August 28, 2005.

Costs of $4,832,280 in respect of issuing Partnership units and the SIR Loan have been deferred and are being amortized over the term of the SIR Loan (note 11).

A summary of the allocation of the amortization of intangible and other assets and the write down of $1,378,883 deferred finance fees charged to the statement of operations is as follows:

	August 28, 2005 $	**August 29, 2004 $** (see note 2)
Amortization expense	826,554	911,268
Interest expense	1,481,104	278,545
Corporate costs	-	2,705
	2,307,658	1,192,518

10 Bank indebtedness and long-term debt

Effective February 26, 2004, the Company amended its credit facility at the time. The revised facility provided for a revolving credit facility of $3,000,000 for general corporate purposes repayable in February 2005 (or 2006 if extended), a combined five year term loan of $19,537,000 for re-financing and re-capitalizing and completing the May 10, 2004 acquisitions and required quarterly repayments of $1,000,000, as well as a $750,000 demand credit facility for day-to-day operations, and a contingency facility for hedging against interest rate rises. The amended facility bore interest at a maximum rate of prime plus 1.5%. The effective prime interest rate at August 29, 2004 was 3.75%. The amended facility was collateralized by a general security agreement. The Company also provided a first charge over all personal property of the Company (except for permitted liens of other lenders) a postponement of claim from the shareholders, an assignment of insurance, an assignment of intellectual property and the requirement to maintain a minimum deposit of $200,000 to satisfy any potential lease obligations. The facility was guaranteed by each of the Company's subsidiaries and each subsidiary has given similar security over its assets to further secure the facility.

During 2005, the Company used proceeds received from the issuance of the Partnership units and the SIR Loan to repay shareholder loans and bank debt in full. As a result, the term loan was presented as a current liability as at August 29, 2004.

A summary of the composition of long-term debt is as follows:

	August 28, 2005 $	August 29, 2004 $ (see note 2)
Term loan	-	16,036,579
Loans payable (U.S. $1,696,165; 2004 – U.S. $1,789,128), bearing interest at 9.01%, due February 1, 2016 repayable in monthly blended instalments of principal and interest of $25,133 (U.S. $20,866) (a)	2,043,031	2,347,156
Loans payable (U.S. $2,060,833; 2004 – U.S. $2,173,128), bearing interest at 9.29%, due January 1, 2016 repayable in monthly blended instalments of principal and interest of $31,064 (U.S. $25,790) (a)	2,482,273	2,850,927
Loans payable (U.S. $143,651; 2004 – U.S. $193,293), bearing interest at 8.3%, due February 1, 2008 repayable in monthly blended instalments of principal and interest of $6,407 (U.S. $5,319) (a)	173,027	253,581
Loans payable (U.S. $140,569; 2004 – U.S. $190,610), bearing interest at 8.75%, due January 1, 2008 repayable in monthly blended instalments of principal and interest of $6,498 (U.S. $5,395) (a)	169,315	250,061
Loan payable (U.S. $307,500; 2004 – U.S. $300,000), bearing interest at 15%, due December 31, 2005	370,384	393,570
Loan payable, bearing interest at 7%, due March 31, 2007, repayable in monthly blended instalments of principal and interest of $6,028	113,546	175,702
Loan payable, bearing interest at 8%, due December 17, 2004, repayable in monthly blended instalments of principal and interest of $9,383	-	36,915
Loans payable to landlords, non-interest bearing, repayable by monthly instalments, maturing between May 31, 2009 and June 22, 2010	145,955	179,691
	5,497,531	22,524,182
Less: Current portion	5,338,351	22,264,682
	159,180	259,500

(a) These loans were entered into by Jack Astors® Cary, LLC and Jack Astor's® Las Colinas, LLC (subsidiaries of Jack Astor's® Cary/Las Colinas Limited) in fiscal year 2001 and are guaranteed by the Company. These investments were previously accounted for as equity accounted investments and disclosed accordingly. As a result of the adoption of AcG-15, these loans are now consolidated. These loans are currently non-compliant with respect to certain financial and non-financial covenants. As a result, these loans are presented as a current liability. All payments due on the loans have been made to date, and no notices of default have been received by the borrowers. The loans are 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.

The principal amount of loans payable is repayable as follows:

	$
2006	872,284
2007	519,760
2008	428,176
2009	385,664
2010	405,521
Thereafter	2,886,126
	5,497,531

A summary of the effective interest rate on long-term debt and interest expense by category of debt is as follows:

	August 28, 2005	**August 29, 2004** (see note 2)
Weighted average interest rate on long-term debt	9.03%	7.24%
Interest expense relating to long-term debt	$657,780	$1,648,168
Interest expense on capital lease obligations	-	$3,132

11 SIR Royalty Income Fund

(a) Loan payable to SIR Royalty Income Fund (SIR Loan)

The SIR Loan bears interest at 7.5% per annum, is due October 12, 2044 and is collateralized by a general security agreement covering substantially all of the assets of the Company. Interest expense of $2,633,562 was charged to the statement of operations for the year ended August 28, 2005.

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

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

	52-week period ended August 28, 2005 $
Initial investment by the Fund	11,166,671
Non-controlling interest in earnings of the Partnership	3,352,570
Distributions declared on the Partnership's units held by the non-controlling interest	(3,352,570)
Non-controlling interest in the Partnership	11,166,671
Pooled revenue	112,359,894 *
Partnership royalty income	6,741,593
Other income	25,339
Partnership expenses	(112,626)
Net earnings of the Partnership	6,654,306
The Company's interest in the earnings of the Partnership	(3,301,736)
Non-controlling interest in the earnings of the Partnership	6,654,306

* Includes revenue from October 12, 2004 to August 28, 2005 for the SIR Restaurants subject to the License and Royalty Agreement and excludes revenue for Jack Astor's® Front Street Limited and Jack Astor's® Cary/Las Colinas Limited.

On October 12, 2004, the Partnership issued Ordinary LP and GP units to the Fund for cash of $11,166,671. The holders of the Ordinary LP units are entitled to receive a pro rata share of all residual distributions of the Partnership and have the right to receive distributions in priority to the Class A GP units which are held by the Company.

The holders of the Class A GP units are entitled to receive a pro rata share of all residual distributions of the Partnership and subject to the subordination provisions, the Class A GP units are exchangeable into units of the Fund. Distributions to the Company, as holder of the Class A GP units of the Partnership, representing the initial retained interest in the Partnership, through the exchange feature, as at the closing date of the offering, are subordinated to distributions by the Partnership to the Trust on the Ordinary LP units and the Class A LP units (if any). The subordination of distributions on the Class A GP units ends on the date that both of the following conditions have been satisfied:

(a) Revenue of the SIR Restaurants subject to the License and Royalty Agreement has not been less than $127.4 million for each of two consecutive years commencing with the Company's fiscal year ending August 28, 2005; and

(b) Average monthly cash distributions of $0.10 per Fund unit have been paid by the Fund and average quarterly cash distributions of at least $0.30 have been paid by the Partnership to the Class A GP unitholders, in each case for the immediately preceding 12 month period.

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. The Partnership has granted the Company a 99-year license 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 restaurants included in the royalty pool (the "License and Royalty Agreement").

Under the terms of the License 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), following December 31, 2005, the restaurants subject to the License and Royalty Agreement are adjusted for new SIR Restaurants opened for at least 60 days preceding such Adjustment Date. At each Adjustment Date, the Company will be entitled to convert its Class B GP units of the Partnership to Class A GP units of the Partnership based on a conversion formula defined in the License and Royalty Agreement.

(c) Amounts due to SIR Royalty Income Fund

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

	$
Advances receivable	(366,413)
Interest payable on SIR Loan (note 11(a))	499,704
Partnership distributions payable (note 11(b))	772,975
Payable to SIR Royalty Income Fund and its subsidiaries – net	906,266

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

During the 52-week period ended August 28, 2005, distributions of $3,352,570 were declared to the Fund through the Partnership. The Fund, indirectly through SIR Holdings Trust (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 of the Partnership. For the 52-week period ended August 28, 2005, the Partnership provided these services to the Fund and the Trust for consideration of $21,288, which was the amount of consideration agreed to by the related parties.

12 Other long-term liabilities

	August 28, 2005 **$**	**August 29, 2004** **$** (see note 2)
Deferred revenue	483,524	538,801
Leasehold inducements	1,661,605	2,131,875
Accrued management bonus (a)	2,555,231	2,507,998
Asset retirement obligation (b)	281,563	263,414
	4,981,923	5,442,088
Less: Current portion	716,125	900,462
	4,265,798	4,541,626

(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/she has at least five years of service. This bonus is based on the value of the restaurant(s) at that time, using cash flows over a three-year period and a percentage that ranges from 2% to 10%. Upon leaving the plan, the participants' 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. The asset retirement obligation was estimated based on a discounted cash flow analysis using the following key assumptions:

	August 28, 2005 $	**August 29, 2004 $**
Total undiscounted estimated cash flows	549,082	549,082
Expected timing of repayments	2.5 years to 16.8 years	3.5 years to 17.8 years
Discount rate	7.5%	7.5%

13 Due to shareholders

	August 28, 2005 $	**August 29, 2004 $**
Loan payable, bearing interest at prime with no specific terms of repayment (a)	-	3,300,000
Non-interest bearing loans payable with no specific terms of repayment (a)	-	1,886,383
Loan payable, bearing interest at 8%, convertible to common shares at the option of the lender in the ratio of one common share to each $1, due the earlier of the closing and funding of the initial public offering by SIR Royalty Income Fund and February 28, 2005	-	2,637,500
Loan payable, bearing interest at 15%, with no specific terms of repayment	24,090	-
	24,090	7,823,883
Less: Current portion	24,090	7,823,883
	-	-

(a) Certain assets of the Company and its subsidiaries were pledged as collateral for the shareholder loans. The shareholders had postponed their security interest in favour of the Company's lenders (note 10).

Interest expense relating to the loans for the 52-week period ended August 28, 2005 was $42,870 (52-week period ended August 29, 2004 - $142,398). Total interest paid during the 52-week period ended August 28, 2005 was $1,929,253 (52-week period ended August 29, 2004 - $7,775).

During 2005, the Company used proceeds received from the issuance of the Partnership units and the SIR loan to repay shareholder loans outstanding at August 29, 2004 in full. As a result, all shareholder loans were presented as a current liability as at August 29, 2004.

14 Capital stock, redeemable shares and contributed surplus

Capital stock

Authorized
Unlimited number of common shares

Issued and outstanding

	August 28, 2005		August 29, 2004	
	Number of shares	**Amount**	**Number of shares**	**Amount**
Common shares				
Balance beginning of year	11,521,505	8,857,140	10,509,143	6,468,033
Issued on exercise of stock options	99,232	39,742	73,772	104,695
Issued	-	-	938,590	2,284,412
Repurchased	(252,974)	(193,970)	-	-
Balance, end of year	11,367,763	8,702,912	11,521,505	8,857,140

During 2005, 99,232 (2004 - 73,772) stock options were exercised for cash consideration of $39,742 (2004 - $61,636).

During the 2005, 252,974 (2004 - Nil) shares were repurchased for cash consideration of $579,310 (2004 - $Nil). Of this amount, $193,970 was charged to capital stock, $27,289 was charged to contributed surplus and $358,051 was charged to deficit.

On August 27, 2004, the Company issued 938,590 shares to two significant shareholders for cash consideration of $2,284,412.

Stock option plan

A summary of the status of the Company's stock option plan as of August 28, 2005 and August 29, 2004 and changes during the periods is presented below:

	Options outstanding	Weighted average exercise price per share $
Balance - August 31, 2003	2,402,454	0.07
Expired	(59,075)	1.07
Expired and extended	59,075	1.07
Expired	(2,000)	Nil
Forfeited	(6,000)	Nil
Exercised	(73,772)	0.84
Balance – August 29, 2004	2,320,682	0.05
Expired	(13,032)	1.11
Expired and extended	13,032	1.11
Exercised	(99,232)	0.40
Balance – August 28, 2005	2,221,450	0.03

The option exercise price of certain options extended was below the fair value of the Company's common shares at the respective grant dates. The Company recognized $15,393 in compensation expense in respect of options extended in the period ended August 28, 2005 (2004 - $78,141).

As of August 28, 2005, the outstanding and exercisable options to purchase common shares are as follows:

	Options outstanding				Options exercisable		
Option price range	**Number outstanding**	**Weighted average remaining life (years)**	**Weighted average exercise price $**		**Number exercisable**	**Weighted average exercise price $**	
$0.00 (a)	74,000	-	Nil		74,000	Nil	
$0.01 (b)	2,112,450	15.5	0.01		2,112,450	0.01	
$1.00 (U.S.) (c)	35,000	-	1.00	(U.S.)	25,000	1.00	(U.S.)
	2,221,450				2,211,450		

As of August 29, 2004, the outstanding and exercisable options to purchase common shares are as follows:

	Options outstanding				Options exercisable		
Option price range	**Number outstanding**	**Weighted average remaining life (years)**	**Weighted average exercise price $**		**Number exercisable**	**Weighted average exercise price $**	
$0.00 (a)	106,000	-	Nil		100,000	Nil	
$0.01 (b)	2,141,650	16.5	0.01		2,141,650	0.01	
$1.00 (U.S.) (c)	35,000	-	1.00	(U.S.)	15,000	1.00	(U.S.)
$1.00 - $1.21 (d)	13,032	1.5	1.11		13,032	1.11	
$1.00 (e)	25,000	-	1.00		16,000	1.00	
	2,320,682				2,285,682		

(a) The options vest equally over 5 years starting August 2000 and those which have termination of employment are forfeited. Upon death, permanent disability or resignation of employment with the Company, the Company retains the right to purchase the employees' 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 twentieth anniversary after the date of grant.

(c) The options vest at the fourth anniversary after the date of grant. In the event of death, disability or resignation or replacement as a director, the Company retains the right to purchase the optionees' remaining interest at a negotiated price which shall be paid over three years. These options do not expire.

(d) The options vest on the third anniversary following the date of grant and expire on the second anniversary after the date the options vest.

(e) The options vest over a five year period in instalments of 4,000, 4,000, 4,000, 4,000 and 9,000, respectively, on the anniversary date granted. These options do not expire.

Redeemable shares

Authorized
Unlimited number of Class A special shares

Issued and outstanding

	August 28, 2005		August 29, 2004	
	Number of shares	**Amount $**	**Number of shares**	**Amount $**
Class A special shares	950,000	2,850,000	950,000	2,850,000
Accrued interest		809,556		468,493
		3,659,556		3,318,493
Less: Current portion		3,659,556		-
		-		3,318,493

The Class A special shares are redeemable at the option of the holder after September 30, 2005 at $3 per share plus the 12% cumulative dividend. Since the Class A special shares are redeemable at the option of the holder, the shares have been classified as a liability in these consolidated financial statements with the cumulative dividend recognized as interest expense in the statement of operations. Interest expense relating to the Class A special shares for the period ended August 28, 2005 was $341,063 (August 29, 2004 - $341,063). No interest was paid during the year.

Contributed surplus

A reconciliation of contributed surplus is as follows:

	$
Contributed surplus as at August 31, 2003	1,260,636
Stock-based compensation	78,141
Reallocation to capital stock for options exercised	(66,245)
Charge arising on related party transaction (note 4(a))	(1,260,636)
Contributed surplus as at August 29, 2004	11,896
Stock-based compensation	15,393
Reduction on repurchase of capital stock	(27,289)
Contributed surplus as at August 28, 2005	-

15 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 28, 2005 $	**August 29, 2004 $** (see note 2)
Corporate costs		
Paid operational services provided by three (2004 – two) shareholders of the Company	1,075,405	441,135
Paid rent for its head office premises to certain shareholders of the Company (directly or indirectly)	200,851	200,512
Direct costs of restaurant operations		
Paid management fees equal to 4% of net sales, as defined, of 748269 Ontario Inc. (operating as Alice Fazooli's!®) and Brasserie Frisco™, to companies controlled by shareholders of the Company (note 16)	122,593	250,384

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.

16 Contract cancellation expense

On January 16, 2005, the Company agreed to pay $900,000 to terminate the management fee agreements with two companies controlled by shareholders of the Company. As a result, the Company is no longer obligated to pay a management fee equal to 4% of the net sales of Alice Fazoolis!® (Adelaide Street location) and Brasserie Frisco™ to these related parties.

17 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 a subsidiary of the Company (no longer in operation) is the defendant in a personal injury action in the amount of $1,350,000 plus interest and costs. The manufacturer of the item which caused the injury has been added to the suit as a third party, with the subsidiary's exposure estimated at 50%. The action has been defended by the Company's then-insurer, under a policy which assumes all liability except for a $5,000 deductible. The insurer is currently in liquidation at the instigation of the Office of the Superintendent of Financial Institutions. Court documents filed by the liquidator estimate there will be a substantial surplus on hand after liquidation of all claims, and as a result management believes the insurer will be able to meet its obligations in this action. However there remains a possibility that the Company, on behalf of its subsidiary, could be liable to pay the entire amount of a settlement or judgment in this action.

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:

	August 28, 2005 $
2006	8,564,539
2007	7,814,137
2008	6,989,280
2009	6,096,816
2010	5,043,321
Thereafter	14,039,634
	48,547,727

The Company has entered into three commitments to lease properties and is currently constructing restaurants on these properties. Construction costs incurred to date are $874,000 of which $240,000 has been included in property, plant and equipment and pre-opening costs at August 28, 2005. Final costs of construction are subject to uncertainties as to their amounts and timing. Such things as finalization of design and final construction quotes could change the total cost of these projects. At this time, the net use of cash for these construction projects is estimated to be approximately $6,000,000.

18 Supplemental cash flow information

The change in working capital items is as follows:

	August 28, 2005 $	August 29, 2004 $ (see note 2)
Accounts receivable and other receivables	(140,938)	623,958
Inventories	(226,254)	44,007
Prepaids, deposits and other assets	58,708	(41,011)
Income taxes receivable	17,289	297,156
Accounts payable, accrued liabilities and accrued management bonus	471,713	578,677
Due to related parties	906,266	-
	1,086,784	1,502,787

Supplemental information in respect of the consolidated statements of cash flows has been provided as follows:

	August 28, 2005 $	August 29, 2004 $ (see note 2)
Interest paid	4,896,182	1,765,649
Rent paid	6,718,989	6,130,078
Income taxes paid (recovered)	189,518	(132,189)
Non-cash purchases of property, plant and equipment	1,748,375	-

19 Income taxes

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

	August 28, 2005 $	**August 29, 2004 $** (see note 2)
Current	231,045	51,166
Future	1,608,715	(1,633,394)
	1,839,760	(1,582,228)

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

	August 28, 2005 $	**August 29, 2004 $** (see note 2)
Net loss before income taxes, net loss from equity accounted investments and non-controlling interest	(13,008,947)	(3,912,589)
Income tax recovery at Canadian statutory rates of 35% (August 29, 2004 – 35%)	(4,553,131)	(1,369,406)
Increased (decreased) by the effect of		
Tax effect of disposition of SIR Rights	1,262,375	-
Non-deductible portion of capital losses	-	528,879
Non-deductible expenses	402,545	313,207
Differences in effective tax rates	7,135	(6,661)
Change in valuation allowance	4,572,389	(671,465)
Change in future tax rates	-	(209,480)
Non-taxable foreign exchange	(209,731)	-
Other	358,178	(167,302)
	1,839,760	(1,582,228)

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

	August 28, 2005 $	**August 29, 2004 $** (see note 2)
Property, plant and equipment	(2,424,724)	(3,371,783)
Intangible and other assets	(769,862)	(636,663)
Loss carry-forwards	6,738,864	4,473,173
Accrued management bonus	891,210	852,727
Leasehold inducements	581,562	749,132
Asset retirement obligation	75,421	62,211
	10,184,942	4,257,594
Valuation allowance	(5,148,736)	(576,347)
	(56,265)	1,552,450

	August 28, 2005 $	**August 29, 2004 $** (see note 2)
Future tax asset – current	-	278,694
Future tax asset – long-term	-	1,273,756
Future tax liability – long-term	(56,265)	-
	(56,265)	1,552,450

As at August 28, 2005, the Company and its subsidiaries have available non-capital losses of $19,252,354 (August 29, 2004 - $10,422,160) for income tax purposes, which expire as follows:

	August 28, 2005 $
2007	140,337
2008	971,074
2009	1,060,526
2010	1,844,331
2011	2,958,944
2015	12,277,142
	19,252,354

In aggregate, the Company has recognized $4,543,000 (August 29, 2004 - $8,987,000) of the benefit of the non-capital losses and $Nil (2004 - $2,588,000) of capital losses. The benefits of non-capital losses has been recognized to the extent that these can be offset by other future tax liabilities.

20 Other income (expense)

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

	August 28, 2005 $	August 29, 2004 $ (see note 2)
Loss on disposal of property, plant and equipment	(497,220)	(375,597)
Gift certificates	71,150	134,825
Other	37,010	61,231
	(389,060)	(179,541)

21 Segmented operations

The Company operates a portfolio of restaurants in Canada and the United States which are 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 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 and corporate costs and amortization of non-restaurant assets.

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

	August 28, 2005 $	August 29, 2004 $ (see note 2)
Food and beverage revenue		
Canada		
Jack Astor's®	81,108,868	75,763,824
Alice Fazooli's!®	16,684,685	17,057,139
Canyon Creek Chop House®	14,677,501	13,578,073
Signature	17,737,892	20,295,047
	130,208,946	126,694,083
United States		
Jack Astor's®	5,518,203	6,018,151
	135,727,149	132,712,234

22 Comparative figures

Certain of the prior year balances have been reclassified to conform with the current period's presentation.