SIR CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE 12-WEEK PERIOD ENDED NOVEMBER 20, 2011

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Executive Summary

SIR Corp.'s ("SIR's") first quarter of fiscal 2012 ("Q1") was from August 29, 2011 to November 20, 2011 inclusive. Highlights for SIR's first quarter include:

- ***Consolidated revenue and Same Store Sales[(1)] ("SSS") (unaudited):***
  - Food and beverage revenue from corporate restaurant operations for Q1 was $49.2 million. This represents a $4.4 million or 9.8% increase over the prior year for the quarter.
  - SIR experienced same store sales growth[(1)] ("SSSG") of 5.6% for the 12-week period ended November 20, 2011.
  - SIR's flagship Concept Restaurant brand, Jack Astor's®, that generates approximately 70% of YTD Pooled Revenue, had SSSG[(1)] of 7.0% for Q1. Canyon Creek® had a SSS[(1)] decline of 0.2% for Q1. Alice Fazooli's® had SSSG[(1)] of 2.8% for Q1 and the downtown Toronto Signature Restaurants had SSSG[(1)] of 6.5% for Q1.

Investment in new and existing restaurants

  - During Q1, on November 14, 2011, SIR opened a new Jack Astor's restaurant on Argentia Road in Mississauga, Ontario. This restaurant will be added to Pooled Revenue on January 1, 2013.
  - During Q1, SIR completed three Jack Astor's renovations, one at the location in Barrie, Ontario, one at the location on Front Street, in Toronto, Ontario and one at the location in Etobicoke, Ontario.
  - SIR has secured three additional sites for Jack Astor's, one in Pickering, Ontario, one in Toronto, Ontario on Front Street, near the St. Lawrence Market and one in Kingston, Ontario. These restaurants are expected to open in fiscal year 2012. SIR has also secured two additional sites, at one location, at the corner of Yonge and Gerrard Streets in Toronto, Ontario, with expected opening dates in the second half of fiscal year 2013.

- ***Net Earnings (Loss)***
  - The net loss attributable to shareholders of SIR Corp. for Q1 of $1.2 million is $0.8 million favourable to the same period in the prior year. The favourable variance is primarily due to favourable earnings from corporate restaurant operations, resulting primarily from SSSG[(1)].

- ***Adjusted EBITDA[(2)]***
  - Adjusted EBITDA[(2)] for Q1 is $3.6 million and $2.5 million in the current and prior period, respectively.

- ***Other***
  - Effective August 29, 2011, SIR adopted Accounting Standards for Private Enterprises ("ASPE"). SIR has consistently applied the same accounting policies in its opening ASPE consolidated balance sheet at August 30, 2010.

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(1) *Same store sales includes revenue from all SIR restaurants except for those restaurants that were not open for the entire comparable periods in fiscal 2012 and fiscal 2011. Same store sales growth ("SSSG") is the percentage increase in SSS over the prior comparable period. SSS and SSSG are not ASPE financial measures and do not have standardized meanings prescribed by ASPE. However, SIR believes that SSS and SSSG are useful measures and provide investors with an indication of the change in year-over-year sales. SIR's method of calculating SSS and SSSG may differ from those of other issuers and accordingly, SSS and SSSG may not be comparable to measures used by other issuers. Please refer to the reconciliation of consolidated revenue to SSS on page 6 and to the definition of SSS in the Revenue section on page 8.*

(2) *References to EBITDA are to the net earnings (loss) for the period attributable to shareholders of SIR before provision for (recovery of) income taxes, other expense (income) - net, provision for (recovery of) impairment of loans and advances, provision for long-lived assets, goodwill impairment, interest expense-net, unrealized foreign exchange (gain) loss, interest on loan payable to SIR Royalty Income Fund, non-controlling interest in SIR Royalty Limited Partnership and other subsidiary company, loss from discontinued operation, other amortization and amortization of restaurant assets. References to Adjusted EBITDA are to SIR's EBITDA plus pre-opening costs. Pre-opening costs are added back to EBITDA because Management views these costs as investments in new restaurants and not as on-going costs of operations. Management believes that, in addition to net earnings or loss, EBITDA and Adjusted EBITDA are useful supplemental measures in evaluating SIR's performance. EBITDA and Adjusted EBITDA are not ASPE financial measures and do not have standardized meanings prescribed by ASPE. 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 ASPE), 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. Please refer to the reconciliation of net earnings (loss) for the period to EBITDA and Adjusted EBITDA on page 6 of this document.*

- ***Outlook***
  - While encouraged by recent SSSG[1], SIR remains cautious as it believes that the economic conditions may continue to impact its sales and profit prospects in the near future.
  - On August 26, 2011, SIR entered into an Amended and Restated Loan Agreement (Amended Credit Agreement) that added a $12.0 million Development Loan to its existing $26.0 million Term Loan. The Development Loan is intended to be drawn over the next eight months to finance the building of new restaurants and to renovate existing restaurants to increase SSS[1] and strengthen SIR's portfolio of restaurants.
  - Subsequent to Q1, on November 25, 2011, SIR entered into a First Amendment to the Amended Credit Agreement ("First Amendment") to extend and make coterminous the terms of the $12.0 million Development Loan and the $26.0 million Term Loan. Under the terms of the First Amendment, the term of the $26.0 million Term Loan will be extended from November 13, 2012 to November 14, 2016 and the term of the Development Loan will be extended from August 26, 2016 to November 14, 2016. Additionally, under the terms of the First Amendment the variable interest rate of the Term Loan is reduced to the same rate as that of the Development Loan.
  - SIR continues to focus on sustaining and growing existing restaurant sales and profits while managing costs. SIR continues to carefully monitor the current economic environment and considers new restaurant growth and renovations, when appropriate and subject to acceptable long-term financing.

Overview

SIR is a private company amalgamated under the Business Corporations Act of Ontario. As at November 20, 2011, SIR operates 48 Concept and Signature Restaurants in Canada (in Ontario, Quebec, Alberta and Nova Scotia). The Concept Restaurants are Jack Astor's, Canyon Creek and Alice Fazooli's. The Signature Restaurants are *reds*®, Far Niente®/FOUR®/Petit Four™, and the Loose Moose Tap & Grill®. As at November 20, 2011, 46 SIR Restaurants were included in SIR Royalty Pooled Restaurants. SIR owns 100% of all its Canadian restaurants.

The new Jack Astor's in Boisbriand, Quebec, that opened in Fiscal 2011, on October 25, 2010 was added to the Royalty Pooled Restaurants on January 1, 2011. The new Jack Astor's restaurant in London, Ontario, that also opened in Fiscal 2011, on May 2, 2011, will be added to Royalty Pooled Restaurants on January 1, 2012. The new Jack Astor's restaurant in Mississauga, Ontario, that opened in Q1 of Fiscal 2012, on November 14, 2011 will be added to the Royalty Pooled Restaurants on January 1, 2013.

On October 1, 2004, the SIR Royalty Income Fund (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 $51.2 million were used by the Fund to acquire the SIR Loan and indirectly, through the SIR Holdings Trust (the "Trust"), the SIR Rights owned or licensed by SIR or its subsidiaries and used in connection with the operation of SIR's restaurants in Canada. In 2004, 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 Royalty Pooled Restaurants. The Partnership also issued its own securities to SIR in return for the SIR Rights acquired.

SIR's fiscal year is comprised of 52 or 53-week periods ending on the last Sunday in August. Fiscal quarters of SIR 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.

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.

[1] *See footnote [1] on page 3*

Selected Consolidated Historical Financial Information

The following tables set out selected financial information of SIR for the 12-week periods ended November 20, 2011 and November 21, 2010, respectively. The unaudited consolidated financial statements of SIR are prepared in accordance with Canadian accounting standards for private enterprises ("ASPE") 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.

Statements of Operations	12-Week Period Ended November 20, 2011	12-Week Period Ended November 21, 2010[3]
	(in thousands of dollars) (unaudited)	
Corporate restaurant operations:		
Food and beverage revenue	49,213	44,805
Cost of corporate restaurant operations	45,295	41,726
Earnings from corporate restaurant operations	**3,918**	**3,079**
Net loss from continuing operations for the period	**(56)**	**(962)**
Net loss for the period	(56)	(1,024)
Non-controlling interests	(1,150)	(1,019)
Net loss for the period attributable to shareholders of SIR Corp.	**(1,206)**	**(2,043)**

Balance Sheet	November 20, 2011	August 28, 2011[3]
	(in thousands of dollars) (unaudited)	
Total assets	63,057	60,509
Total long-term liabilities	67,285	65,347

EBITDA[2] and Adjusted EBITDA[2]

EDITDA[2] and Adjusted EBITDA[2] are financial measures that do not have standardized meaning prescribed by ASPE. They are used by SIR to supplement its reporting of net earnings (loss) and net cash flow. EBITDA[2] and Adjusted EBITDA[2] consist of net earnings (loss) for the period attributable to shareholders of SIR excluding certain non-cash expenses and other expenses that SIR considers not to be of an operating nature. SIR believes that EBITDA[2] and Adjusted EBITDA[2] are useful estimates of the core business' contribution to cash flow from operations and uses this measure as a supplemental measure of SIR's performance. Similarly, SIR believes that certain investors may also find this non-ASPE measure to be a useful measure for their independent evaluation of SIR's performance.

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(2) *See footnote (2) on page 3*
(3) *Prior period balances reflect the retroactive application of the changes in accounting policies effective with the adoption of ASPE*

The following table reconciles net earnings (loss) for the period attributable to shareholders of SIR to EBITDA[(2)] and Adjusted EBITDA[(2)]:

Reconciliation of net earnings (loss) for the period attributable to shareholders of SIR to EBITDA[(2)] and Adjusted EBITDA[(2)]	12-Week Period Ended November 20, 2011	12-Week Period Ended November 21, 2010[(3)]
	(in thousands of dollars) (unaudited)	
Net loss for the period attributable to shareholders of SIR	(1,206)	(2,043)
Add (deduct):		
Recovery of income taxes	(2)	(15)
Other expense - net	138	24
Interest expense – net	486	546
Interest on loan payable to SIR Royalty Income Fund	718	718
Non-controlling interest in SIR Royalty Limited Partnership	1,150	1,047
Non-controlling interest in other subsidiary company	-	(28)
Loss from discontinued operation	-	62
Other amortization	57	65
Amortization of restaurant assets	1,830	1,745
EBITDA[(2)]	**3,171**	**2,121**
Pre-opening costs	394	403
Adjusted EBITDA[(2)]	**3,565**	**2,524**
Income from Class A & B GP Units of the Partnership [(4)] (Not included in EBITDA[(2)] and Adjusted EBITDA[(2)] above)	1,023	912
6% Royalty obligations under License and Royalty Agreement [(5)]	2,873	2,668

Results of Operations

Reconciliation of Revenue from Consolidated Financial Statements to Pooled Revenue	12-Week Period Ended November 20, 2011	12-Week Period Ended November 21, 2010
	(in thousands of dollars) (unaudited)	
Revenue reported in consolidated financial statements	49,213	44,805
Less: Revenue from corporate restaurant operations excluded from the Royalty Pool	(1,325)	(331)
Revenue for Restaurants in the Royalty pool	**47,888**	**44,474**

Reconciliation of Revenue from Consolidated Financial Statements to Same Store Sales[(1)]	12-Week Period Ended November 20, 2011	12-Week Period Ended November 21, 2010
	(in thousands of dollars) (unaudited)	
Revenue reported in consolidated financial statements	49,213	44,805
Less: Revenue from corporate restaurant operations excluded from same store sales[(1)]	(2,262)	(331)
Same store sales[(1)]	**46,951**	**44,474**

[(1)] *See footnote [(1)] on page 3*
[(2)] *See footnote [(2)] on page 3*
[(3)] *See footnote [(3)] on page 5*
[(4)] *Includes the additional distribution paid to Class B GP Unitholders in December of each year, if any. There was no additional distribution in the 12-week periods ended November 20, 2011 or November 21, 2010.*
[(5)] *See the SIR Royalty Income Fund section of this document for the Royalty calculation. Pooled Revenue includes revenue from all restaurants included in Royalty Pooled Restaurants. On January 1st of each year, New Additional Restaurants are added and New Closed Restaurants are removed from Royalty Pooled Restaurants. Royalty obligations equal 6% of Pooled Revenue plus any Make-Whole Payments.*

Same Store Sales[1] by Segment	12-Week Period Ended November 20, 2011	12-Week Period Ended November 21, 2010	% Fav. / (Unfav.)
	(in thousands of dollars) (unaudited)		
Jack Astor's	32,790	30,634	7.0%
Canyon Creek	6,388	6,404	(0.2%)
Alice Fazooli's	4,044	3,935	2.8%
Signature Restaurants	3,729	3,501	6.5%
Same store sales[1]	**46,951**	**44,474**	**5.6%**

Summary of Quarterly Results

Statement of Operations	1st Quarter Ended November 20, 2011 (12 weeks)	4th Quarter Ended August 28, 2011[3] (16 weeks)	3rd Quarter Ended May 8, 2011[3] (12 weeks)	2nd Quarter Ended February 13, 2011[3] (12 weeks)	1st Quarter Ended November 21, 2010[3] (12 weeks)	4th Quarter Ended August 29, 2010[3] (16 weeks)	3rd Quarter Ended May 9, 2010[3] (12 weeks)	2nd Quarter Ended February 14, 2010[3] (12 weeks)
					(in thousands of dollars) (unaudited)			
Corporate Restaurant Operations								
Food and beverage revenue	49,213	67,813	47,962	46,100	44,805	62,207	46,522	45,613
Cost of corporate restaurant operations	45,295	62,164	43,259	41,523	41,726	56,424	41,458	41,049
Earnings from corporate restaurant operations	**3,918**	**5,649**	**4,703**	**4,577**	**3,079**	**5,783**	**5,064**	**4,564**
Net earnings (loss) from continuing operations for the period	**(56)**	**481**	**892**	**860**	**(962)**	**1,565**	**1,573**	**1,284**
Net earnings (loss) for the period	(56)	(559)	850	801	(1,024)	1,425	1,533	1,256
Non-controlling interests	(1,150)	(1,672)	(1,132)	(1,062)	(1,019)	(1,630)	(1,109)	(795)
Net earnings (loss) attributable to shareholders of SIR Corp.	**(1,206)**	**(2,231)**	**(282)**	**(261)**	**(2,043)**	**(205)**	**424**	**461**

Selected Unaudited Consolidated Statement of Cash Flows Information	1st Quarter Ended November 20, 2011 (12 weeks)	4th Quarter Ended August 28, 2011 (16 weeks)	3rd Quarter Ended May 8, 2011 (12 weeks)	2nd Quarter Ended February 13, 2011 (12 weeks)	1st Quarter Ended November 21, 2010 (12 weeks)	4th Quarter Ended August 29, 2010 (16 weeks)	3rd Quarter Ended May 9, 2010 (12 weeks)	2nd Quarter Ended February 14, 2010 (12 weeks)
				(in thousands of dollars) (unaudited)				
Cash provided by (used in) continuing operations	(313)	4,171	2,074	808	(1,765)	4,755	1,641	751
Cash used in continuing investing activities	(1,865)	(2,089)	(915)	(1,366)	(1,685)	(1,279)	(287)	(205)
Cash provided by (used in) continuing financing activities	2,892	(671)	(532)	(435)	(438)	(678)	(502)	(792)
Increase (decrease) in cash and cash equivalents during the period	796	207	552	(1,050)	(4,086)	2,746	786	(314)
Cash and cash equivalents – Beginning of period	5,209	5,002	4,450	5,500	9,586	6,840	6,054	6,368
Cash and cash equivalents – End of period	6,005	5,209	5,002	4,450	5,500	9,586	6,840	6,054

(1) *See footnote (1) on page 3*
(3) *See footnote (3) on page 5*

Revenue

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

i. Revenue (per the SIR consolidated statements of operations) – this is the total consolidated revenue of all restaurants for the period. The restaurants include all SIR restaurants, except the U.S. Jack Astor's restaurant. This restaurant was sold during Q4 of fiscal 2011 and has been reclassified as a discontinued operation. For the 12-week period ended November 20, 2011, this revenue was $49.2 million.

ii. Same Store Sales[(1)] – this is a sub-set of i above used for tracking comparable year-over-year sales. For Q1 fiscal 2012 and 2011, SSS[(1)] includes all SIR Restaurants except the Jack Astor's in Boisbriand, Quebec, the Jack Astor's in London, Ontario and the Jack Astor's on Argentia Road, in Mississauga, Ontario because they were not open for the entire comparable period in fiscal 2011. The U.S. restaurant was never part of SIR Restaurants. For the 12-week period ended November 20, 2011, this revenue was $47.0 million**.**

iii. Pooled Revenue – this is the revenue subject to the License and Royalty Agreement – this includes revenue from all Royalty Pooled Restaurants. The Royalty Pooled Restaurants are adjusted on January 1st of each year for New Additional Restaurants and New Closed Restaurants. Currently, there are 46 Royalty Pooled Restaurants. For the 12-week period ended November 20, 2011, Pooled Revenue was $47.9 million. The applicable Royalty payable to the Partnership on the Pooled Revenue for this same period was $2.9 million.

Same Store Sales[(1)]

SIR had SSSG[(1)] of 5.6% for the 12-week period ended November 20, 2011. Jack Astor's, SIR's flagship Concept Restaurant brand, which generates approximately 70% of YTD Pooled Revenue, experienced a SSSG[(1)] of 7.0% for the 12-week period ended November 20, 2011. Canyon Creek had a SSS[(1)] decline of 0.2% for the 12-week period ended November 20, 2011. Alice Fazooli's experienced SSSG[(1)] of 2.8% for the 12-week November 20, 2011. The downtown Toronto Signature Restaurants had SSSG[(1)] of 6.5% during the 12-week period ended November 20, 2011.

Management believes that the current economic conditions and uncertainties are still having some effect on SIR's revenue. The Canadian Restaurant and Foodservices Association ("CRFA"), in its 2011 – 2015 Long Term Foodservice Forecast is forecasting that sales in calendar year 2011, in the full service restaurant industry, will have a modest increase. However, SIR remains cautious and continues to monitor the economy and consumer confidence.

Cost of Corporate Restaurant Operations

As a percentage of revenue, costs of corporate restaurant operations for the 12-week period ended November 20, 2011 was 92.0% compared to 93.1% for the 12-week period ended November 21, 2010. The decrease is primarily attributable to lower restaurant promotional costs in the current year compared to the same period of the prior year.

Corporate costs

Corporate costs decreased $0.1 million for the 12-week period ended November 20, 2011 compared to the 12-week period ended November 21, 2010. SIR is continually managing corporate costs to obtain efficiencies while revenues grow.

Interest expense - net

Interest expense decreased $0.1 million for the 12-week period ended November 20, 2011 compared to the 12-week period ended November 21, 2010. The decrease is primarily due to the lower amortization of deferred financing fees in fiscal 2012 compared to fiscal 2011. The main reason for this decrease in amortization is that the amortization period was increased due to the extension of the term of the Term Loan under the First Amendment.

(1) See footnote (1) on page 3

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

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

Interest on the SIR Loan totalled $0.7 million for both the 12-week periods ended November 20, 2011 and November 21, 2010.

The Fund's share of the income of the Partnership for the 12-week period ended November 20, 2011 was $1.2 million (12-week period ended November 21, 2010 - $1.0 million) and has been recorded as non-controlling interest in the unaudited consolidated statements of operations.

Recovery of impairment of loans and advances

Prior to fiscal 2008, advances were made to U.S. S.I.R. L.L.C. and its subsidiaries to facilitate ongoing operations and the closure of certain restaurant operations. These advances are non-interest bearing, non-secured and due on demand. SIR has determined that these advances are impaired based on estimated future cash flows of the one remaining U.S. operation owned by U.S. S.I.R. L.L.C. Accordingly, the loan and advances receivable are written down to their net realizable value of $1.4 million. During the 12-week period ended November 20, 2011, $0.1 million of these advances were repaid to SIR ($0.1 million for the 12-week period ended November 21, 2010). While SIR has no obligation to fund the U.S. operation and is not expecting to do so, it may do so if it considers that it would be in the interest of SIR; subject to the restrictions contained in its arrangements with the Fund (see Liquidity and Capital Resources section).

EBITDA(2) and Adjusted EBITDA(2)

EBITDA(2) is $3.2 million for the 12-week period ended November 20, 2011 and $2.1 million for the 12-week period ended November 21, 2010. Adjusted EBITDA(2) is $3.6 million for the 12-week period ended November 20, 2011 and $2.5 million for the 12-week period ended November 21, 2010. (See Selected Consolidated Historical Financial Information - Reconciliation of net earnings (loss) for the period attributable to shareholders of SIR to EBITDA(2) and Adjusted EBITDA(2)).

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 $40.0 million SIR Loan bears interest at 7.5% per annum and is due October 12, 2044. On November 13, 2009, the Fund entered into an agreement to subordinate and postpone its claims against SIR in favour of the bank. This agreement was amended on August 26, 2011 to incorporate the Development Loan under SIR's amended and restated credit facility. The Partnership and the Fund have not guaranteed the credit facility (see Liquidity and Capital Resources section).

The debt is "permitted indebtedness" within the meaning of the agreements between the Fund, the Partnership and SIR, and as a result the Fund and the Partnership have, as contemplated in the existing agreements, subordinated and postponed their claims against SIR to the claims of the senior lender. This subordination, which includes a subordination of the Partnership's rights under the License and Royalty Agreement between the Partnership and SIR whereby the Partnership licenses to SIR 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 new credit facility, ordinary payments to the Partnership and the Fund can continue and the Partnership can exercise any and all of its rights to preserve the trademarks and related intellectual property governed by the License 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 senior lender is pursuing remedies). The Subordination and Postponement Agreement also contains various other typical covenants of the Fund and the Partnership.

(2) See footnote (2) on page 3

Interest expense on the SIR Loan of $0.7 million was charged to the unaudited consolidated statements of operations for the 12-week period ended November 20, 2011 ($0.7 million for the 12-week period ended November 21, 2010).

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 fees of $4.8 million incurred in fiscal 2005 in respect of the issuance of the SIR Loan and Partnership Units have been deferred and are being amortized over 40 years, the term of the SIR Loan, using the straight-line method (see Changes in Accounting Policies, Including Initial Adoption section). Amortization of $0.03 million has been included in interest on loan payable to SIR Royalty Income Fund in the unaudited consolidated statements of operations for the 12-week period ended November 20, 2011 ($0.03 million for the 12-week period ended November 21, 2010). The unamortized financing fees are netted against the SIR Loan in the unaudited consolidated financial statements.

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

	12-Week Period Ended November 20, 2011	12-Week Period Ended November 21, 2010
	(in thousands of dollars) (unaudited)	
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 units held by the non-controlling interest	(1,150)	(1,047)
Non-controlling interest in the Partnership	11,167	11,167
Pooled Revenue [(6)]	47,888	44,474
Partnership royalty income [(7)]	2,873	2,668
Other income	8	8
Partnership expenses	(18)	(27)
Net earnings of the Partnership	2,863	2,649
SIR's interest in the earnings of the Partnership:		
Income from Class A & B GP Units of the Partnership	(1,023)	(912)
Income from Class C GP Units of the Partnership	(690)	(690)
	(1,713)	(1,602)
Non-controlling interest in the Partnership	1,150	1,047

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

In 2004, 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 Royalty Pooled Restaurants (the "License and Royalty Agreement").

(6) Includes revenue from the SIR Restaurants subject to the License and Royalty Agreement and excludes revenue from Jack Astor's Cary, LLC. 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 SIR's restaurants in Canada.

(7) 6% of Pooled Revenue plus a Make-Whole Payment for closed locations, if applicable, included in Royalty Pooled Restaurants.

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 revenues for restaurants permanently closed during a reporting period. SIR is not required to pay any Make-Whole Payments in respect of a permanently closed restaurant following the date on which the number of Royalty Pooled Restaurants 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 preceding such Adjustment Date. At each Adjustment Date, SIR will be entitled to convert its Class B GP Units to Class A GP Units based on the 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 exceeded 80% of the initial estimated revenues and the formula defined in the Partnership Agreement. Conversely, converted Class A GP Units will be returned by SIR if the actual revenues of the new SIR Restaurants are less than 80% of the initial estimated revenues. In December of each year, an additional distribution will be payable to the Class B GP unitholders based on actual revenues of the new SIR Restaurants exceeding 80% of the initial estimated revenues or there will be a reduction in the distributions to the Class A GP unitholders if revenues are less than 80% of the initial estimated revenues.

On January 1, 2011, one (January 1, 2010 - nil) new SIR Restaurant, was added to 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, SIR 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 SIR 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 $1.4 million (January 1, 2010 - $1.2 million). As a result of this exchange, SIR's interest in the Partnership increased to 36.7% effective January 1, 2011. 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 $0.3 million 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 Fund* – (see Transactions with the SIR Royalty Income Fund in the Transactions with Related Parties section)

Liquidity and Capital Resources

Selected Consolidated Statement of Cash Flows Information	12-Week Period Ended November 20, 2011	12-Week Period Ended November 21, 2010
	(in thousand of dollars) (unaudited)	
Cash used in continuing operations	(313)	(1,765)
Cash used in continuing investing activities	(1,865)	(1,685)
Cash provided by (used in) continuing financing activities	2,892	(438)
Increase (decrease) in cash and cash equivalents 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

Cash used in operating activities from continuing operations decreased by $1.5 million for the 12-week period ended November 20, 2011 compared to the 12-week period ended November 21, 2010. The decrease is primarily due to the decrease in net loss from continuing operations of $0.9 million for the 12-week period ended November 20, 2011 compared to the 12-week period ended November 21, 2010 and an increase in the net change in working capital items of $0.5 million for the 12-week period ended November 20, 2011 compared to the 12-week period ended November 21, 2010. The change in working capital is mainly due to the timing of payments.

Cash used in continuing investing activities was $1.9 million and $1.7 million for the 12-week periods ended November 20, 2011 and November 21, 2010, respectively. Purchases of property and equipment and other assets amounted to $2.0 million and $1.8 million for the 12-week periods ended November 20, 2011 and November 21, 2010, respectively. The majority of the capital expenditures in the current year relate to the construction costs incurred for the new Jack Astor's in Mississauga, Ontario and the three Jack Astor's renovations. The majority of capital expenditures in Q1 of the prior year relate to construction costs incurred for the new Jack Astor's that opened in Boisbriand, Quebec and the renovation costs related to one Alice Fazooli's.

Management expects that the investments in new and existing restaurants and other profit enhancing initiatives (such as new patios and patio expansions) and maintenance capital expenditures, will help position SIR to work through this period of weaker economic conditions.

Cash provided by continuing financing activities was $2.9 million for the 12-week period ended November 20, 2011. Net cash used in continuing financing activities was $0.4 million for the 12-week period ended November 21, 2010. Proceeds received from the Development Loan in the current quarter were $3.6 million. Principal repayments on long-term debt were $0.4 million for both the 12-week periods ended November 20, 2011 and November 21, 2010. Financing fees of $0.3 million related to the new Development Loan and the First Amendment were paid during the 12-week period ended November 20, 2011.

The new Jack Astor's that opened in Boisbriand, Quebec, on October 25, 2010, was added to the Royalty Pooled Restaurants effective January 1, 2011. At that time, SIR received additional Class A GP Units in accordance with the formula for adjustment for the addition of restaurants added to Royalty Pooled Restaurants. Under the terms of the Exchange Agreement, SIR has the right to convert some or all of the net additional Class A GP Units into Fund Units on a one-for-one basis.

As at November 20, 2011, SIR had current assets related to continuing operations of $13.7 million (August 28, 2011 - $11.8 million) and current liabilities of $29.6 million related to continuing operations (August 28, 2011 - $27.7 million) resulting in a working capital deficit of $15.9 million (August 28, 2011 - $15.9 million). Revenues in the restaurant business are largely paid by cash and credit cards whereas most suppliers offer credit terms for payment. Therefore, restaurants are able to pay their suppliers from the cash received on revenues in the following months, as the supplier payables are due. Cash balances are typically used to construct new restaurants or re-invest in existing restaurants to grow the business. As a result, SIR, like many other restaurant businesses would anticipate having a negative working capital balance in the foreseeable future.

Management believes that currently there are sufficient cash resources retained in SIR from its cash generated by operations to fund its working capital requirements.

On August 26, 2011, SIR entered into an Amended and Restated Loan Agreement (Amended Credit Agreement) with its senior lender to add a $12.0 million Development Loan to its existing $26.0 million Term Loan that was negotiated on November 13, 2009. The Development Loan is intended to be drawn over the next eight months to finance the building of new restaurants and renovate existing restaurants to increase SSS[1] and strengthen SIR's portfolio of restaurants.

Subject to the terms and conditions of the Amended Credit Agreement, the lender agrees to make the Development Loan available to SIR by way of multiple Advances, disbursed on or prior to May 18, 2012 in accordance with the terms of the Amended Credit Agreement. The Development Loan is a non-revolving credit facility and any repayments in whole or in part of the Development Loan may not be re-borrowed or utilized again hereunder and shall not entitle SIR to obtain further Advances in respect of such amounts repaid. The aggregate outstanding principal amount of all Advances under the Development Loan shall not exceed $12.0 million at any time. The lender will make available the Development Loan to SIR only for the purpose of financing: (a) costs incurred in connection with the acquisition of furniture, fixtures, equipment and leasehold improvements relating to new Locations; and (b) renovations and capital expenditure costs relating to existing Locations. As at November 20, 2011, available drawings under the Development Loan total $8.4 million.

Subsequent to Q1, on November 25, 2011, SIR entered into a First Amendment to the Amended Credit Agreement that was negotiated August 26, 2011 with its existing senior lender to extend and make coterminous the terms of the $12.0 million Development Loan and the $26.0 million Term Loan. Under the terms of the First Amendment, the term of the $26.0 million Term Loan will be extended from November 13, 2012 to November 14, 2016 and the term of the Development Loan will be extended from August 26, 2016 to November 14, 2016. Additionally, under the terms of the First 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 6.0% per annum and three-month Canadian dollar bankers' acceptance rate plus 5.75% per annum, which on November 20, 2011 totalled 6.92%. SIR can also elect to fix the interest rate. The amortization period for the Term loan and the Development Loan remain the same at 10 years and 7 years, respectively. The remaining terms under the Amended Credit Agreement and the First Amendment remain substantially consistent with the November 13, 2009 credit agreement.

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[1] *See footnote [1] on page 3*

Under the Amended Credit Agreement, certain financial covenants apply to SIR, including a minimum fixed charge coverage ratio and a senior leverage ratio that SIR is in compliance with as at its last reporting date to the lender of December 7, 2011. The loan is secured by substantially all of the assets of SIR and most of its subsidiaries, which are also guarantors. The Partnership and the Fund have not guaranteed the Amended Credit Agreement. The Amended Credit Agreement qualifies as "permitted indebtedness" within the meaning of the agreements between the Fund, the Partnership and SIR, and as a result the Fund and the Partnership have, as contemplated in the existing agreements, subordinated and postponed their claims against SIR to the claims of the lender. The terms of the subordination are as contemplated in the previous agreements between the Fund, the Partnership and SIR. This subordination includes a subordination of the Partnership's rights under the License and Royalty Agreement between the Partnership and SIR whereby the Partnership licenses to SIR the right to use trademarks and related intellectual property in return for royalty payments based on revenues and is effected pursuant to the terms of a Subordination and Postponement Agreement, a copy of which was filed on SEDAR. In addition, the original five year restrictions on repurchases of shares by SIR contained in the agreements between the Fund, the Partnership and SIR have expired.

A Company owned by the majority shareholder of SIR has guaranteed SIR's obligations under the Amended Credit Agreement and a guarantee fee of $0.05 million was charged to the consolidated statement of operations for the 12-week period ended November 20, 2011 ($0.05 million for the 12-week period ended November 21, 2010). SIR also issued warrants to the majority shareholder, which would, if exercised, represent a controlling voting interest in SIR. The warrants have an exercise price of $1.00, expire on November 11, 2020 and can only be exercised upon an event of default by SIR with respect to the Credit Agreement. The warrants have also been pledged to the senior lender.

Under the Subordination and Postponement Agreement, absent a default or event of default under the Amended Credit Agreement, ordinary payments to the Partnership and the Fund are permitted. However, if a default or an event of default were to occur, payments to the Fund and the Partnership are likely to cease and the related rights of the Fund and the Partnership will be subject to a "standstill" obligation for a period of up to 120 days (which may be extended if the senior lender is pursuing remedies). The Subordination and Postponement Agreement also contains various other typical covenants of the Fund and the Partnership. In addition, SIR provided an undertaking to the Fund and the Partnership to restrict the amount of additional debt that SIR can incur without the consent of the Fund and the Partnership (which consent shall not be unreasonably withheld). The Subordination and Postponement Agreement was amended on August 26, 2011 to incorporate the Development Loan under SIR's Amended Credit Agreement.

Management continues to monitor the economy and evaluate its potential impact on the Canadian business environment, particularly in relation to consumer confidence and unemployment rates. SIR believes that the economic conditions may continue to impact sales and profit prospects in the near future.

Contractual Obligations

In 2004, 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 Royalty Pooled Restaurants. Payment of the Royalty is secured by the Partnership General Security Agreement. On November 13, 2009 (amended on August 26, 2011), the Fund entered into an agreement to subordinate and postpone its claims against SIR in favour of the senior lender. The Partnership and the Fund have not guaranteed this credit facility (Please refer to SIR Royalty Income Fund section).

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. SIR consolidates the Partnership, and this transaction between SIR and the Partnership is eliminated in SIR's unaudited consolidated financial statements, however the obligation for payments remains.

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 Royalty Pooled Restaurants 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 preceding such Adjustment Date. At each Adjustment Date, SIR will be entitled to convert its Class B GP Units to Class A GP Units based on a formula defined in the Partnership Agreement.

SIR and its subsidiaries have entered into operating leases relating to its head office and restaurant locations with minimum annual payments. SIR has four commitments to lease new properties upon which it plans to build five new restaurants. At the current date, SIR has not entered into any construction contracts for the five restaurants to be built, but expects to do so in the future. Final costs of construction are subject to uncertainties as to their amounts and timing. Such things as finalization of design and final construction quotations could change the total cost of these projects. As at November 20, 2011, $22.6 million and $3.6 million was outstanding on SIR's current credit facility for the Term Loan and the Development Loan, respectively (see Liquidity and Capital Resources section).

SIR has the following contractual obligations as of November 20, 2011 (in thousands of dollars):

	Remainder of Fiscal Year 2012	Fiscal Year 2013 and 2014	Fiscal Year 2015 and 2016	Thereafter	Total
Operating leases	8,070	21,624	17,849	29,772	77,315
Long-term debt repayments*	2,504	7,929	9,108	15,085	34,626
SIR Loan	-	-	-	40,000	40,000
	10,574	29,553	26,957	84,857	151,941

*The long-term debt repayments include the estimated draw down of the full $12.0 million Development Loan.

Off-Balance Sheet Arrangements

SIR has off-balance sheet arrangements with respect to its operating leases. There have been no material changes in SIR's operating lease commitments since August 28, 2011. The reader will find this information in the annual MD&A for the 52-week period ended August 28, 2011.

Transactions with Related Parties

SIR has entered into related party transactions with shareholders or companies controlled by shareholders of SIR and directors 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 two shareholders and directors of SIR in the amount of $0.1 million for the 12-week period ended November 20, 2011 ($0.1 million for the 12-week period ended November 21, 2010).
- Payment for design fees and fixtures, charged to property and equipment, provided by one shareholder of SIR in the amount of $0.2 million for the 12-week period ended November 20, 2011 ($0.1 million for the 12-week period ended November 21, 2010).
- Payment for consulting fees provided by two shareholders and directors of SIR in the amount of $nil for the 12-week period ended November 20, 2011 ($0.04 million for the 12-week period ended November 21, 2010).
- Received repayment against loans and advances from U.S. S.I.R. L.L.C. of $0.1 million for the 12-week period ended November 20, 2011 ($0.1 million for the 12-week period ended November 21, 2010). SIR recognized interest income on those loans and advances of $0.04 million for the 12-week period ended November 20, 2011 ($0.04 million for the 12-week period ended November 21, 2010). As at November 20, 2011, SIR has loans and advances of $1.4 million, net owing from U.S. S.I.R. L.L.C..
- Net loss from two trial seasonal restaurant operations operated by SIR for companies owned by a related party to a director of SIR for both the 12-week period ended November 20, 2011 were $0.05 million ($nil for the 12-week period ended November 21, 2010). SIR had sales of $0.008 million to these related companies for the 12-week period ended November 20, 2011 ($nil for the 12-week period ended November 21, 2010). As at November 20, 2011, SIR has trade accounts receivable and advances of $0.07 million and accounts payable of $0.08 million recorded in its consolidated balance sheet from these restaurant operations (August 28, 2011 - $0.08 million and $0.06 million, respectively).

Included in accounts payable and accrued liabilities are amounts due to one shareholder for design fees and fixtures provided to SIR as at November 20, 2011 of $0.1 million (August 28, 2011 - $0.1 million).

Transactions with the SIR Royalty Income Fund

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

	November 20, 2011	August 28, 2011
	(in thousands of dollars) (unaudited)	
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 $1.2 million were declared to the Fund by the Partnership ($1.0 million for the 12-week period ended November 21, 2010). The Fund, indirectly through the Trust, is entitled to receive a pro rata share of all residual distributions.

Interest expense on the SIR Loan totalled $0.7 million for the 12-week period ended November 20, 2011 ($0.7 million for the 12-week period ended November 21, 2010). The SIR Loan bears interest at 7.5% per annum.

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. The Partnership provided these services to the Fund and the Trust for consideration of $0.006 million for the 12-week period ended November 20, 2011 ($0.006 million for the 12-week period ended November 21, 2010) which was the amount of consideration agreed to by the related parties.

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 ASPE, when the Company issues stock options; an estimate of fair value is derived for the equity instrument using the Black-Scholes option pricing model. The application of this option pricing model requires management to make assumptions regarding several variables, including the period for which the instrument will be outstanding, the price volatility of SIR's stock over a relevant time frame, the determination of a relevant risk free interest rate and an assumption regarding SIR's dividend policy in the future. If other assumptions are used, the value derived for the equity instruments could be significantly impacted.

Management believes that the nature of all other critical accounting estimates since the 52-week period ended August 28, 2011 have remained substantially unchanged. The reader will find this information in the annual MD&A for the 52-week period ended August 28, 2011.

Changes in Accounting Policies, Including Initial Adoption

Effective August 29, 2011, SIR elected to adopt Canadian accounting standards for private enterprises (ASPE) as issued by the Canadian Accounting Standards Board. The following accounting policies were adopted as a result of the adoption of ASPE:

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. SIR 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.

Asset retirement obligations

Asset retirement obligations are the legal obligations associated with the retirement of tangible long-lived assets. SIR 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' deficiency. Their share of net income (loss) is recognized directly in shareholders' deficiency. 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.

Financial Instruments

SIR's financial instruments consist of cash and cash equivalents, accounts receivable, loans and advances, trade accounts payable and accrued liabilities, construction accounts payable and accrued liabilities, long-term debt, loan payable to the Fund and warrants. The fair values of these instruments approximate their carrying amounts due to their short-term maturity or, in the case of the loans and advances, the fair values of these items do not differ significantly from their carrying values. The fair value of the long-term debt is $26.2 million and the fair value of the warrants is nil. 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, accounts receivable and loans and advances. SIR places its cash and cash equivalents with institutions of high credit worthiness. 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 monitors the collectability of its loans and advances and establishes provisions when collection of the amounts becomes doubtful. SIR is exposed to interest rate risk with respect to its credit facility because it has a floating interest rate. The loan payable to the Fund and the capital lease obligation have fixed interest rates. Accordingly, changes in interest rates for these liabilities would not impact the consolidated statements of operations and comprehensive loss or the carrying value of these financial liabilities. However the fair value of these financial liabilities will vary with changes in the interest rate. SIR has limited exposure to exchange rate risk in respect of transactions denominated in U.S. dollars.

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 business and economic conditions, availability of credit, 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. Effective August 2, 2011, the Government of Ontario has passed amendments to Regulation 719 under the Liquor License Act. The amendments, among other things, remove the requirement for a licensed establishment to have the service and sale of food and liquor as their primary use. This may impact the competitive environment for the SIR Restaurants in Ontario. Please refer to the Fund's March 31, 2011 Annual Information Form for further discussion on risks and uncertainties related to SIR.

SIR is a holder of partnership interests in the Partnership. The Fund is also an indirect holder of partnership interests in the Partnership. The income of the Fund must be computed and will be taxed in accordance with Canadian tax laws. There is no assurance that Canadian federal income tax laws respecting the treatment of trusts will not be changed in a manner which adversely affects Unitholders.

As a result of certain legislative changes to the tax treatment of income trusts, commonly referred to as Specified Investment Flow Through tax ("SIFT Tax") effective January 1, 2011, corporate income taxes are applicable to the taxable income of the Fund beginning in calendar year 2011 (and subsequent years in which the Fund continues to operate as an income trust). The SIFT Tax applies to the Fund at the estimated prevailing corporate tax rate of approximately 28.25% for 2011 and, as a result, cash available for the Fund to distribute to Unitholders has been reduced by that amount. Therefore, the Trustees of the Fund reduced the monthly distribution to $0.083 per Unit per month (approximately $0.996 per Unit per year if annualized), beginning with the distribution relating to the distributable cash for the period January 1 to January 31, 2011, that was paid in February, 2011, to reflect the expected obligation of the Fund to make SIFT Tax payments. The Fund's distributions are subject to change based on a number of factors, including the cash reserves of the Fund, the SIR Holdings Trust and the SIR Royalty Limited Partnership. The Trustees will continue their practice of regularly reviewing the Fund's distribution levels.

Beginning with the Fund's distribution relating to the distributable cash from January 1 to January 31, 2011, paid in February, 2011), cash distributions to Unitholders are classified for tax purposes as eligible dividends. Unitholders who are Canadian residents and hold their Units in a non-tax deferred account may claim the dividend tax credit for eligible dividends, which would if applicable reduce the after tax impact of the SIFT Tax. Unitholders of the Fund have been advised to consult their own tax advisors to determine the impact of this change in tax laws on the distributions from their investment in the Fund.

These rules may adversely affect SIR, as the holder of partnership interests which are convertible into units of the Fund, as well as the Fund and its Unitholders. SIR intends to continue to assess and plan for their expected impact. Changes may prove necessary to seek to adapt to any new tax laws with a view to attempting, where practicable, to minimize their overall adverse effects.

Outlook

SIR competes within the full-service category of commercial foodservice in Canada. After reporting a decline in sales for the full service category during calendar 2009, the Canadian Restaurant and Foodservice Association ("CRFA") estimates that sales in the category during calendar 2010 grew by 1.2% and has projected that sales in the category will grow by a further 4.1% in calendar 2011. The CRFA estimates that growth in the full service category will slow to 3.0% in calendar 2012 due to continuing economic uncertainty, but will average 3.5% over the next five years. Management believes that the results of SIR, like many other companies in our category, have been negatively affected by the adverse conditions in the Canadian economy. In the past, following economic downturns, sales in the full service category have recovered following improvements in the economy. Although there are many other factors that may affect growth of SIR's SSS(1), assuming historical economic relationships are repeated, Management would expect that SIR's sales will recover following improvements in disposable income and consumer confidence. As it is not expecting a significant improvement in economic conditions in the near term, Management remains cautious and believes that sales growth will likely remain modest in the near term.

Management believes that currently there are sufficient cash resources retained in SIR from its cash generated by operations to fund its working capital requirements and scheduled debt repayments.

On August 26, 2011, SIR entered into an Amended Credit Agreement that added a $12.0 million Development Loan to its existing $26.0 million Term Loan. The Development Loan is intended to be drawn over the next 8 months to finance the building of new restaurants and to renovate existing restaurants to increase SSS(1) and strengthen SIR's portfolio of restaurants.

Subsequent to Q1, on November 25, 2011, SIR entered into a First Amendment to extend and make coterminous the terms of the $12.0 million Development Loan and the $26.0 million Term Loan. Under the terms of the First Amendment, the term of the $26.0 million Term Loan negotiated November 13, 2009 will be extended from November 13, 2012 to November 14, 2016 and the term of the Development Loan which was negotiated August 26, 2011, will be extended from August 26, 2016 to November 14, 2016. Additionally, under the terms of the First Amendment the variable interest rate of the Term Loan is reduced to the same rate as that of the Development Loan.

SIR continues to focus on sustaining and growing existing restaurant sales and profits while managing costs. SIR continues to carefully monitor the current economic environment and considers new restaurant growth and renovations when appropriate and subject to availability of acceptable long-term financing.

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(1) *See footnote (1) on page 3*

Forward Looking Information

Statements in this report, including the information set forth as to the future financial or operating performance of the Fund or SIR, that are not current or historical factual statements may constitute "forward-looking" information within the meaning of securities laws. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Fund, the Trust, the Partnership, SIR, the SIR Restaurants, or industry results, 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 may include, among other language, such words as "may", "will", "expect", "believe", "plan", "anticipate", "intend", "estimate" and other similar terminology. These statements reflect Management's current expectations, estimates and projections regarding future events and operating performance and speak only as of the date of this document. Readers should not place undue importance on forward-looking statements and should not rely upon this information as of any other date. These forward-looking statements involve a number of risks and uncertainties. The following are 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 consumer confidence; changes in national and local business and economic conditions; changes in availability of credit; legal proceedings and challenges to intellectual property rights; dependence of the Fund on the financial condition of SIR; legislation and governmental regulation; accounting policies and practices; and the results of operations and financial condition of SIR. The foregoing list of factors is not exhaustive. Many of these issues can affect the Fund's or SIR's actual results and could cause their actual results to differ materially from those expressed or implied in any forward-looking statements made by, or on behalf of, the Fund or SIR. Readers are cautioned that forward-looking statements are not guarantees of future performance, and should not place undue reliance on them. The Fund and SIR expressly disclaim any obligation or undertaking to publicly release any updates or revisions to any forward-looking statements contained herein to reflect any change in expectations, estimates and projections with regard thereto or any changes in events, conditions or circumstances on which any statement is based, except as expressly required by law. This Management Discussion and Analysis is provided as of December 22, 2011.

In formulating the forward-looking statements contained herein, Management has assumed that business and economic conditions affecting SIR's restaurants and the Fund will continue substantially in the ordinary course, including without limitation with respect to general industry conditions, general levels of economic activity (including in downtown Toronto), regulations (including those regarding employees, food safety, tobacco and alcohol), weather, taxes, foreign exchange rates and interest rates, that there will be no pandemics or other material outbreaks of disease or safety issues affecting humans or animals or food products, and that there will be no unplanned material changes in its facilities, equipment, customer and employee relations, or credit arrangements. These assumptions, although considered reasonable by Management at the time of preparation, may prove to be incorrect. In particular, in estimating the revenue for the new Jack Astor's restaurant added to Royalty Pooled Restaurants on January 1, 2011, Management has assumed that it will operate consistent with other Jack Astor's restaurants. For more information concerning the Fund's risks and uncertainties, please refer to the October 2004 final prospectus, and/or its March 31, 2011 Annual Information Form, all of which are available under the Fund's profile at www.sedar.com.

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