SIR Corp.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED AUGUST 28, 2005

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SIR Corp.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE 52-WEEK PERIODS ENDED AUGUST 28, 2005 AND AUGUST 29, 2004

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SIR CORP.
Management's Discussion and Analysis
YEAR ENDED AUGUST 28, 2005

Executive Summary

Highlights for SIR Corp.'s ("SIR") fiscal 2005 year, which ended on August 28, 2005, include:

- On October 12, 2004, the Initial Public Offering (the "Offering") of the SIR Royalty Income Fund (the "Fund") closed. Net proceeds of the Offering were used by the Fund to acquire, directly, certain bank debt of SIR (the "SIR Loan") and indirectly, through SIR Royalty Limited Partnership (the "Partnership") and SIR Holdings Trust (the "Trust"), the Canadian trademarks (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 pool ("Royalty Pooled Restaurants"). The Partnership also issued its own securities to SIR in return for the SIR Rights acquired. SIR has consolidated the Partnership effective October 12, 2004.

- Applied direct and indirect proceeds received from the Offering as contemplated in the prospectus, including:

    - Reduced debt by repaying $16.0 million Canadian term bank debt and $7.8 million of loans from shareholders; bought out certain contractual arrangements with respect to two SIR restaurants;

    - Invested in sales growth of existing restaurants:
        - During the fiscal year, evolutions were completed at nine Jack Astor's® restaurants, with average revenue increases in excess of 10% in the year of evolution, and an average of 4% over and above their first-year increases for restaurants now in their second year following evolution (four evolutions were completed during fiscal 2004 and three additional evolutions were completed in September, October and November 2005, for a total of 16 to date).

        - Renovations were completed at three of the five Alice Fazooli's!® restaurants, with average sales increases in excess of 10%.

        - Continued Jack Astor's® advertising program with leading marketing firm.

    - Invested in new restaurants:
        - New Jack Astor's® restaurant opened in downtown Toronto in February 2005 and Whitby, Ontario was constructed (opened August 31, 2005), both of which will become part of the Royalty Pooled Restaurants on January 1, 2006;

        - Sites secured for two new Canyon Creek™ restaurants during the year and another after the year-end, all of which are expected to open in 2006.

- Same store sales growth for restaurants in the Royalty pool ("SSSG") were 1.8% for the 16-week period ended August 28, 2005 and essentially flat for the 52-week period ended August 28, 2005, as compared to the corresponding periods a year ago.

- SSSG of 3.8% for the Concept Restaurant brands in the Royalty pool (Jack Astor's®, Canyon Creek™ and Alice Fazooli's!®) for the 16-week period ended August 28, 2005, and 2.3% for the 52-week period ended August 28, 2005 as compared to the corresponding periods a year ago.

Executive Summary (continued)

- SSSG of 3.4% and 2.3% for the 16 and 52-week periods ended August 28, 2005 respectively, for Jack Astor's®, SIR's flagship Concept Restaurant brand, which generates more than 60% of Pooled Revenue, compared to the corresponding periods a year ago.

- Key factors contributing to the EBITDA* decline versus the prior year include:
  - External issues, primarily the National Hockey League ("NHL") lockout for the entire 2004/2005 season, which has now been resolved;
  - Increases in corporate costs, primarily increased as the business prepares for growth and meets its public reporting obligations;
  - Underperformance of two restaurants in downtown Toronto;
  - Three to five-day closures of nine Jack Astor's® and two Alice Fazooli's!® restaurants during the fiscal year for renovations.

- The change in financing the business from traditional bank credit facilities to the royalty income fund structure through the Partnership and SIR Loan has resulted in new obligations for 6% Royalty payments which are indirectly reflected on the Consolidated Statements of Operations in "Interest on loan payable to SIR Royalty Income Fund" and "Non-controlling interest in SIR Royalty Limited Partnership". Deferred financing fees related to the former bank financing were also written off as part of interest expense.

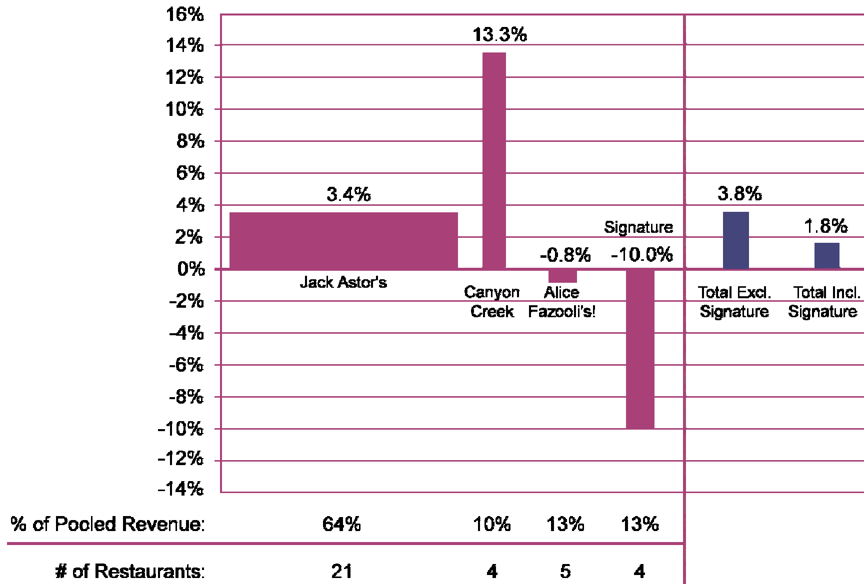
- The net loss for the year was driven by the EBITDA factors noted above, as well as a number of non-cash items, required changes in accounting treatment, and certain transactions which are not expected to recur:

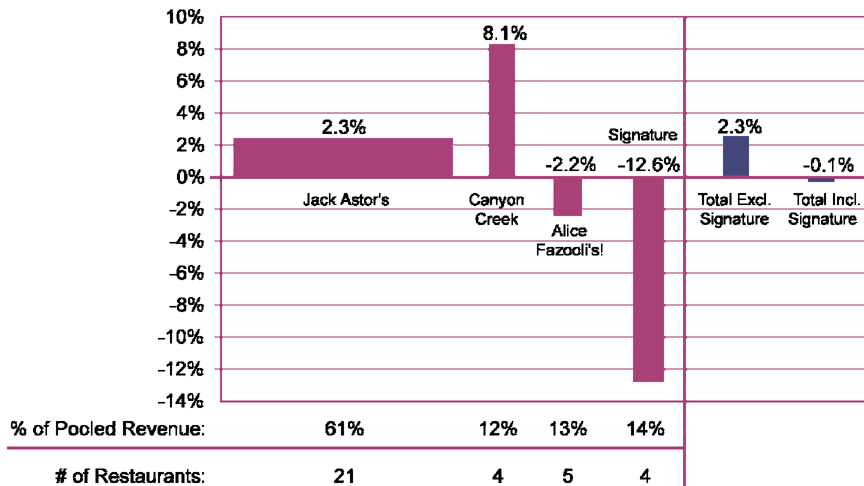
  - Non-cash write-down of goodwill, provisions for impairment of loans, investments and long-lived assets, and future tax provision;
  - Changes in accounting requirements, primarily the Canadian Institute of Chartered Accountants ("CICA") Accounting Guideline 15 ("AcG-15"), Consolidation of Variable Interest Entities ("VIE") which requires the consolidation of the Partnership and certain restaurants that had previously been equity accounted
  - Contract cancellation expense

References to EBITDA are to SIR's consolidated loss from continuing operations before non-controlling interest, loss from equity accounted investments, income taxes, other expense, provision for impairment of investment and loans receivable, provision for impairment of long-lived assets, goodwill impairment, interest, foreign exchange gain, other amortization and amortization of restaurant assets. References to Adjusted EBITDA are to SIR's EBITDA plus a contract cancellation expense that is a significant unusual item and not expected to recur. The term Adjusted EBITDA is used to adjust for the effect of certain significant unusual items. Management believes that, in addition to net earning or loss, EBITDA and Adjusted EBITDA are useful supplemental measures in evaluating SIR's performance. EBITDA and Adjusted EBITDA are not financial measures recognized by Canadian generally accepted accounting principles ("GAAP") and do not have a standardized meaning prescribed by GAAP. Management cautions investors that EBITDA and Adjusted EBITDA should not replace net earnings or loss or cash flows from operating, investing and financing activities (as determined in accordance with GAAP), as an indicator of SIR's performance. SIR's method of calculating EBITDA and Adjusted EBITDA may differ from the methods used by other issuers. Therefore, SIR's EBITDA and Adjusted EBITDA may not be comparable to similar measures presented by other issuers.

Executive Summary (continued)

Same Store Sales Growth
(unaudited)





Executive Summary (continued)

SSSG was 1.8% for the 16-week period ended August 28, 2005 (i.e. May 9, 2005 to August 28, 2005), versus the comparable period in the prior year. SSSG for the 52-week period ended August 28, 2005 (i.e. August 30, 2004 to August 28, 2005) versus the comparable period in the prior year was essentially flat at (0.1%). The NHL lockout had a significant effect on the Signature Restaurants, which are located in downtown Toronto. Excluding the Signature Restaurants, SSSG for the Concept Restaurants (Jack Astor's®, Canyon Creek™ and Alice Fazooli's!®), which generate approximately 86% of Pooled Revenue, was 3.8% for the 16-week period and 2.3% for the 52-week period ended August 28, 2005 versus the corresponding periods in the prior year.

SSSG for Jack Astor's®, SIR's flagship Concept Restaurant brand which generates more than 60% of Pooled Revenue, was 3.4% and 2.3% for the 16 and 52-week periods ended August 28, 2005, respectively, as compared to the corresponding periods a year ago. Management attributes the strong performance of Jack Astor's® in large part to evolutions of existing restaurants, which include changes in menu, staff uniforms and restaurant décor. During the period from May 9, 2005 to August 28, 2005, four Jack Astor's® were closed for an average of approximately four days each to undergo the evolution process. The evolution program started in 2004 and is intended to continue for the remainder of 2005 and into 2006. A total of 16 of the 21 Jack Astor's® currently in the Royalty pool have been evolved as at the end of November 2005. Average sales increases in evolved Jack Astor's® restaurants are in excess of 10% in the year of evolution and an average of 4% over and above their first-year increases for restaurants now in their second year following evolution.

Canyon Creek™ continues to perform well, with SSSG of 13.3% and 8.1% respectively for the 16 and 52- week periods ended August 28, 2005.

For the 16 and 52-week periods ended August 28, 2005, SSS performance of Alice Fazooli's!® was (0.8%) and (2.2%), respectively. During July and August, two Alice Fazooli's!® were closed for approximately three days each to undergo the evolution process. Three of the five Alice Fazooli's!® have now been renovated. After completing the renovations, the three restaurants are delivering revenue increases in excess of 10% versus the prior year.

Same store sales of the downtown Toronto Signature Restaurants, which represent approximately 14% of Pooled Revenue, declined 10.0% and 12.6% for the 16 and 52-week periods ended August 28, 2005, respectively, compared to the corresponding periods in the prior year. The decline in same store sales for the Signature Restaurants was due in part to the NHL lockout, which has now been resolved. A major renovation of Far Niente® was completed in early November 2005. This renovation is expected to result in increased guest counts and SSSG going forward. Management is evaluating solutions for one restaurant in the Signature group, which has been underperforming.

Adoption of Accounting Guideline –15 ("AcG-15"), Consolidation of Variable Interest Entities ("VIE")

CICA Accounting Guideline 15 ("AcG-15"), Consolidation of Variable Interest Entities ("VIE") 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 subordinated 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 guideline is applicable to annual and interim periods beginning on or after November 1, 2004. As SIR is a private company, the standard is not required to be applied to interim periods. SIR adopted the standard effective August 30, 2004. As a result, SIR now consolidates certain investments that it previously accounted for as equity accounted investments. Prior year results reflect the retroactive application of this change in accounting policy. In addition, SIR also consolidates the Partnership effective October 12, 2004. (See Changes in Accounting Policies including Initial Adoption).

Executive Summary (continued)

Reduction of Existing Debt and Shareholder loans and Buy-out of Management Fee Agreements

In October 2004, SIR used proceeds received directly and indirectly as a result of the Fund's Offering to repay its Canadian bank term credit facility (approximately $16.0 million) and advances from shareholders (approximately $7.8 million).

The $40 million loan payable to the Fund (SIR Loan) is an integral part of the structure of the Offering as described in the Fund's prospectus dated October 1, 2004. Approximately $5.2 million of long-term debt related to operations in the USA was consolidated by SIR upon adoption of the VIE guideline (See Changes in Accounting Policies including Initial Adoption).

In January 2005, SIR agreed to pay $0.9 million to terminate management fee agreements with two companies controlled by shareholders of SIR. As a result, SIR is no longer obligated to pay management fees of 4% of the net sales of Alice Fazooli's!® (Adelaide Street location) and Brasserie Frisco™ to these related parties. The $0.9 million payment is considered a non-recurring event and has been treated as an adjustment to the calculation of adjusted EBITDA*.

Investment in Existing Restaurants

SIR has been applying a significant portion of the proceeds of the Offering to invest in its existing restaurants to drive SSSG. As at November 24, 2005, evolutions of 16 Jack Astor's® restaurants had been completed (four of these had been completed in fiscal 2004 prior to the Fund's initial public offering ("IPO") and another three were completed, subsequent to year end, in September, October and November 2005). In the 52-week period ended August 28, 2005, (SIR's fiscal year-end), the evolved Jack Astor's® restaurants have generated SSSG in excess of 10% (as measured from the first fiscal period after the evolutions). The restaurants that are now in their second year following evolution continue to deliver strong SSSG, averaging 4% over and above their first-year levels. Renovations at three of the five Alice Fazooli's!® restaurants which were completed during 2005 have also delivered strong SSSG in excess of 10%. In mid-October 2005, extensive renovations began at Far Niente® in downtown Toronto. These renovations are expected to result in increased guest counts and SSSG going forward.

SIR has increased its investment in marketing initiatives. In particular, Jack Astor's® with 23 restaurants (21 of which are currently included in the Royalty Pooled Restaurants and represent approximately 60% of Pooled Revenue) has benefited from radio-based campaigns created by a leading North American advertising agency.

Investment in New Restaurants

SIR opened Jack Astor's® at Front Street and University Avenue in downtown Toronto in February 2005. Subsequent to its fiscal year-end, SIR opened a Jack Astor's® in Whitby, Ontario at the end of August 2005. The performance to date of both of these restaurants has exceeded expectations. These restaurants will become part of the Royalty Pooled Restaurants on January 1, 2006, at which time the Partnership will pay SIR, in Partnership securities exchangeable for Units of the Fund, an amount intended to reflect the value to the Partnership of the increased future Royalty stream related to these restaurants, in accordance with the formula described in the Fund's prospectus. This adjustment for new revenues that will be part of the Royalty pool is designed to be accretive for Fund Unitholders.

During the year, SIR also secured locations for two new Canyon Creek™ restaurants in Ontario: Scarborough and Vaughan. Another site in the Niagara Fallsview Casino Resort was approved after SIR's year-end. These restaurants are expected to become part of the Royalty pool on January 1, 2007.

No Royalty Pooled Restaurants have been closed since the Fund's IPO was completed.

Executive Summary (continued)

*EBITDA**

A number of key factors contributed to the decline in EBITDA* versus the prior year. The NHL lockout for the entire 2004/2005 hockey season was an external factor which significantly impacted certain restaurants in the downtown Toronto Signature group. The lockout was resolved and revenues at the affected restaurants have improved as expected once hockey resumed in the fall of 2005 (i.e. in SIR's fiscal 2006 year). At the corporate level, SIR's growth plans have required increased staffing, and SIR's new reporting obligations in accordance with undertakings with the securities commissions have added general and administration expenses and professional fees. At the restaurant level, two restaurants in downtown Toronto have been underperforming and Management is evaluating solutions. The restaurant renovations that are part of the Jack Astor's® and Alice Fazooli's!® evolutions required three to five-day closures of 11 restaurants during the year to complete the work. This impacted revenues and certain expenses, including labour and repairs and maintenance. With average revenue increases after renovation in excess of 10% in both Jack Astor's® and Alice Fazooli's!®, Management considers the evolution program to be successful.

Net Income

The net loss for the fiscal year was driven by the EBITDA* factors noted above, as well as a number of non-cash items, required changes in accounting treatment, and certain transactions which are not expected to recur. Management determined that a write-down was required to recognize goodwill impairment for one restaurant in the downtown Toronto Signature group. A provision was also made under the accounting standard for long-lived assets to record impairments in the carrying value of property plant and equipment primarily for two restaurants in the United States and two restaurants in downtown Toronto. Advances were made during the year to operations in the United States to facilitate ongoing operations and the closure of certain restaurant operations. Management determined that a provision was required to write the loans and advances receivable to their net realizable value. A provision for income taxes was made in part to reflect the effect of a taxable gain on the disposition of the SIR Rights in connection with the Offering. Deferred financing fees related to the previous bank financing were written off when the bank debt was repaid.

Changes in accounting treatment under the VIE which requires consolidation of the Partnership impacted net income and certain restaurants that had previously been equity accounted had a major impact on the presentation of the financial statements (See Changes in Accounting Policies including Initial Adoption).

During the year, SIR paid a contract cancellation fee to related parties so that it is no longer obligated to pay management fees based on net sales of two downtown Toronto restaurants.

Outlook

Management believes that fiscal 2005 has been a transition year for the business to position it for growth, with the successful launch of the Fund, evolutions of Jack Astor's® and Alice Fazooli's!®, opening of two new restaurants and securing of sites for three new locations. It was also a challenging year for reasons noted above under EBITDA* and net loss. Management anticipates that financial performance in fiscal 2006 will improve, driven by revenue improvements from the resolution of the NHL lockout, strong contributions from evolved Jack Astor's® and Alice Fazooli's!® restaurants, new Jack Astor's® in downtown Toronto and Whitby, Ontario which are delivering sales in excess of expectations and certain costs which are not expected to recur.

Overview

SIR is a private company amalgamated under the Business Corporations Act of Ontario. As at August 28, 2005, SIR operates 35 Concept and Signature Restaurants in Canada (in Ontario, Quebec, Alberta and Nova Scotia). SIR opened its 36th Canadian restaurant on August 31, 2005. 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®. Currently, 34 SIR Restaurants are 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) will be added to the Royalty Pooled Restaurants in January 2006. SIR now owns 100% of all its Canadian restaurants, except for Jack Astor's® Don Mills Limited (50%). SIR also has investments in two Jack Astor's® restaurants in the USA which are not included in the SIR Royalty Pooled Restaurants.

On October 1, 2004, the Fund filed a final prospectus for a public Offering of Units of the Fund and the Offering closed on October 12, 2004. The net proceeds of the Offering of $51,166,670 were used by the Fund to acquire the SIR Loan and indirectly, through 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 AcG-15, SIR has consolidated the Partnership effective October 12, 2004.

Also, as a result of implementing requirements under AcG-15, 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 52-week periods ended August 28, 2005 and August 29, 2004. 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	52-weeks ended August 28, 2005 $	52-weeks ended August 29, 2004** $
	(in thousands of dollars)	
Corporate restaurant operations:		
Food and beverage revenue	135,727	132,712
Cost of corporate restaurant operations	125,207	122,972
Earnings from corporate restaurant operations	10,520	9,740
Loss from continuing operations	(14,643)	(2,258)
Net loss for the year	(14,840)	(2,448)

Balance Sheet	August 28, 2005 $	August 29, 2004** $
	(in thousands of dollars)	
Total assets	66,485	53,077
Total long-term liabilities (excluding current portion of long-term debt)	55,648	8,120

*** Prior period balances reflect the retroactive application of changes in accounting policies, including AcG-15 and asset retirement obligations as described in the Company's notes to the consolidated financial statements for the year ended August 28, 2005.*

Selected Consolidated Historical Financial Information (continued)

Reconciliation of Loss from Continuing Operations to EBITDA* (Unaudited)	52-weeks Ended August 28, 2005	52-weeks Ended August 29, 2004 **
	$	$
	(in thousands of dollars)	
Loss from continuing operations	(14,643)	(2,258)
Add (deduct):		
Non-controlling interest in other subsidiary companies	(375)	(337)
Loss from equity accounted investments	169	265
Provision for (recovery of) income taxes	1,840	(1,582)
Other expense	389	180
Provision for impairment of investments and loans receivable	781	3,037
Provision for impairment of long-lived assets	2,065	-
Provision for impairment of goodwill	697	35
Foreign exchange (gain) losses	(599)	-
Interest expense - net [(1)]	2,308	2,587
Interest on loan payable to SIR Royalty Income Fund	2,634	-
Non-controlling interest in SIR Royalty Limited Partnership	3,353	-
Other amortization	403	422
Amortization of restaurants assets	6,334	5,969
EBITDA*	5,356	8,318
Contract cancellation expense	900	-
Adjusted EBITDA*	**6,256**	**8,318**
Income from Class A Units of the Partnership [(2)] (Not included in EBITDA* above)	**668**	**-**
6% Royalty obligations under License and Royalty Agreement [(3)]	**6,742**	**-**

***References to EBITDA are to SIR's consolidated loss from continuing operations before non-controlling interest, loss from equity accounted investments, income taxes, other expense, provision for impairment of investment and loans receivable, provision for impairment of long-lived assets, goodwill impairment, interest, foreign exchange gain, other amortization and amortization of restaurant assets. References to Adjusted EBITDA are to SIR's EBITDA plus a contract cancellation expense that is a significant unusual item and not expected to recur. The term Adjusted EBITDA is used to adjust for the effect of certain significant unusual items. Management believes that, in addition to net earning or loss, EBITDA and Adjusted EBITDA are useful supplemental measures in evaluating SIR's performance. EBITDA and Adjusted EBITDA are not financial measures recognized by Canadian generally accepted accounting principles ("GAAP") and do not have a standardized meaning prescribed by GAAP. Management cautions investors that EBITDA and Adjusted EBITDA should not replace net earnings or loss or cash flows from operating, investing and financing activities (as determined in accordance with GAAP), as an indicator of SIR's performance. SIR's method of calculating EBITDA and Adjusted EBITDA may differ from the methods used by other issuers. Therefore, SIR's EBITDA and Adjusted EBITDA may not be comparable to similar measures presented by other issuers.*

*** Prior period balances reflect the retroactive application of changes in accounting policies, including AcG–15 and asset retirement obligations as described in SIR's notes to the consolidated financial statements for the year ended August 28, 2005.*

(1) Interest expense - net includes the write-off of deferred financing fees from the previous bank financing, 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 Loans, interest on SIR's Class A special shares and interest on bank and shareholder loans prior to October 12, 2004.
(2) Income from 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.

Results of Operations

As a result of implementing requirements under AcG-15, 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. Prior year results reflect the retroactive application of these changes in accounting policies. However, SIR was not required to implement this guideline for its interim periods. Therefore quarterly results do not reflect the changes in accounting policies and are not provided at this time, except for certain revenue and same store sales figures.

Reconciliation of Revenue from Consolidated Financial Statements to Pooled Revenue	16-week Period Ended August 28, 2005 $	16-week Period Ended August 29, 2004** $	52-week Period Ended August 28, 2005 $	52-week Period Ended August 29, 2004 ** $
	(in thousands of dollars) (unaudited)			
Revenue reported in consolidated financial statements	42,864	40,533	135,727	135,712
Less: Revenue from corporate restaurant operations excluded from the Royalty pool [(4)]	(3,482)	(1,851)	(9,130)	(6,018)
Proforma revenue for restaurants in the Royalty pool [(4)]	**39,382**	**38,682**	**126,597**	**126,694**

Same Store Sales	16-week Period Ended August 28, 2005 $	16-week Period Ended August 29, 2004 $	% Fav./ (Unfav.)	52-week Period Ended August 28, 2005 $	52-week Period Ended August 29, 2004 $	% Fav./ (Unfav.)
	(in thousands of dollars) (unaudited)					
Jack Astor's®	25,095	24,272	3.4%	77,497	75,764	2.3%
Alice Fazooli's!®	5,185	5,227	(0.8%)	16,685	17,057	(2.2%)
Canyon Creek ™	4,071	3,593	13.3%	14,677	13,578	8.1%
Signature Restaurants	5,031	5,590	(10.0%)	17,738	20,295	(12.6%)
Same store sales	**39,382**	**38,682**	**1.8%**	**126,597**	**126,694**	**(0.1%)**

Note: same store sales does 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.

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(4) Jack Astor's® (Front Street) Limited opened February 2, 2005 and is excluded from Pooled Revenue until January 1, 2006, when it is expected to be added to the SIR Restaurants subject to the License and Royalty Agreement. Leoni's Italian Kitchen® revenue is not included in the above. Jack Astor's® Cary/Las Colinas Limited is excluded from Pooled Revenue as it is not one of the SIR Restaurants subject to the License and Royalty Agreement. SIR Royalty Income Fund public offering closed on October 12, 2004, therefore revenue earned prior to October 12, 2004 is not eligible for calculating royalties payable to the SIR Royalty Limited Partnership.

Proforma revenue for restaurants in the Royalty Pool is for the 34 restaurants included in the Royalty Pooled Restaurants.

Results of Operations (continued)

Revenue

There are a number of references to different revenue groupings used in the financial statements, the notes to the financial statements and the MD&A. The following definitions are provided for greater clarification of these groupings:

i) Revenue (per the SIR Corp. Statements of Operations) – this is the total consolidated revenue of all restaurants for the period. It includes the 34 SIR restaurants included in Royalty Pooled Revenue, the Additional New Restaurants (for fiscal 2005 this is Jack Astor's® Front Street) and the United States Jack Astor's® revenue. For fiscal 2005, this revenue was $135.7 million.

ii) Same Store Sales ("SSS") – this is a sub-set of i) above used for tracking comparable year-over-year sales. For fiscal 2005, SSS includes only the 34 restaurants included in Pooled Revenue, all of which were open in both fiscal years that are being compared. For fiscal 2005 this revenue was $126.6 million.

iii) Proforma Pooled Revenue – this is a sub-set of i) above for those restaurants subject to the License and Royalty Agreement as if they were subject to this agreement for the entire fiscal year (i.e. fiscal 2005). It is labeled "proforma" because these restaurants were not actually subject to the License and Royalty Agreement until October 12, 2004. For fiscal 2005, Proforma Pooled Revenue was the same as SSS at $126.6 million.

iv) Pooled Revenue used for the calculation of the 6% Royalty – this a sub-set of i) for those restaurants subject to the License and Royalty Agreement from October 12, 2005 to August 28, 2005 only. This was the portion of Fiscal 2005 when the 6% Royalty was applicable. Pooled Revenue used for the calculation of the 6% Royalty is defined as: Revenue (per the SIR Corp. Statements of Operations) minus United States Jack Astor's® revenue minus the revenue of any SIR Restaurants not included in the Royalty pool (Jack Astor's® Front Street was excluded for fiscal 2005) minus Proforma Pooled Revenue for the period August 30, 2004 to October 11, 2004 inclusive. For fiscal 2005 this revenue is $112.4 million. The applicable Royalty payable to the Partnership on the Pooled Revenue for fiscal 2005 was calculated as follows: $112.4 million x 6% = $6.7 million in Partnership Royalty income.

Same Store Sales

SSSG was 1.8% for the 16-week period ended August 28, 2005 (i.e. May 9, 2005 to August 28, 2005), versus the comparable period in the prior year. SSSG for the 52-week period ended August 28, 2005 (i.e. August 30, 2004 to August 28, 2005) versus the comparable period in the prior year was essentially flat at (0.1%). The NHL lockout had a significant effect on the Signature Restaurants, which are located in downtown Toronto. Excluding the Signature Restaurants, SSSG for the Concept Restaurants (Jack Astor's®, Canyon Creek™ and Alice Fazooli's!®), which generate approximately 86% of Pooled Revenue, was 3.8% for the 16-week period and 2.3% for the 52-week period ended August 28, 2005 versus the corresponding periods in the prior year.

SSSG for Jack Astor's®, SIR's flagship Concept Restaurant brand which generates more than 60% of Pooled Revenue, was 3.4% and 2.3% for the 16 and 52-week periods ended August 28, 2005, respectively, as compared to the corresponding periods a year ago. Management attributes the strong performance of Jack Astor's in large part to evolutions of existing restaurants, which include changes in menu, staff uniforms and restaurant décor. During the period from May 9, 2005 to August 28, 2005, four Jack Astor's® were closed for an average of approximately four days each to undergo the evolution process. The evolution program started in 2004 and is intended to continue for the remainder of 2005 and into 2006. A total of 16 of the 21 Jack Astor's® currently in the Royalty pool have been evolved as at the end of November 2005. Average sales increases in evolved Jack Astor's® restaurants are in excess of 10% in the year of evolution and an average of 4% over and above their first-year increases for restaurants now in their second year following evolution.

Results of Operations (continued)

Canyon Creek™ continues to perform well, with SSSG of 13.3% and 8.1% respectively for the 16 and 52-week periods ended August 28, 2005.

For the 16 and 52-week periods ended August 28, 2005, SSS performance of Alice Fazooli's!® was (0.8%) and (2.2%), respectively. This is driven by renovations at three of the five locations, which are delivering revenue increases after their evolutions in excess of 10% versus the prior year. During the period from May 9, 2005 to August 28, 2005, two Alice Fazooli's!® were closed for approximately three days each to undergo the evolution process.

Same store sales of the downtown Toronto Signature Restaurants, which represent approximately 14% of Pooled Revenue, declined 10.0% and 12.6% for the 16 and 52-week periods ended August 28, 2005 respectively, compared to the corresponding periods in the prior year. The decline in same store sales for the Signature Restaurants was due in part to the NHL lockout, which has now been resolved. A major renovation of Far Niente® was completed on November 7, 2005. This renovation is expected to result in increased guest counts and SSSG going forward.

Cost of Corporate Restaurant Operations

As a percentage of revenue, costs of corporate restaurant operations decreased to 92.2% for the 52-week period ended August 28, 2005 from 92.7% for the 52-week period ended August 29, 2004. These decreases in cost of restaurant operations as a percentage of revenues were due to decreases in food, beverage and labour costs as a percentage of revenue, partially offset by increases in other direct costs of restaurant operations as a percentage of revenue.

Corporate Costs

Corporate costs increased by $3.2 million for the 52-week period ended August 28, 2005 compared to the 52-week period ended August 29, 2004. The increase is primarily due to salaries and benefits (including increased staffing for growth), professional fees (reflecting additional professional fees associated with SIR's reporting obligations in accordance with undertakings with the securities commissions) and general and administration expenses.

Contract cancellation expense

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. This transaction was contemplated in the SIR Royalty Income Fund's prospectus dated October 1, 2004, as part of the use of proceeds of the Offering. 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

Interest expense decreased by $0.3 million for the 52-week period ended August 28, 2005 compared to the 52-week period ended August 29, 2004. During fiscal 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, resulting in decreased interest expense. In addition, all unamortized deferred financing fees ($1.4 million) related to the former bank debt have been included in interest expense for the 52-week period ended August 28, 2005.

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.

Results of Operations (continued)

Interest on the SIR Loan totalled $2.6 million for the 52-week period ended August 29, 2005. The Fund's share of the income of the Partnership of $3.4 million has been recorded as non-controlling interest in the statement of operations.

Jack Astor's® Cary/Las Colinas Limited ("JACL") and f*oreign exchange gain*
As a result of implementing requirements under AcG-15, SIR now consolidates JACL. The consolidated financial statements of JACL are denominated in U.S. dollars, and accordingly, Management has reviewed the Company's exposure to changes in foreign exchange rates. The operating activities of JACL are all denominated in U.S. dollars and therefore, prior to August 29, 2004, SIR had minimal exposure to fluctuations in foreign exchange rates relating to operating activities. As a result, JACL was a self-sustaining operation of SIR from inception to August 29, 2004. During fiscal 2005 the relationship between JACL and SIR changed. JACL continued to incur losses from operations and required additional funding to assist with its operations. Therefore, SIR began to have exposure to fluctuations of foreign exchange with respect to the operating and financing activities of JACL. SIR is also the guarantor on the debt of JACL. Therefore, beginning August 29, 2004, the investment in JACL became an integrated operation.

While a self-sustaining operation, SIR translated the transactions and balances of JACL using the current rate method recognizing cumulative foreign currency translation gains and losses of $0.09 million in the currency translation adjustment account as part of Shareholders' equity. In fiscal 2005, SIR used the temporal method to translate the transactions and balances of JACL recognizing a foreign currency translation gain of $0.6 million in the consolidated statement of operations.

Impairment of long-lived assets and goodwill
As a result of a decline in sales and earnings of JACL, management determined that an impairment provision of $1.3 million was required to write down the building values to their estimated fair values.

Due to a decline in sales and earnings of three other restaurants in Canada, SIR recorded impairments of long-lived assets of $0.8 million to write down the value of the leasehold improvements to their fair value. In addition, SIR recognized an impairment of goodwill of $0.7 million.

Provision for impairment of investment and loans receivable
During the 52-week period ending August 29, 2004, SIR determined that the balance of loans and advances to U.S. S.I.R. L.L.C. and its subsidiaries 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 $0.1 million.

During the 52-week period ended August 28, 2005, SIR advanced a further $1.1 million to U.S. S.I.R. L.L.C. and its subsidiaries to facilitate on-going operations and the closure of certain U.S. restaurants operations. The advance is non-interest bearing, non-secured and due on demand. SIR does not expect to receive payment of this advance within the next year and accordingly, it has been discounted to reflect its net recoverable amount of $0.5 million. The discount amount of $0.7 million is included in the provision for impairment of notes receivable on the statement of operations. The advance to U.S. S.I.R. L.L.C. was used by it to repay certain loans and advances that it had obtained to fund cash deficiencies resulting from operating losses. While SIR has no obligation to fund the U.S. operations, it may do so if it considers that it would be in the interests of SIR, subject to the restrictions contained in its arrangements with the Fund.

During the 52-week period ended August 29, 2004, SIR recognized an impairment loss of $0.07 million 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 the 52-week period ended August 28,

Results of Operations (continued)

2005, 1100255 Ontario Inc. underwent a deemed bankruptcy. SIR continued to make advances to 1100255 Ontario Inc. to facilitate the orderly dissolution of the business and SIR's share of losses, up to the total advanced, have been recorded in loss from equity accounted investments. On April 30, 2005, SIR acquired the business of Leoni's Italian Kitchen® (which had previously been part of 1100255 Ontario Inc.) in order to evaluate the performance of this restaurant and its strategic alternatives. The restaurant continued to underperform and on July 3, 2005, SIR closed the operations. The results of this restaurant have been separately disclosed as discontinued operations in the statement of operations. Leoni's Italian Kitchen® is not included in the SIR Royalty Pooled Restaurants.

Provision for income taxes

A provision for income taxes of $1.8 million was recorded in the 52-week period ended August 28, 2005 as compared to a recovery of income taxes of $1.6 million in the 52-week period ended August 29, 2004. During the 52-week period ended August 28, 2005, SIR realized a taxable gain on the disposition of the SIR Rights. The taxable gain has been offset by capital and non-capital loss carryforwards recognized in prior years. SIR has recognized $4.5 million of the benefit of the non-capital losses. The benefits of the non-capital losses has been recognized to the extent that these can be offset by other future tax liabilities. During the 52-week period ended August 29, 2004, a change in statutory rates resulted in an adjustment to the tax provision by increasing the tax asset by $0.2 million.

*EBITDA**

Adjusted EBITDA* decreased by $2.1 million for the 52-week period ended August 28, 2005 as compared to the 52-week period ended August 29, 2004 (see Selected Consolidated Historical Financial Information - Reconciliation of Loss from Continuing Operations to EBITDA*.)

SIR Royalty Income Fund

The following is a summary of the accounting implications of the SIR Loan and non-controlling interest of the Partnership:

(a) *SIR Loan*

The SIR Loan bears interest at 7.5% per annum, is due October 12, 2044 and is collateralized by a general security agreement covering substantially all of the assets of the Company. Interest expense of $2.6 million was charged to the statement of operations for the year ended August 28, 2005.

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

Financing costs of $4.8 million were incurred in respect of the issuance of the SIR Loan and Partnership Units. The costs have been deferred and are being amortized over 40 years, the term of the SIR Loan. These costs are recorded in other assets in the consolidated financial statements. Amortization of $0.1 million has been recorded as interest expense in the consolidated statement of operations.

SIR Royalty Income Fund (continued)

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

	52-week period ended August 28, 2005 $000's
Initial investment by the Fund	11,167
Non-controlling interest in earnings of the Partnership	3,353
Distributions declared on the Partnership's Units held by the Fund	(3,353)
Non-controlling interest in the Partnership	11,167
Pooled Revenue	112,360 [5]
Partnership Royalty income	6,742
Other income	25
Partnership expenses	(113)
Net earnings of the Partnership	6,654
SIR's interest in the earnings of the Partnership	(3,301)
Non-controlling interest in the earnings of the Partnership	3,353

On October 12, 2004, the Partnership issued Ordinary LP and GP Units to the Fund for cash of $11.2 million. The holders of the Ordinary LP Units are entitled to receive a pro rata share of all residual distributions of the Partnership and have the right to receive distributions in priority to the Class A GP Units which are held by SIR.

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 SIR'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.

Subordination is expected to extend at least until August 26, 2007.

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[5] 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 JACL. The Partnership owns the SIR Rights formerly owned or licensed by SIR or its subsidiaries and used in connection with the operation of the majority of the SIR's restaurants in Canada.

SIR Royalty Income Fund (continued)

The Partnership has granted SIR a 99-year license to use the SIR Rights in most of Canada in consideration for a Royalty, payable by SIR to the Partnership, equal to 6% of the revenue of the restaurants included in the Royalty pool (the "License and Royalty Agreement").

Under the terms of the License and Royalty Agreement, 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. SIR is not required to pay any make-whole payments in respect of a closed restaurant following the date on which the number of restaurants in the Royalty pool is equal to or greater than 68 or following October 12, 2019, whichever occurs first. On January 1 of each year (the Adjustment Date), 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 proceeding such Adjustment Date. At each Adjustment Date, SIR will be entitled to convert its Class B GP Units of the Partnership to Class A GP Units of the Partnership based on a conversion formula defined in the License and Royalty Agreement.

(c) Amounts due to the Fund

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

	$000's
Advances receivable	(366)
Interest payable on SIR Loan	500
Partnership distributions payable	772
Payable to the Fund and its subsidiaries – net	906

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 $3.4 million were declared to the Fund through the Partnership. The Fund, indirectly through the Trust, is entitled to receive a pro rata share of all residual distributions.

SIR, through the Partnership, has entered into an arrangement with the Fund and the Trust whereby the Partnership will provide or arrange for the provision of services required in the administration of the Fund and the Trust. The Partnership has arranged for these services to be provided by SIR GP Inc., in its capacity as the managing general partner of the Partnership. For the 52-week period ended August 28, 2005, the Partnership provided these services to the Fund and the Trust for consideration of $0.02 million, which was the amount of consideration agreed to by the related parties.

Liquidity and Capital Resources

Cash provided by continuing operations decreased by $8.3 million for the 52-week period ended August 28, 2005 as compared to fiscal 2004. The decrease was attributable to an increase in the loss from continuing operations of $12.4 million and the net change in working capital items of $0.4 million partially offset by items not affecting cash of $4.5 million. Items not affecting cash include, an increase in non-cash interest of $1.0 million mainly resulting from the write-off of deferred financing fees related to previous bank financing, an increase in the provision for future income taxes of $3.2 million, an increase in the provision for impairment of long-lived assets of $2.1 million, an increase in amortization of $0.3 million and an increase in goodwill impairment of $0.7 million partially offset by, a decrease in the provision for impairment of loan receivable of $2.2 million, an unrealized foreign exchange gain of $0.6 million and a decrease in the loss from equity accounted investments of $0.1 million.

Liquidity and Capital Resources (continued)

Cash used in investing activities from continuing operations for the 52-week period ended August 28, 2005 was $12.8 million. Purchases of property, plant and equipment amounted to $8.6 million during this period, partly due to the evolution of nine Jack Astor's® and three Alice Fazooli's!® locations. SIR also opened a new Jack Astor's® location in downtown Toronto in February, 2005 and a new Jack Astor's® in Whitby, Ontario subsequent to year-end on August 31, 2005. During the 52-week period ended August 29, 2004, SIR renovated Brasserie Frisco™, Canyon Creek™ Burlington and four Jack Astor's® locations.

Other investing activities for the 52-week period ending August 28, 2005 include $1.4 million of increases in investments, advances and notes receivable, $0.9 million for restaurant pre-opening costs and $2.0 million for advances to shareholders.

During the 52-week period ending August 29, 2004, $1.5 million was used to acquire additional interests in five subsidiary companies, effective May 10, 2004.

During the 52-week period ended August 28, 2005, SIR advanced $1.1 million to U.S. S.I.R. L.L.C. and its subsidiaries to facilitate ongoing operations and the closure of certain restaurant operations. The advance is non-interest bearing, non-secured and due on demand.

Proceeds from the sale of discontinued operations for the 52-week period ended August 29, 2004, of $1.1 million related to the proceeds of disposition of the assets of Alice Fazoolis!® (Kanata) Limited and Jack Astor's® (Signal Hill) Inc.. The cash proceeds on these dispositions were applied to the demand term loan, which was outstanding at the time.

Cash provided by financing activities for the 52-week period ended August 28, 2005 of $21.4 million relates mainly to the proceeds from the SIR Loan of $40.0 million and the proceeds from the issuance of Partnership Units of $11.2 million. This was partially offset by repayments of bank debt of $16.6 million, repayments of amounts due to shareholders of $7.8 million, the payment of financing fees of $4.8 million and the repurchase of capital stock of SIR of $0.6 million. The SIR bank debt was repaid in full from the proceeds received from the SIR Loan and the issuance of Partnership Units.

The SIR Loan is held by the Fund, 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 SIR. Under the Exchange Agreement between SIR, the Partnership and the Fund, SIR has the right to require the Fund to, indirectly, purchase the 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.

For the 52-week period ended August 29, 2004, cash provided by financing activities was $4.3 million, which relates mainly to the proceeds from the issuance of capital stock of $2.3 million and advances from shareholders of $2.6 million.

Jack Astor's® on Front Street and University Avenue in downtown Toronto and Jack Astor's® in Whitby, Ontario will be added to the Royalty Pooled Restaurants on January 1, 2006 as Additional New Restaurants (as defined in the Fund's prospectus dated October 1, 2004). At that time SIR would receive additional Class A GP Units in accordance with the formula for Adjustment for Addition. Under the terms of the Exchange Agreement, SIR would have the right to convert some or all of these additional Class A GP Units into Fund Units on a one-for-one basis.

Management believes that there are sufficient cash resources retained in SIR from the direct and indirect proceeds received from the issuance of the Partnership Units and the SIR Loan to fund its working capital requirements and estimated construction costs for the three new Canyon Creek™ restaurants at this time. SIR has a bank purchasing card facility with a credit limit of $350,000 and does not have bank lines of credit.

Contractual Obligations

The Partnership has granted SIR a 99-year license to use the SIR Rights in most of Canada in consideration for a Royalty, payable by SIR to the Partnership, equal to 6% of the revenue of the restaurants included in the Royalty pool. Payment of the Royalty is secured by the Partnership General Security Agreement.

Contractual Obligations (continued)

The security interest for all amounts payable by SIR to the Partnership under the License and Royalty Agreement, as set out in the Partnership General Security Agreement, is substantially the same as, and ranks equally with, the security interest granted by SIR to the Fund in respect of the SIR Loan. With the adoption of AcG-15, SIR has consolidated the Partnership, and this transaction between SIR and the Partnership is eliminated in SIR's financial statements, however the obligation for payments remains (see Changes in Accounting Policies including Initial Adoption section).

Under the terms of the License and Royalty Agreement, SIR may be required to pay a Make-Whole Payment in respect of the reduction in revenue for restaurants closed during a reporting period. SIR is not required to pay any Make-Whole Payment in respect of a closed restaurant following the date on which the number of 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, SIR will be entitled to convert its Class B GP Units of the Partnership to Class A GP Units of the Partnership based on a conversion formula defined in the Agreement.

SIR and its subsidiaries have entered into operating leases relating to its head office and restaurant locations with minimum annual payments. SIR has also entered into three commitments to lease properties and is currently constructing restaurants on these properties. Final costs of construction are subject to uncertainties as to their amount and timing. At this time, the net use of cash for these construction projects is estimated to be approximately $6.0 million.

Certain bank loans were entered into by Jack Astor's® Cary LLC and Jack Astor's® Las Colinas LLC (subsidiaries of JACL) in fiscal year 2001 and are guaranteed by SIR. The aggregate loans, as at August 28, 2005, were $4.9 million (US $4.0 million). 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. The 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 on SIR's consolidated financial statements. All payments due on the loans have been made to date and the borrowers have received no notices of default. The loans are secured by the assets of JACL and a pledge of the shares of JACL by SIR.

SIR has the following contractual obligations:

	1 Year	**2 – 3 Years**	**4 – 5 Years**	**Thereafter**	**Total**
Operating leases	8,565	14,803	11,140	14,040	48,548
Long-term debt repayments [6]	872	948	791	2,886	5,497
SIR Loan				40,000	40,000
Redeemable shares [7]	3,660				3,660
Estimated contractual commitments [8]	6,000				6,000
	19,097	15,751	11,931	56,926	103,705

(6) Repayments of long-term debt reflect the scheduled principle repayments of the loans of JACL. The loans are currently non-compliant with respect to certain financial and non-financial covenants. As a result the loans are presented as a current liability on SIR's consolidated financial statements.

(7) The Class A Special Shares are redeemable at the option of the holder after September 30, 2005 at $3.00 per share plus the 12% accumulative dividend.

(8) SIR has entered into three commitments to lease properties and is currently constructing restaurants on these properties. Final costs of construction are subject to uncertainties as to their amounts and timing. Such things as finalizing of design and final construction quotes could change the total costs of these projects.

Contractual Obligations (continued)

SIR has a Management Bonus Program that provides restaurant managers and area directors with an opportunity to earn a bonus upon leaving the organization if he/she has at least five (5) years of service. This bonus is based upon the value of the restaurant(s) at that time, using cash flows over a three (3) year period and percentages that range from 2% to 10%. Upon leaving the plan, the participants' bonuses are paid in three (3) installments over a two (2) year period. At August 28, 2005, $2.6 million has been accrued in respect of this bonus plan. The timing of the payments is uncertain and therefore this obligation has been excluded from the above table.

Off-Balance Sheet Arrangements

SIR does not have any off-balance sheet arrangements.

Transactions with Related Parties

SIR has entered into related party transactions with shareholders or companies controlled by shareholders of SIR. The transactions are in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Significant transactions with related parties include:

- Payment for operational services provided by three shareholders (2004 – two shareholders) of SIR in the amounts of $1.1 million for the 52-week period ended August 28, 2005 and $0.4 million for the 52-week period ended August 29, 2004.
- Management fees equal to 4% of net sales of Alice Fazooli's!® (Adelaide Street location) and Brasserie Frisco™ to companies controlled by shareholders of SIR, in the amount of $0.1 for the 52-week period ended August 28, 2005 and $0.3 million for the 52-week period ended August 29, 2004. These fees are recorded as direct costs of restaurant operations. Effective January 16, 2005, the management fee agreements with two companies controlled by shareholders of SIR were terminated for a payment of $0.9 million. This payment released SIR from its obligation to pay the management fee equal to 4% of net sales of Alice Fazooli's!® (Adelaide Street location) and Brasserie Frisco™ to these related parties. This transaction was contemplated in the SIR Royalty Income Fund prospectus dated October 1, 2004.
- SIR leases its head office space directly or indirectly from certain shareholders of SIR. SIR paid $0.2 million for the 52-week period ended August 28, 2005 and $0.2 million for the 52-week period ended August 29, 2004. SIR signed a lease agreement which expires (unless renewed or extended) on December 31, 2006.

During the 52-week period ended August 28, 2005, SIR advanced $2.0 million to four shareholders of SIR to facilitate the exercise of stock options held by these shareholders with other shareholders of SIR. The loans bear interest at prime plus 1%, with principal and interest due February 16, 2007. SIR can demand payment with 90 days written notice, after February 16, 2006. The loans are secured by 1,010,248 common shares of SIR. This transaction has not had any impact on the outstanding common stock or options of SIR. During the 16-week and 52-week periods ended August 28, 2005, interest income of $0.03 million and $0.05 million was accrued on these loans, respectively.

Transactions with the SIR Royalty Income Fund

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

	$000's
Advances receivable	(366)
Interest payable on SIR Loan	500
Partnership distributions payable	772
Payable to the Fund and its subsidiaries – net	906

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

Transactions with Related Parties (continued)

During the 52-week period ended August 28, 2005, distributions of $3.4 million were declared to the Fund through the Partnership. The Fund, indirectly through the Trust, is entitled to receive a pro rata share of all residual distributions.

SIR, through the Partnership, has entered into an arrangement with the Fund and the Trust whereby the Partnership will provide or arrange for the provision of services required in the administration of the Fund and the Trust. The Partnership has arranged for these services to be provided by SIR GP Inc., in its capacity as the managing general partner of the Partnership. For the 52-week period ended August 28, 2005, the Partnership provided these services to the Fund and the Trust for consideration of $0.02 million, which was the amount of consideration agreed to by the related parties.

Interest expense on the SIR Loan totaled $2.6 million for the 52-week period ended August 29, 2005. The SIR Loan bears interest at 7.5% per annum.

Subsequent Events

There are no subsequent events to report.

Critical Accounting Estimates

The preparation of SIR's 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 financial statements. Actual results could differ materially from those estimates in the near term.

Under Canadian GAAP, goodwill is not amortized but is tested for impairment, at least annually. Management applies a fair-value-based test to the carrying value of each reporting unit. A goodwill impairment charge would be recorded if the amount of the recorded goodwill exceeds the difference between the fair value of the reporting unit and the carrying value of the net assets of each respective reporting unit. During fiscal 2005 and fiscal 2004, SIR recorded an impairment charge of $0.70 million and $0.04 million, respectively. The impairment in 2005 is a result of declining sales and earnings of one restaurant in the Signature Restaurants.

Under Canadian GAAP, 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. As a result of a decline in sales and earnings from certain restaurants, SIR conducted an impairment analysis of these restaurant' 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 $2.1 million was record to write down the assets to their fair values. The fair values were determine by discounting the estimated future cash flows related to the restaurants and obtaining estimates of fair values for land and buildings.

SIR adopted the provisions of CICA Handbook Section 3110, Asset Retirement Obligations, effective August 30, 2004 with respect to estimated lease end remediation costs. SIR has estimated an asset retirement liability of $0.3 million (2004 - $0.3 million) and a corresponding leasehold improvement of $0.1 million (2004 - $0.1 million) as at August 28, 2005.

SIR follows the asset and liability method of accounting for income taxes. Future income tax assets are recognized only to the extent that Management determines it is more likely than not that the future income tax assets will be realized. At August 28, 2005, SIR had approximately $19.3 million in non-capital losses carried forward in Canada available to reduce taxable income in future years. At August 28, 2005, SIR has recognized $4.5 million of the benefit of these losses in the financial statements. SIR recorded a valuation allowance of $5.1 million at August 28, 2005 against other future tax assets. Future changes in the valuation allowance are thus expected based on changes in Management's assessment of the likelihood of realizing the future tax asset, and will

Critical Accounting Estimates (continued)

directly impact income tax expense and therefore net income.

SIR has recorded a provision for loans and notes receivable resulting from the potential risk that the loan recipient will not be able to make the required payments. Management continually monitors payment patterns and investigates past-due accounts to assess the likelihood of collections to estimate the required provisions, if any. If the financial condition of its loan recipients were to deteriorate, resulting in an impairment of their ability to make payments, additional provisions may be required.

SIR has established a management bonus program that provides restaurant managers and area directors with the opportunity to earn a bonus based on the cash flows of the restaurant(s). The percentage of cash flow earned depends on the years of service and ranges up to 10%. The managers and area directors also have the opportunity to earn a bonus upon leaving SIR, if he/she has at least five years of service. This bonus is based on the value of the restaurants(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, a participant's bonus is paid in three installments over a two-year period. Estimates made by Management in determining the amount of accrual for the bonus are dependent upon the performance of the restaurant and termination rates of managers.

SIR adopted the provisions of AcG-15, 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. SIR has reviewed its equity accounted investments and determined that the Partnership, Jack Astor's® Don Mills Limited, JACL, Alice Fazooli's!® (Oakville) Limited, and Jack Astor's® Dundas Limited are VIEs and SIR is the primary beneficiary.

Changes in Accounting Policies including Initial Adoption

Asset Retirement Obligations

CICA Handbook Section 3110, Asset Retirement Obligations, establishes standards for the recognition, measurement and disclosure of liabilities for asset retirement obligations and the associated asset retirement cost. The standard applies to legal obligations associated with the retirement of a tangible long-lived asset and applies to obligations for both lessors and lessees in connection with leased assets. SIR adopted the provisions of this standard effective August 30, 2004 (fiscal 2005) with respect to estimated lease end remediation costs. This change in accounting policy has been applied retroactively. Accordingly, there is a charge of $0.1 million to SIR's opening deficit for the 52-week period ended August 28, 2005 and the 52-week period ended August 29, 2004.

Variable Interest Entities, Accounting Guideline -15

CICA AcG-15, 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 subordinated 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 guideline is applicable to annual and interim periods beginning on or after November 1, 2004. As SIR is a private company, the standard is not required to be applied to interim periods. SIR adopted the standard effective August 30, 2004. Management has determined that two entities that it previously accounted for as equity investments are VIE's under AcG-15 (Jack Astor's® Don Mills Limited, and JACL). Management has also determined that the Partnership is a VIE under AcG-15. Therefore, SIR 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. In fiscal 2004, SIR 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. SIR 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 have been restated to consolidate their results of operations for the period September 1, 2003 to May 9, 2004, the date of acquisition.

Changes in Accounting Policies including Initial Adoption (continued)

The effect of applying these changes in accounting policy on the consolidated balance sheet as at August 29, 2004 and the consolidated statement of operations for the 52-week period ended August 29, 2004 is as follows:

Balance Sheet	**Balance as previously reported**	**Adjustment**	**Balance as restated**
	(in thousands of dollars)		
Current assets	9,138	562	9,700
Investment, advances and notes receivable	311	(166)	144
Property, plant and equipment	24,516	7,327	31,843
Intangible and other assets	3,368	316	3,684
Future Income Taxes	1,292	(18)	1,274
Current liabilities, excluding current portion of long-term debt	21,004	958	21,962
Long-term debt, including current portion	16,429	6,095	22,524
Other long-term liabilities	4,239	303	4,542
Non-controlling interest in subsidiary companies	-	591	591
Deficit	(8,790)	155	(8,636)
Statement of Operations			
Food and beverage revenue	119,051	13,661	132,712
Cost of corporate restaurant operations	109,206	13,766	122,972
Earnings from corporate restaurant operations	9,845	(104)	9,740
Management fee income	383	(383)	-
Interest expense – net	(1,934)	(653)	(2,587)
Provision for impairment of investment and loans receivable	(3,124)	87	(3,037)
Other income (expense)	(144)	(36)	(180)
Provision for (recovery of) income taxes	(1,607)	25	(1,582)
Loss from equity accounted investments	(985)	720	(265)
Non-controlling interest	(26)	363	337
Net loss for the year	(2,417)	(31)	(2,448)

Recently Issued Accounting Pronouncements

CICA Handbook Section 3855, Recognition and Measurement, prescribes when a financial asset, financial liability, or non-financial derivative is to be recognized on the balance sheet, and at what amount – in certain instances using fair value and in others using cost-based measures. It also specifies how financial instrument gains and losses are to be presented. 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. SIR 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. SIR is currently evaluating the standard and the effect cannot be reasonably determined at this time.

Recently Issued Accounting Pronouncements (continued)

CICA Handbook Section 1530, Comprehensive Income, 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. SIR 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. SIR is currently evaluating this standard and the effect cannot be reasonably determined at this time.

CICA Handbook Section 3865, Hedges, 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. SIR plans to adopt this standard for its 2008 fiscal year. SIR has no arrangements for hedging, and the adoption of this standard is not expected to have any impact on SIR at this time.

Financial Instruments and Other Instruments

SIR'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 the 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 and long-term debt the fair values of these items do not differ significantly from their carrying values. The fair value of the loan payable to the Fund could only be determined through the valuation of the debt. As a result, the determination of the fair value is not practical within the constraints of timeliness and cost.

SIR's financial instruments exposed to credit risk include cash and cash equivalents. SIR places its cash and cash equivalents with institutions of high credit worthiness. SIR reviews the shareholder loans for impairment on an individual basis and maintains provisions for uncollectable amounts. Accounts receivable primarily comprise amounts due from major credit card companies, and as such, Management believes that its accounts receivable credit risk exposure is limited. SIR is exposed to interest rate risk arising from fluctuations in interest rates. SIR is exposed to exchange rate risk in respect of transactions and certain guarantees denominated in U.S. dollars. Effective August 30, 2004, the operations of SIR's foreign subsidiary are considered integrated with those of SIR. As a result of the subsidiary's continuing losses from operations, SIR has been financing the subsidiary's operations and therefore SIR's exposure to risk of fluctuations in foreign exchange has changed.

Risks and Uncertainties

The performance of SIR is dependent on many factors. The restaurant industry generally, and in particular, the casual and fine dining segment of this industry, is intensely competitive with respect to price, service, location, food quality and qualified staff. Recently, competition has increased in the mid-price, full-service, casual and fine dining sectors in which many of the SIR Restaurants operate. In addition, factors such as inflation, increased food, labour and benefits costs, taxes, government regulations (including those governing alcoholic beverages), weather, seasonality, public safety issues and the availability and quality of food, services and products sold in the restaurants affect the restaurant industry in general and therefore SIR. Please refer to the Fund's prospectus dated October 1, 2004 and its March 31, 2004 Annual Information Form for further discussion on risks and uncertainties related to SIR.

Outlook

SIR intends to continue to focus on growing existing restaurant revenues and expanding the number of SIR Restaurants subject to the SIR Rights in Canada. As part of that expansion plan, SIR has opened two new Jack Astor's® since the Fund's Initial Public Offering (one on the corner of Front Street and University Avenue in downtown Toronto in early February 2005, and one in Whitby, Ontario at the end of August 2005). Both locations are exceeding revenue expectations and are scheduled to become part of SIR's Royalty Pooled Restaurants in January 2006. In addition, SIR has secured three new sites in southern Ontario for Canyon Creek™ restaurants. The new locations are in Scarborough, Ontario, Vaughan, Ontario, and the Niagara Fallsview Casino Resort, in Niagara Falls, Ontario. The Scarborough location is expected to open in the winter of 2006 and the Vaughan and Niagara Falls locations are expected to open in the spring of 2006.

As part of the focus on growing existing restaurant revenues, SIR continues to invest approximately $0.4 million per restaurant to evolve the Jack Astor's® concept. This includes changes to the menu, staff uniforms and restaurant décor, which Management believes will reinforce SIR's position at the top end of the casual theme restaurant category. As at August 28, 2005, 13 of the 21 Jack Astor's® restaurants in the Royalty pool were evolved and subsequent to the fiscal year end, three additional Jack Astor's® have undergone the evolution process (for a total of 16). The Jack Astor's® evolutions are delivering strong average SSSG growth and the program is intended to continue throughout 2005 and 2006.

Following the successful renovation of Alice Fazooli's!® in Richmond Hill, SIR completed renovations at the Oakville location in early July 2005 and the Vaughan location in mid-August. Three out of the five Alice Fazooli's!® locations have now been renovated, with strong average SSSG. SIR intends to continue evolving its Alice Fazooli's!® locations.

Subsequent to August 28, 2005, Far Niente® was closed for approximately three weeks as SIR made significant renovations. The restaurant re-opened in early November 2005. This investment is expected to result in increased guest counts and SSSG going forward.

During SIR's fiscal 2005, same store sales for the Signature Restaurants, which are located in downtown Toronto, were unfavourably impacted in part by the NHL lockout. The lockout has now been resolved and Management anticipates that sales at those restaurants will benefit from the return of hockey. Management is also evaluating solutions for one restaurant in the Signature group which has been underperforming.

Management has recommended a strategy to the board of directors of SIR to exit the operations of JACL in the United States, and plans are underway.

Management believes that fiscal 2005 has been a transition year for the business with the successful launch of the Fund, evolutions of Jack Astor's® and Alice Fazooli's!®, opening of two new restaurants and securing of sites for three more. It was a challenging year for consolidated financial performance with the NHL lockout, which affected Signature Restaurants, non-cash write-downs and provisions, required changes in accounting treatment and certain transactions that are not expected to recur. It was also a year of significant reporting changes resulting from the implementation of the VIE and impacts of other accounting pronouncements. Management continues to monitor and manage costs at the restaurant and corporate levels. It is expected, however, that certain corporate costs (for example, salaries and benefits and professional fees) will maintain at higher levels than in previous years primarily due to staffing for growth and reporting obligations in accordance with undertakings with the securities commissions. Management anticipates that financial performance in fiscal 2006 will improve, driven by revenue improvements from the resolution of the NHL lockout, strong contributions from evolved Jack Astor's® and Alice Fazooli's!® restaurants, new Jack Astor's® in downtown Toronto and Whitby, Ontario which are delivering sales in excess of expectations and certain costs which are not expected to recur.

Forward Looking Information

Certain statements in this document may constitute "forward-looking" statements which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this document, such statements are such words as "may", "will" "expect", "believe", "plan", "anticipate", "intend" and other similar terminology. These statements reflect Management's current expectations regarding future events and operating performance and speak only as of the date of this document. These forward-looking statements involve a number of risks and uncertainties. The following includes some of the factors that could cause actual results to differ materially from those expressed in or underlying such forward-looking statements: competition, changes in demographic trends, changing consumer preferences and discretionary spending patterns, changes in national and local business and economic conditions, legal proceedings, legislation and governmental regulation, accounting policies and practices, and weather. On November 23, 2005, the federal Department of Finance announced that the public consultations on tax and other issues related to publicly listed flow-through entities ("FTE's"), including income funds has ended. The announcement proposed a reduction in personal income taxes on dividends. This tax reduction will take the form of an enhanced dividend "gross-up" and tax credit to make the total tax on dividends received from large Canadian corporations more comparable to the tax paid on distributions of income trusts, and to eliminate the "double taxation" of dividends at the federal level. No changes to the income trust or FTE rules were proposed. The foregoing list of factors is not exhaustive. See also "Risk Factors" in the SIR Royalty Income Fund prospectus dated October 1, 2004 and its March 31, 2005 Annual Information Form.

Additional information related to SIR, the Partnership and the Fund can be found at www.sedar.com and on SIR's website at www.sircorp.com.