SIR Corp.

Interim Consolidated Financial Statements
For the 12-week period ended November 20, 2011
(Unaudited)

These interim consolidated financial statements have not been reviewed by the Company's auditors.

SIR Corp.
Consolidated Balance Sheets
(Unaudited)

(in thousands of dollars)

	November 20, 2011 $	August 28, 2011 $	August 30, 2010 $
Assets			
Current assets			
Cash and cash equivalents	6,005	5,209	9,586
Accounts receivable	3,609	3,099	2,839
Inventories	2,584	2,568	2,503
Prepaid expenses, deposits and other assets	1,109	541	611
Current portion of loans and advances	400	400	375
Current assets of discontinued operation (note 4)	-	203	101
	13,707	12,020	16,015
Loans and advances	989	1,065	1,065
Property and equipment	42,620	41,166	42,276
Goodwill	5,410	5,410	5,410
Intangible and other assets	331	848	415
Property and equipment of discontinued operation (note 4)	-	-	2,385
	63,057	60,509	67,566

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

SIR Corp.
Consolidated Balance Sheets.. *continued*
(Unaudited)

(in thousands of dollars)

	November 20, 2011 $	August 28, 2011 $	August 30, 2010 $
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	21,978	22,209	21,429
Construction accounts payable and accrued liabilites	1,864	453	829
Current portion of long-term debt (note 5)	2,884	2,078	2,074
Current portion of other long-term liabilities	1,011	1,042	1,387
Amounts due to SIR Royalty Income Fund - net (note 6)	1,814	1,896	1,744
Current liabilities of discontinued operation (note 4)	-	121	1,244
	29,551	27,799	28,707
Long-term debt (note 5)	22,346	20,503	22,013
Loan payable to SIR Royalty Income Fund (note 6)	36,026	35,999	35,878
Other long-term liabilities	8,815	8,742	8,882
Future income taxes	98	103	108
	96,836	93,146	95,588
Shareholders' Deficiency			
Capital stock	11,571	11,571	11,571
Contributed surplus (note 7)	64	-	-
Currency translation adjustment	-	-	(202)
Non-controlling interest in SIR Royalty Limited Partnership (note 6)	11,167	11,167	11,167
Deficit	(56,581)	(55,375)	(50,558)
	(33,779)	(32,637)	(28,022)
	63,057	60,509	67,566

Commitments (note 8)

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

SIR Corp.

Consolidated Statements of Operations
(Unaudited)

(in thousands of dollars)

	12-week period ended November 20, 2011 $	12-week period ended November 21, 2010 $
Corporate restaurant operations		
Food and beverage revenue (note 10)	49,213	44,805
Cost of corporate restaurant operations		
Food and beverage	14,939	13,558
Labour	16,903	15,222
Direct cost of restaurant operations	11,623	11,201
Amortization of restaurant assets	1,830	1,745
	45,295	41,726
Earnings from corporate restaurant operations	3,918	3,079
Corporate costs	(2,577)	(2,703)
Other amortization	(57)	(65)
	(2,634)	(2,768)
Earnings before the following items	1,284	311
Interest expense - net	(486)	(546)
Interest on loan payable to SIR Royalty Income Fund (note 6)	(718)	(718)
Other expense - net	(138)	(24)
Loss before income taxes	(58)	(977)
Recovery of income taxes	2	15
Net loss from continuing operations	(56)	(962)
Loss from discontinued operation (note 4)	-	(62)
Net loss for the period	(56)	(1,024)
Non-controlling interest in SIR Royalty Limited Partnership (note 6)	(1,150)	(1,047)
Non-controlling interest in other subsidiary company	-	28
Net loss for the period attributable to shareholders of SIR Corp.	(1,206)	(2,043)

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

SIR Corp.
Consolidated Statements of Deficit
(Unaudited)

(in thousands of dollars)

	12-week period ended November 20, 2011						
	Capital stock $	Contributed surplus $	Currency translation adjustment $	SIR Corp.'s deficit $	Non-controlling interest in SIR Royalty Limited Partnership's deficit $	Non-controlling interest in other subsidiary company's deficit	Total $
Balance - Beginning of period	11,571	-	-	(55,375)	11,167	-	(32,637)
Stock-based compensation	-	64	-	-	-	-	64
Net earnings (loss) for the period	-	-	-	(1,206)	1,150	-	(56)
Distributions to non-controlling interest	-	-	-	-	(1,150)	-	(1,150)
Balance - End of period	11,571	64	-	(56,581)	11,167	-	(33,779)

	12-week period ended November 21, 2010						
	Capital stock $	Contributed surplus $	Currency translation adjustment $	SIR Corp.'s deficit $	Non-controlling interest in SIR Royalty Limited Partnership's deficit $	Non-controlling interest in other subsidiary company's deficit $	Total $
Balance - Beginning of period	11,571	-	(202)	(50,558)	11,167	-	(28,022)
Net earnings (loss) for the period	-	-	-	(2,043)	1,047	(28)	(1,024)
Distributions to non-controlling interest	-	-	-		(1,047)	-	(1,047)
Balance - End of period	11,571	-	(202)	(52,601)	11,167	(28)	(30,093)

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

SIR Corp.

Consolidated Statements of Cash Flows
(Unaudited)

(in thousands of dollars)

	12-week period ended November 20, 2011 $	12-week period ended November 21, 2010 $
Cash provided by (used in)		
Operating activities		
Net loss from continuing operations for the period	(56)	(962)
Items not affecting cash		
Amortization	1,887	1,810
Non-controlling interest in SIR Royalty Limited Partnership	(1,150)	(1,047)
Non-controlling interest in other subsidiary company	-	-
Future income taxes	(5)	(15)
Non-cash interest expense	34	81
Amortization of leasehold inducements	(115)	(126)
Stock-based compensation	64	-
Other items	78	60
Net change in working capital items (note 9)	(1,050)	(1,566)
Cash used in continuing operations	(313)	(1,765)
Cash provided by (used in) discontinued operation (note 4)	82	(153)
	(231)	(1,918)
Investing activities		
Purchase of property and equipment and other assets - net	(1,985)	(1,776)
Repayment of loans and advances	120	91
Cash used in continuing investing activities	(1,865)	(1,685)
Cash used in discontinued operation (note 4)	-	(4)
	(1,865)	(1,689)
Financing activities		
Proceeds from issuance of long-term debt	3,581	-
Principal repayment of long-term debt	(438)	(438)
Financing fees	(251)	-
Cash provided by (used in) continuing financing activities	2,892	(438)
Principal repayment of long-term debt of discontinued operation (note 4)	-	(41)
	2,892	(479)
Increase (decrease) in cash during the period	796	(4,086)
Cash and cash equivalents - Beginning of period	5,209	9,586
Cash and cash equivalents - End of period	6,005	5,500
Supplemental Information		
Interest paid	1,283	1,351
Income taxes paid	3	-

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

1. Nature of operations and fiscal year

Nature of operations

SIR Corp. (the "Company") is a private company amalgamated under the Business Corporations Act of Ontario. As at November 20, 2011, the Company operates a total of 48 (November 21, 2010 – 46) Concept and Signature restaurants in Canada (in Ontario, Quebec, Alberta and Nova Scotia) (the "SIR Restaurants"). The Concept restaurants are Jack Astor's Bar and Grill® ("Jack Astor's®"), Canyon Creek Chop House® ("Canyon Creek®") and Alice Fazooli's® and the Signature restaurants are *reds*®, Far Niente®/FOUR™/Petit Four™, and the Loose Moose Tap & Grill®. The Company also owns Jack Astor's (Cary & Las Colinas) Limited which operates one Jack Astor's restaurant in the United States.

On October 1, 2004, SIR Royalty Income Fund (the "Fund") filed a final prospectus for a public Offering of units of the Fund. The net proceeds of the Offering of $51,167,000 were used by the Fund to acquire certain bank debt of the Company (the "SIR Loan") 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 rèstaurants in Canada (see note 6).

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 2012 and 2011 consist of 52 weeks each.

2. Basis of presentation, seasonality and summary of significant accounting policies

Basis of presentation

The Company has followed the guidance of CICA Handbook Section 1751, Interim Financial Statements, in the preparation of these unaudited interim consolidated financial statements. The disclosures contained in these unaudited interim consolidated financial statements do not include all requirements of Canadian accounting standards for private enterprises for annual financial statements and should be read in conjunction with the August 28, 2011 audited annual consolidated financial statements and notes thereto. The financial performance of the Company for the interim period is not necessarily indicative of the results that may be expected for the full year due to the seasonality of the Company's business.

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.

Summary of significant accounting policies

Revenue recognition

Revenue from restaurant operations is recognized when services are rendered.

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

Cash and cash equivalents

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

Inventories

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

Property and equipment

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

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

Intangible and other assets

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

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

Impairment of long-lived assets

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

Leases of equipment

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

Goodwill

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

Loans and advances

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

Supplier rebates

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

Leasehold inducements

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

Financial instruments

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

Future income taxes

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

Stock-based compensation and other stock-based payments

The Company adopted the provisions of The Canadian Institute of Chartered Accountants (CICA) Handbook Section 3870, Stock-based Compensation and Other Stock-based Payments, for awards to non-employees and employee awards. Compensation expense is recognized based on the fair value method of accounting for stock options granted under the Company's stock option plan. Any consideration paid by employees or directors on exercising stock options is credited to capital stock.

Foreign currency translation

Until August 28, 2004, the operations of the Company's foreign subsidiary were considered to be self-sustaining and were, therefore, translated into Canadian dollars using the current rate method. Under this method, assets and liabilities are translated using period-end exchange rates while revenues and expenses are translated at the average rates during the period. Exchange gains and losses on translation are recorded in accumulated other comprehensive loss.

Effective August 29, 2004, the operations of the foreign subsidiary are considered integrated with those of the Company. Monetary items are now translated into Canadian dollars at the exchange rate in effect at the dates of the consolidated balance sheets, non-monetary items are translated at historical exchange rates and results of operations are translated at the average exchange rate for the period. Exchange gains and losses on the translation of the integrated foreign subsidiary are included in net earnings (loss) for the period.

The exchange gains and losses accumulated in the currency translation adjustment account will be realized when there is a reduction in the Company's net investment in the operations that gave rise to the exchange gains and losses. During the 52-week period August 28, 2011, the Company disposed of its US restaurant operation and, accordingly, realized the exchange loss of $202,000.

Asset retirement obligations

Asset retirement obligations are the legal obligations associated with the retirement of tangible long-lived assets. The Company has determined the lease-end remediation costs based on its best estimate of the required payment to settle the obligation. Accretion of the obligation over time is based on the market risk free rate of interest for maturity dates that coincide with the expected cash flows.

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

Financing fees represent transaction costs paid to obtain financing and are netted against the related debt. The deferred financing fees are amortized over the term of the related debt using the straight-line method.

Non-controlling interests

Non-controlling interests represent equity interests in subsidiaries owned by outside parties. The share of net assets of subsidiaries attributable to non-controlling interests is presented as a component of shareholders' deficit. Their share of net income (loss) is recognized directly in shareholders' deficit. Changes in the parent company's ownership interest in subsidiaries that do not result in a loss of control are accounted for as equity transactions.

3. Transition to Accounting Standards for Private Enterprises

Effective August 29, 2011, the Company elected to adopt Canadian accounting standards for private enterprises (ASPE) as issued by the Canadian Accounting Standards Board. These are the Company's first interim consolidated financial statements prepared in accordance with ASPE. Subject to certain transition elections, the accounting policies selected under this framework have been applied consistently and retrospectively as if these policies had always been in effect.

The following adjustments and elections were made by the Company on transition to ASPE:

(a) In accordance with the ASPE transitional provisions, the Company elected to apply ASPE relating to business combinations prospectively from August 30, 2010. As such, Canadian generally accepted accounting principles (GAAP) balances relating to business combinations entered into before that date have been carried forward without adjustment.

(b) In accordance with CICA Handbook Section 3856 – Financial Instruments, the Company elected to change from the effective interest rate method to the straight-line method to account for amortization of financing fees relating to its long-term debt and the loan payable to the SIR Royalty Income Fund. This change increased the opening deficit by $183,000 and interest expense by $140,000 for the year ended August 28, 2011.

(c) The impact on the Company's consolidated financial statements as a result of adopting ASPE Section 1602, Non-Controlling Interests was that the non-controlling interest in the SIR Royalty Limited Partnership was reclassified from liabilities to shareholders' deficiency. As well, the non-controlling interest in other subsidiary company was also recorded in shareholder's deficiency. This non-controlling interest was previously, not recorded in the consolidated financial statements as it was in a debit position. Under ASPE, this non-controlling interest is recorded in the consolidated financial statements prospectively effective August 30, 2010.

The effect of the Company's transition to ASPE, is summarized as follows:

Reconciliation of deficit and net loss as previously reported under Canadian GAAP to ASPE;

	As at August 28, 2011			As at August 30, 2010		
	Canadian GAAP	Effect of transition to ASPE	ASPE	Canadian GAAP	Effect of transition to ASPE	ASPE
	(in thousands of dollars)			(in thousands of dollars)		
Shareholders' deficiency						
Capital stock	11,571	-	11,571	11,571	-	11,571
Currency translation adjustment	-	-	-	(202)	-	(202)
Non-controlling interest in SIR Royalty Limited Partnership	-	11,167	11,167	-	11,167	11,167
Deficit	(55,052)	(323)	(55,375)	(50,375)	(183)	(50,558)
	(43,481)	10,844	(32,637)	(39,006)	10,984	(28,022)

	As at November 21, 2010		
	Canadian GAAP	Effect of transition to ASPE	ASPE
	(in thousands of dollars)		
Shareholders' deficiency			
Capital stock	11,571	-	11,571
Currency translation adjustment	(202)	-	(202)
Non-controlling interest in SIR Royalty Limited Partnership	-	11,167	11,167
Non-controlling interest in other subsidiary company	-	(28)	(28)
Deficit	(52,413)	(188)	(52,601)
	(41,044)	10,951	(30,093)

	12-week period ended November 21, 2010
	(in thousands of dollars)
Net loss for the period, as per Canadian GAAP	(2,038)
Effect of transition to ASPE:	
Interest expense - net	(11)
Interest on loan payable to SIR Royalty Income Fund	(22)
Non-controlling interest in other subsidiary company	28
Net loss for the period attributed to shareholders of SIR Corp., per ASPE	(2,043)

	52-week period ended August 28, 2011
	(in thousands of dollars)
Net loss for the period, as per Canadian GAAP	(4,677)
Effect of transition to ASPE:	
Interest expense - net	(44)
Interest on loan payable to SIR Royalty Income Fund	(96)
Net loss for the period attributed to the shareholders of SIR Corp., per ASPE	(4,817)

4. Discontinued operation

On August 16, 2011, the Company sold substantially all of the assets of its restaurant operation in the United States, Jack Astor's Cary, LLC, a subsidiary of Jack Astor's (Cary & Las Colinas) Limited for cash consideration of $1,695,000 (US$1,726,000), net of transaction costs of $95,000 (US$97,000). The Company recognized a loss on disposal of these assets of $565,000 and part of the net proceeds from the sale has been used to repay the associated US bank debt of $906,000 (US$923,000) as at August 16, 2011.

The foreign exchange gains and losses accumulated in the currency translation adjustment account are deferred and disclosed as a separate component of shareholders' deficiency until the Company's net investment in Jack Astor's (Cary & Las Colinas) Limited was reduced and the currency translation adjustment related to the restaurant of $202,000 was recognized in the consolidated statements of operations.

The results of Jack Astor's Cary, LLC have been reported as a discontinued operation.

The summarized statements of operations for this discontinued operation is as follows:

	12-week period ended	
	November 20, 2011	**November 21, 2010**
	(in thousands of dollars)	
Food and beverage revenue	-	559
Loss from discontinued operation	-	(62)

Interest of $25,000 on long-term debt was paid by Jack Astor's Cary, LLC for the 12-week period ended November 20, 2010.

The remaining assets and liabilities of the discontinued operation were settled in the ordinary course of business during the 12-week period ended November 20, 2011. The summarized balance sheet for the discontinued operation is as follows:

	November 20, 2011	**August 28, 2011**
	(in thousands of dollars)	
Current assets		
Cash and cash equivalents	-	24
Accounts receivable	-	179
		203
Current liabilities		
Accounts payable and accrued liabilities	-	121
Net assets of discontinued operation	-	82

5. Long-term debt

Effective August 26, 2011, the Company's credit agreement, negotiated on November 13, 2009, was amended and restated (Amended Credit Agreement) to add an additional loan amount (Development Loan) to the existing $26,000,000 senior term debt facility (Term Loan). The Development Loan is for a maximum principal amount of $12,000,000 available to the Company by way of multiple advances, dispensed on or prior to May 18, 2012.

On November 25, 2011, the Company entered into a First Amendment to the Amended Credit Agreement (First Amendment) to extend and make coterminous the terms of the $12,000,000 Development Loan and the $26,000,000 Term Loan. Under the terms of the First Amendment, the term of the Term Loan is extended from November 13, 2012 to November 14, 2016 and the term of the Development Loan which was negotiated August 26, 2011, is extended from August 26, 2016 to November 14, 2016. Additionally, under the terms of the Amendment, the variable interest rate of the Term Loan is reduced to the same rate as that of the Development Loan which is the greater of 6% per annum and the three-month Canadian dollar banker's acceptance rate plus 5.75% per annum, calculated monthly, not in advance. As at November 20, 2011, available drawings under the Development Loan total $8,400,000. The Term Loan is repayable in estimated monthly blended instalments of principal and interest of $307,000. Interest only is payable monthly on the Development Loan until December 31, 2011 and monthly blended instalments of principal and interest begin in January, 2012 and are estimated to total $885,000 for the remainder of the current fiscal year.

The Amended Credit Agreement is collateralized by a general security agreement and entitles the lender to a first charge on all of the Company's assets, including a pledge of all shares and the investment in the Partnership and a specific assignment of the rights under the Licence and Royalty Agreement. However, the lender does not have a pledge over the assets of the Partnership. The financing arrangement contains certain financial and non-financial covenants that the Company is in compliance with at November 20, 2011. In addition, the debt is guaranteed by a Company owned by the majority shareholder of the Company, for which a guarantee fee of $53,000 (12-week period ended November 20, 2010 - $53,000) was charged to other income (expense) - net in the consolidated statements of operations. On November 13, 2009, the Company also issued 26 warrants to the majority shareholder of the Company to acquire Class S Special Shares of the Company. These warrants have been pledged to the new senior lender.

In compliance with CICA Handbook Section 3856, Financial, the Company has recorded its long-term debt at amortized cost. The Company has netted the financing fees against the respective debt and amortizes these financing fees over the expected life of the long-term debt using the straight-line method. Amortization of deferred financing fees of $43,000 (November 21, 2010 - $92,000) has been charged to interest expense in the consolidated statements of operations. Unamortized transaction costs netted against the debt at November 21, 2010 were $977,000 (August 29, 2010 - $483,000).

6. SIR Royalty Income Fund

The following is a summary of the transactions with the Fund and the Partnership:

(a) SIR Loan

The $40,000,000 SIR Loan bears interest at 7.5% per annum, is due October 12, 2044. On November 13, 2009, the Fund and the Partnership entered into a Subordination and Postponement Agreement to subordinate and postpone their claims against the Company in favour of the bank. This agreement was amended on August 26, 2011 to incorporate the Development Loan under the Company's amended and restated credit facility . The Fund and the Partnership have not guaranteed the current credit facility.

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

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

Interest expense of $690,000 was charged to the consolidated statements of operations for the 12-week period ended November 20, 2011 (12-week period ended November 21, 2010 - $690,000).

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

	12-week period ended November 20, 2011	November 21, 2010
	(in thousands of dollars)	
Initial investment by the Fund	11,167	11,167
Non-controlling interest in earnings of the Partnership	1,150	1,047
Distributions declared on the Partnership's Units held by the non-controlling interest	(1,150)	(1,047)
Non-controlling interest in the Partnership	11,167	11,167
Pooled Revenue *	47,888	44,474
Partnership royalty income *	2,873	2,668
Other income	8	8
Partnership expenses	(18)	(27)
Net earnings of the Partnership	2,863	2,649
The Company's interest in the earnings of the Partnership	(1,713)	(1,602)
Non-controlling interest in the earnings of the Partnership	1,150	1,047

* Includes revenue from the SIR Restaurants subject to the License and Royalty Agreement. The Partnership owns the SIR Rights formerly owned or licensed by the Company or its subsidiaries and used in connection with the operation of the majority of the Company's restaurants in Canada. Partnership royalty income is 6% of Pooled Revenue in accordance with the License and Royalty Agreement, plus a Make-Whole Payment for the closed restaurants.

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

The holders of the Class A GP Units are entitled to receive a pro rata share of all residual distributions of the Partnership and the Class A GP Units are exchangeable into Units of the Fund.

The Partnership owns the 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 revenues for restaurants closed during a reporting period. The Company 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), 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, the Company will be entitled to convert its Class B GP Units to Class A GP Units based on a conversion formula defined in the Partnership Agreement. Additional Class B GP Units may be converted to Class A GP Units in respect of these new SIR Restaurants if actual revenues of the new SIR Restaurants exceed 80% of the initial estimated revenues. Conversely, converted Class A GP Units may be returned by the Company if the actual revenues are less than 80% of the initial estimated revenues. In December of each year, an additional distribution may be payable to the Class B GP unitholders based on actual revenues of the new SIR Restaurants exceeding 80% of the initial estimated revenue or there may be a reduction in the distributions to the Class A GP unitholders if revenues are less than 80% of the initial estimated revenue.

On January 1, 2011, one (January 1, 2010 - nil) new SIR Restaurant, was added to the Royalty Pooled Restaurants in accordance with the Partnership Agreement. As consideration for the additional Royalty associated with the addition of one (January 1, 2010 – nil) new SIR Restaurant on January 1, 2011, as well as the Second Incremental Adjustment for the nil (January 1, 2009 – six) new SIR Restaurants added to Royalty Pooled Restaurants on January 1, 2010, the Company converted its Class B GP Units into Class A GP Units based on the formula defined in the Partnership Agreement. The effect of these adjustments to the Royalty Pooled Restaurants was that the Company converted 137,000 (January 1, 2010 – 244,000) Class B GP Units into 137,000 (January 1, 2010 – 244,000) Class A GP Units on January 1, 2011 at an estimated fair value of $1,420,000 (January 1, 2010 - $1,237,000). As a result of this exchange, the Company's interest in the Partnership increased to 36.7% effective January 1, 2011 from 35.7%.

In addition, the revenues of six new SIR Restaurants added to Royalty Pooled Restaurants on January 1, 2009 exceeded 80% of the Initial Adjustment's estimated revenues and, as a result, an Additional Distribution of $337,000 was declared in December 2009 and paid in cash the following January. There was no Additional Distribution declared in December 2010 because no new SIR Restaurants were added to Royalty Pooled Restaurants on January 1, 2010.

(c) Amounts due to the SIR Royalty Income Fund

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

	November 20, 2011	**August 28, 2011**
	(in thousands of dollars)	
Advances receivable	(2,094)	(2,021)
Interest payable on SIR Loan	421	481
Partnership distributions payable	3,487	3,436
Payable to the Fund and its subsidiaries – net	1,814	1,896

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

During the 12-week period ended November 20, 2011, distributions of $1,150,000 were declared to the Fund through the Partnership (12-week period ended November 21, 2010 - $1,047,000). The Fund, indirectly through the Trust, is entitled to receive a pro rata share of all residual distributions.

The Company, through the Partnership, has entered into an arrangement with the Fund and the Trust whereby the Partnership will provide or arrange for the provision of services required in the administration of the Fund and the Trust. The Partnership has arranged for these services to be provided by SIR GP Inc., in its capacity as the managing general partner of the Partnership. For the 12-week period ended November 20, 2011, the Partnership provided these services to the Fund and the Trust for consideration of $6,000 (November 21, 2010 – $6,000), which was the amount of consideration agreed to by the related parties.

7. Stock options

Compensation expense of $64,000 has been recognized in the 12-week period ended November 20, 2011. Compensation expense for options not yet vested of $158,000 will be recognized in the consolidated statements of operations over the vesting period of the stock options.

Stock options issued are valued using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

Risk-free interest rate	1.6%
Expected life	5 years
Expected volatility	27.7%
Expected dividend	nil

8. Commitments

The Company has four commitments to lease properties upon which it plans to build five new restaurants. As at November 20, 2011, the Company has not entered into any construction contracts for the restaurants, but expects to in the future. Final costs of construction are subject to uncertainties as to their amounts and timing. Such things as finalization of design and final construction quotes could change the total cost of these projects.

9. Supplemental cash flow information

The net change in working capital items is as follows:

	12-week period ended November 20, 2011	November 21, 2010
	(in thousands of dollars)	
Accounts receivable and other receivables	(478)	(96)
Inventories	(15)	(145)
Prepaids, deposits and other assets	(568)	(340)
Trade accounts payable and accrued liabilities	(56)	(974)
Due to related parties	(82)	(203)
Accrued management bonus	149	192
	(1,050)	(1,566)

10. 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 contained in the annual consolidated financial statements of the Company. The Company evaluates the performance of each segment based on earnings (loss) from operations before income taxes, interest, other non-recurring gains and losses, corporate costs and amortization of non-restaurant assets.

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

	12-week period ended November 20, 2011	November 21, 2010
	(in thousands of dollars)	
Food and beverage revenue		
Canada		
Jack Astor's	35,052	30,965
Canyon Creek	6,388	6,404
Alice Fazooli's	4,044	3,935
Signature	3,729	3,501
	49,213	44,805