

SIR Corp.

**Consolidated Financial Statements
August 26, 2007 and August 27, 2006**

This document is being placed on www.sedar.com by SIR Corp. on a voluntary basis. It is not being placed by or with the approval of or on behalf of the SIR Royalty Income Fund or any of its trustees or officers or by SIR GP Inc., or SIR Holdings Trust or their respective trustees, managing general partners, directors or officers, has not been approved by any of them, and is not to be regarded as a document placed, filed, furnished or submitted by or on behalf of any of them or by anyone with actual, implied or apparent authority to act on behalf of any of them. None of them has approved, authorized, permitted or acquiesced to the contents of this document.

November 16, 2007

Auditors' Report

To the Shareholders of SIR Corp.

We have audited the consolidated balance sheets of **SIR Corp.** as at August 26, 2007 and August 27, 2006 and the consolidated statements of operations, deficit and cash flows for the 52-week periods then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at August 26, 2007 and August 27, 2006 and the results of its operations and its cash flows for the 52-week periods then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

Hamilton, Ontario

SIR Corp.

Consolidated Balance Sheets

(in thousands of dollars)

	August 26, 2007	August 27, 2006
Assets		
Current assets		
Cash and cash equivalents	3,377	8,212
Accounts receivable	3,100	4,144
Inventories	2,233	2,082
Prepays, deposits and other assets	773	631
Current portion of due from shareholders (note 5)	-	712
Future income taxes (note 15)	-	6
Current assets of discontinued operation (note 3)	-	67
	<hr/>	<hr/>
	9,483	15,854
Investments, loans, advances and notes receivable (note 4)	772	595
Property and equipment (notes 6 and 12)	41,854	38,033
Goodwill	5,736	5,736
Intangible and other assets (note 7)	7,978	7,023
	<hr/>	<hr/>
	65,823	67,241
	<hr/>	<hr/>

SIR Corp.

Consolidated Balance Sheets ...continued

(in thousands of dollars)

	August 26, 2007	August 27, 2006
Liabilities		
Current liabilities		
Bank indebtedness (note 8)	308	-
Accounts payable and accrued liabilities	17,550	15,396
Current portion of long-term debt (note 8)	1,759	2,325
Current portion of other long-term liabilities (note 10)	1,067	1,083
Current portion of due to shareholders (note 12)	-	23
Income taxes payable	7	137
Amounts due to SIR Royalty Income Fund – net (note 9(c))	1,260	1,085
Current liabilities of discontinued operation (note 3)	-	657
	21,951	20,706
Long-term debt (note 8)	350	78
Loan payable to SIR Royalty Income Fund (note 9(a))	40,000	40,000
Non-controlling interest in SIR Royalty Limited Partnership (note 9(b))	11,167	11,167
Other long-term liabilities (note 10)	8,085	6,479
	81,553	78,430
Non-controlling interest in other subsidiary companies	58	248
Shareholders' Deficiency		
Capital stock (note 11)	17,627	17,649
Currency translation adjustment	(202)	(202)
Deficit	(33,213)	(28,884)
	(15,788)	(11,437)
	65,823	67,241
Contingencies and commitments (note 13)		

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

Approved by the Board of Directors

(signed) Grey Sisson
Director

(signed) Peter Fowler
Director

SIR Corp.

Consolidated Statements of Operations

(in thousands of dollars)

	52-week period ended August 26, 2007	52-week period ended August 27, 2006
Corporate restaurant operations (note 1)		
Food and beverage revenue	167,213	153,065
Cost of corporate restaurant operations		
Food and beverage	52,779	48,002
Labour	52,493	46,821
Direct costs of restaurant operations (note 12)	40,424	37,417
Amortization of restaurant assets	7,303	6,795
	152,999	139,035
Earnings from corporate restaurant operations	14,214	14,030
Corporate costs (note 12)	(10,540)	(10,591)
Other amortization	(282)	(339)
	(10,822)	(10,930)
Earnings before the following items	3,392	3,100
Interest expense – net (note 12)	(162)	(380)
Interest on loan payable to SIR Royalty Income Fund (note 9(a))	(2,992)	(2,992)
Non-controlling interest in SIR Royalty Limited Partnership (note 9(b))	(4,499)	(4,488)
Unrealized foreign exchange gain	91	175
Provision for impairment of investments and loans receivable (note 4)	(100)	(135)
Provision for impairment of long-lived assets (note 6)	-	(332)
Other income (expense) (note 16)	(155)	550
Loss before income taxes and non-controlling interest in other subsidiary companies	(4,425)	(4,502)
Provision for income taxes (note 15)	(11)	(243)
Loss before non-controlling interest in other subsidiary companies	(4,436)	(4,745)
Non-controlling interest in other subsidiary companies	54	(147)
Net loss from continuing operations for the period	(4,382)	(4,892)
Net earnings (loss) from discontinued operation for the period (note 3)	71	(159)
Net loss for the period	(4,311)	(5,051)

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

SIR Corp.

Consolidated Statements of Deficit

(in thousands of dollars)

	52-week period ended August 26, 2007	52-week period ended August 27, 2006
Deficit – Beginning of period	(28,884)	(23,833)
Net loss for the period	(4,311)	(5,051)
Purchase of capital stock for cancellation (note 11)	(18)	-
Deficit – End of period	<u>(33,213)</u>	<u>(28,884)</u>

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

SIR Corp.

Consolidated Statements of Cash Flows

(in thousands of dollars)

	52-week period ended August 26, 2007	52-week period ended August 27, 2006
Cash provided by (used in)		
Operating activities		
Net loss from continuing operations for the period	(4,382)	(4,892)
Items not affecting cash		
Amortization	7,585	7,134
Non-controlling interest in other subsidiary companies	(54)	147
Future income taxes (note 15)	6	(62)
Provision for impairment of investments and loans receivable (note 4)	100	135
Provision for impairment of long-lived assets	-	332
Non-cash interest expense	144	383
Amortization of leasehold inducements	(479)	(476)
Unrealized foreign exchange gain	(91)	(175)
Other items (note 14)	227	372
Leasehold inducements received	2,424	1,431
Net change in working capital items (note 14)	2,102	1,610
	<hr/>	<hr/>
Net cash from continuing operations	7,582	5,939
Net cash from (used in) discontinued operation (note 3)	82	(320)
	<hr/>	<hr/>
	7,664	5,619
Investing activities		
Purchase of property and equipment	(10,723)	(14,776)
Proceeds from sale of property and equipment	19	35
Decrease in due from shareholders	712	1,335
Increase in investments, loans, advances and notes receivable (note 4)	(304)	(169)
Restaurant pre-opening costs (note 7)	(827)	(697)
	<hr/>	<hr/>
Net cash used in continuing investing activities	(11,123)	(14,272)
Proceeds from sale of discontinued operation (note 3)	-	2,516
	<hr/>	<hr/>
	(11,123)	(11,756)
Financing activities		
Payments to shareholders – net	(23)	-
Payments to non-controlling interest in other subsidiary companies	(206)	(45)
Proceeds from non-controlling interest in other subsidiary companies	111	-
Increase in bank indebtedness (note 8)	308	-
Principal repayment of long-term debt	(667)	(281)
Financing fees	(857)	-
Proceeds from issuance of capital stock (note 11)	-	5,000
Repurchase of capital stock (note 11)	(41)	-
	<hr/>	<hr/>
Net cash from (used in) continuing financing activities	(1,375)	4,674
Principal repayment of long-term debt of discontinued operation (note 3)	-	(2,576)
	<hr/>	<hr/>
	(1,375)	2,098
Effect of foreign exchange rates on cash	(1)	(2)
	<hr/>	<hr/>
Decrease in cash and cash equivalents during the period	(4,835)	(4,041)
Cash and cash equivalents – Beginning of period	8,212	12,253
	<hr/>	<hr/>
Cash and cash equivalents – End of period	3,377	8,212
	<hr/>	<hr/>

Supplemental information (note 14)

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

SIR Corp.

Notes to 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 August 26, 2007, the Company operates a total of 40 (2006 – 37) Concept and Signature restaurants in Canada (in Ontario, Quebec, Alberta and Nova Scotia) (the “SIR Restaurants”). The Concept restaurants are Jack Astor’s®, Canyon Creek Chop House® and Alice Fazooli’s!®, and the Signature restaurants are *reds*®, Far Niente®/Soul of the Vine®, Brasserie Frisco® and the Armadillo Texas Grill®/the Loose Moose Tap & Grill®. Subsequent to August 26, 2007, the Company closed the existing Jack Astor’s restaurant in Burlington, Ontario and opened the new Jack Astor’s restaurant located in Burlington, Ontario. During fiscal 2006, the Company closed the Jack Astor’s location in Don Mills, Ontario, in which it had a 50% ownership (see note 16).

The Company also has an investment in Jack Astor’s (Cary & Las Colinas) Limited that operates one Jack Astor’s restaurant in the United States. On February 10, 2006, the Company sold a Jack Astor’s restaurant in the United States (see note 3).

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”) (note 9) and indirectly, through SIR Holdings Trust (the “Trust”) all of the Ordinary LP units of SIR Royalty Limited Partnership (the “Partnership”). On October 12, 2004, the Partnership acquired from the Company the Canadian trademarks used in connection with the operation of the majority of the Company’s restaurants in Canada. In accordance with Accounting Guideline 15 (“AcG-15”) of the Canadian Institute of Chartered Accountants (“CICA”), Consolidation of Variable Interest Entities (“VIEs”), the Company has consolidated the Partnership effective October 12, 2004. The Fund’s investment in the Ordinary LP units of the Partnership has been recorded as non-controlling interest (note 9).

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 2007 and 2006 consisted of 52 weeks.

SIR Corp.

Notes to Consolidated Financial Statements

2 Summary of significant accounting policies

Basis of presentation

These consolidated financial statements include the accounts of the Company and its wholly-owned, majority-owned and other subsidiaries where the Company is exposed to the majority of the expected losses or returns. All intercompany accounts and transactions have been eliminated. The Company owns 100% of its subsidiaries with the exception of Jack Astor's Don Mills Limited (50%), Jack Astor's (Cary & Las Colinas) Limited (76.4%) and the Partnership (note 9).

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and disclosures applicable to private companies. When public company disclosure provides additional meaningful information, management has incorporated such disclosure in these consolidated financial statements.

Seasonality

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

A summary of the significant accounting policies followed in the preparation of these consolidated financial statements is as follows:

Use of estimates

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect income and expenses during the reporting periods, in addition to the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the consolidated financial statements. Actual results could differ materially from those estimates in the near term.

Revenue recognition

Revenue from restaurant operations is recognized when services are rendered.

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

Cash and cash equivalents

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

SIR Corp.

Notes to Consolidated Financial Statements

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:

Buildings	20 years straight-line
Corporate furniture, fixtures and equipment	5 years straight-line
Computer equipment and software	5 years straight-line
Restaurant furniture, fixtures and equipment	10 years straight-line
Leasehold improvements	Over the lease term on a straight-line basis to a maximum of 10 years

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 over the remaining life of the respective leases (note 7).

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

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

Impairment of long-lived assets

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

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.

SIR Corp.

Notes to Consolidated Financial Statements

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 at least annually or whenever events or changes in circumstances indicate that the carrying amounts 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.

Investments, loans, advances and notes receivable

Other long-term investments are recorded at cost and are written down to their estimated realizable amount when there is evidence of an impairment. Loans, advances and notes receivable are reviewed for impairment on an individual basis and are reduced to the estimated recoverable amount measured by expected future cash flows. When the amounts and timing of future cash flows cannot be estimated with reasonable reliability, the loans, advances and notes receivable are measured at the fair value of the underlying security net of expected costs of realization. The accrual of interest is suspended if collection becomes doubtful.

Deferred revenue

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

Leasehold inducements

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

Financial instruments

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

SIR Corp.

Notes to Consolidated Financial Statements

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

Future income taxes

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

Stock-based compensation and other stock-based payments

Effective September 1, 2003, the Company adopted the provisions of Handbook Section 3870, Stock-Based Compensation and Other Stock-Based Payments ("Handbook Section 3870"), of the CICA for awards to non-employees and employee awards modified after September 1, 2003. For all other awards, the Company implemented the recommendations of Handbook Section 3870 in fiscal 2006. Compensation expense is recognized based on the fair value method of accounting for stock options granted under the Company's stock option plan, for options issued after September 1, 2003. Any consideration paid by employees or directors on exercising stock options is credited to capital stock.

SIR Corp.

Notes to Consolidated Financial Statements

Foreign currency translation

Until August 29, 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 the current rate method, assets and liabilities are translated using year-end exchange rates while revenues and expenses are translated at the average rates during the period. Exchange gains and losses on translation are accumulated as a separate component of shareholders' deficiency (currency translation adjustment).

Effective August 30, 2004, the operations of the foreign subsidiary are considered integrated with those of the Company. As a result of the subsidiary's continuing losses from operations, the Company has been financing the subsidiary's operations and therefore the Company's exposure to risk of fluctuations in foreign exchange has changed. Monetary items are now translated into Canadian dollars at the exchange rate in effect at the balance sheet date, non-monetary items are translated at historical exchange rates and results of operations are translated at the average exchange rate for the period. Exchange gains and losses on the translation of the integrated foreign subsidiary are included in the net 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 period, the Company realized an exchange gain of \$Nil (August 27, 2006 - \$108,000) (see note 3).

Asset retirement obligations

Handbook Section 3110, Asset Retirement Obligations, of the CICA establishes standards for the recognition, measurement and disclosure of liabilities for asset retirement obligations and the associated asset retirement cost. The standard applies to legal obligations associated with the retirement of tangible long-lived assets. The standard applies to obligations for both lessors and lessees in connection with leased assets. The Company has adopted the provisions of this standard with respect to estimated lease-end remediation costs.

Recently issued accounting pronouncements

Financial Instruments – Recognition and Measurement, Handbook Section 3855

Handbook Section 3855 prescribes when a financial asset, financial liability, or non-financial derivative is to be recognized on the balance sheet and at what amount – in certain instances using fair value and in others using cost-based measures. It also specifies how financial instrument gains and losses are to be presented. The Company adopted this standard effective August 27, 2007.

SIR Corp.

Notes to Consolidated Financial Statements

Transitional provisions for this Section are complex and vary based on the type of financial instrument under consideration. Effective August 27, 2007, the Company elected to classify its cash and cash equivalents as held for trading which will be carried at fair value and to classify its accounts receivable and notes receivable as loans and receivables which will be carried at amortized cost. The Company's accounts payable and accrued liabilities, amount due to related parties, long-term debt and loan payable to SIR Royalty Income Fund, are classified as other liabilities and will also be carried at amortized cost.

Deferred financing fees related to the long-term debt prior to August 26, 2007 are currently presented as a separate asset on the consolidated balance sheet and amortized on a straight-line basis. Effective August 27, 2007, deferred financing charges are recognized as an offset to the carrying value of long-term debt and amortized using the effective interest rate method.

Comprehensive Income, Handbook Section 1530

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

The Company adopted this standard effective August 27, 2007. Financial statements of prior periods are required to be restated for certain comprehensive income items. In addition, an enterprise is encouraged, but not required, to present reclassification adjustments in comparative financial statements provided for earlier periods.

The Company has determined that it does not have any comprehensive income items requiring restatement or reclassification, except for the currency translation adjustment. Effective August 27, 2007, the currency translation adjustment will be disclosed as an accumulated other comprehensive income item in shareholders' deficiency on the consolidated balance sheets.

Hedges – Handbook Section 3865

Handbook Section 3865 establishes standards for when and how hedge accounting may be applied. Hedge accounting is optional. Retroactive application is not permitted. The Company adopted this standard effective August 27, 2007. The Company has no arrangements for hedging, and the adoption of this standard did not have any impact on the Company at this time.

Capital Disclosures – Handbook Section 1535

Handbook Section 1535 requires disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital and whether the entity has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance. This standard is effective for the Company for interim and annual financial statements beginning on September 1, 2008. Management has not yet determined the impact of the adoption of this change on the disclosure in its financial statements.

Financial Instruments – Disclosures – Handbook Section 3862

Handbook Section 3862 increases the disclosures currently required that will enable users to evaluate the significance of financial instruments for an entity's financial position and performance, including disclosures about fair value. In addition, disclosure is required of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about liquidity risk and market risk. The quantitative disclosures must also include a sensitivity analysis for each type of market risk to which an entity is exposed, showing how net income and other comprehensive income would have been affected by reasonably possible changes in the relevant risk variable. This standard is effective for the Company for interim and annual financial statements beginning on September 1, 2008. Management has not yet determined the impact of the adoption of this change on the disclosure in its financial statements.

Financial Instruments – Presentation – Handbook Section 3863

Handbook Section 3863 replaces the existing requirements on presentation of financial instruments which have been carried forward unchanged to this new section. This standard is effective for the Company for interim and annual financial statements beginning on September 1, 2008. Management does not expect the adoption of this standard to have a material impact on presentation in its financial statements.

International Financial Reporting Standards

The CICA plans to converge Canadian GAAP with International Financial Reporting Standards (IFRS) over a transition period expected to end in 2011. Management is reviewing the transition to IFRS on the Company's financial statements and has not yet determined the impact.

3 Discontinued operation

On February 10, 2006, the Company sold substantially all of the assets of Jack Astor's Las Colinas, LLC, a subsidiary of Jack Astor's (Cary & Las Colinas) Limited, for cash consideration of \$2,516,000 (US\$2,150,000). The Company recognized a loss on disposal of these assets of \$109,000 and the net proceeds from the sale were used to repay Jack Astor's Las Colinas, LLC's bank loan payables of \$2,474,000 (US\$2,115,000) as at February 10, 2006.

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 these foreign operations is reduced. As a result of the sale in fiscal 2006, the Company's net investment in Jack Astor's (Cary & Las Colinas) Limited was reduced and the portion of the currency translation adjustment related to the restaurant of \$108,000 was recognized in the consolidated statements of operations.

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

SIR Corp.

Notes to Consolidated Financial Statements

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

	August 26, 2007	August 27, 2006
	(in thousands of dollars)	
Food and beverage revenue	-	1,035
Cost of revenue	(30)	1,287
Amortization of restaurant assets	-	54
	<hr/>	<hr/>
	30	(306)
Unrealized foreign exchange gain	41	148
Currency translation adjustment	-	108
Loss on disposal of assets	-	(109)
	<hr/>	<hr/>
Net earnings (loss) from discontinued operation	<u>71</u>	<u>(159)</u>

Interest of \$Nil was paid by Jack Astor's Las Colinas, LLC for the 52-week period ended August 26, 2007 (52-week period ended August 27, 2006 - \$119,000).

The summarized consolidated balance sheets for the discontinued operation are as follows:

	August 26, 2007	August 27, 2006
	(in thousands of dollars)	
Current assets		
Accounts receivable	-	59
Prepays, deposits and other assets	-	8
	<hr/>	<hr/>
	-	67
Current liabilities		
Bank indebtedness	-	10
Accounts payable and accrued liabilities	-	647
	<hr/>	<hr/>
	-	657
Net liabilities of discontinued operation	<hr/> <u>-</u>	<hr/> <u>(590)</u>

SIR Corp.

Notes to Consolidated Financial Statements

4 Investments, loans, advances and notes receivable

	August 26, 2007	August 27, 2006
	(in thousands of dollars)	
Loans and advances to U.S. S.I.R. L.L.C. and subsidiaries (a)	757	580
Notes receivable (b)	15	15
	<hr/>	<hr/>
	772	595
	<hr/>	<hr/>

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

	August 26, 2007	August 27, 2006
	(in thousands of dollars)	
Loan receivable from U.S. S.I.R. L.L.C., with interest at 10%, interest only repayable annually, due August 31, 2003	1,180	1,180
Advances to and receivables from U.S. S.I.R. L.L.C., non- interest bearing, due on demand	5,124	4,805
Advances to and receivables from subsidiaries of U.S. S.I.R. L.L.C., non-interest bearing, due on demand	398	440
	<hr/>	<hr/>
Provision for impairment	6,702 (5,945)	6,425 (5,845)
	<hr/>	<hr/>
	757	580
	<hr/>	<hr/>

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

During 2006 and 2007, advances were made to U.S. S.I.R. L.L.C. and its subsidiaries to facilitate ongoing operations and the closure of certain restaurant operations. The Company has determined that these advances are impaired based on estimated future cash flows of the remaining U.S. operations. Accordingly, the loan and advances receivable are written down to their net realizable value of \$757,000 (August 27, 2006 - \$580,000).

SIR Corp.

Notes to Consolidated Financial Statements

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

	Loans and advances to U.S. S.I.R. L.L.C. and subsidiaries
Balance – August 28, 2005	534
Net advances and receivables	170
Provision for impairment	<u>(124)</u>
Balance – August 27, 2006	580
Net advances and receivables	277
Provision for impairment	<u>(100)</u>
Balance – August 26, 2007	<u>757</u>

(b) Notes receivable

	August 26, 2007	August 27, 2006
	(in thousands of dollars)	
Advances to equity accounted investment non-interest bearing, due on demand	10	172
Note receivable, bearing interest at 7% per annum, due September 29, 2006, payable in monthly blended instalments of \$4,000	86	86
Advances to shareholders, non-interest bearing, due on demand	<u>5</u>	<u>5</u>
Provision for impairment	<u>101</u> <u>(86)</u>	<u>263</u> <u>(248)</u>
	<u>15</u>	<u>15</u>

SIR Corp.

Notes to Consolidated Financial Statements

5 Due from shareholders

During 2005, the Company advanced \$1,959,000 to four shareholders of the Company to facilitate the exercise of stock options held by these shareholders with other shareholders of the Company. The loans bore interest at prime plus 1%, with principal and interest due February 16, 2007. During 2006, \$1,404,000 of these advances, including interest, were repaid and during 2007, the remaining loan amount was repaid. This transaction has not had any impact on the outstanding common stock or options of the Company.

Interest income related to the loans receivable for the 52-week period ended August 26, 2007 was \$22,000 (52-week period ended August 27, 2006 - \$110,000). Interest received during the 52-week period ended August 26, 2007 was \$81,000 (52-week period ended August 27, 2006 - \$98,000).

A summary of the shareholder loans is as follows:

	August 26, 2007	August 27, 2006
	(in thousands of dollars)	
Balance – Beginning of period	712	2,006
Interest earned during the period	22	110
Repayment of principal and interest received during the period	(734)	(1,404)
Balance – End of period	<u>-</u>	<u>712</u>

SIR Corp.

Notes to Consolidated Financial Statements

6 Property and equipment

	August 26, 2007		
	Cost	Accumulated amortization	Net
	(in thousands of dollars)		
Corporate			
Furniture, fixtures and equipment	382	371	11
Leasehold improvements	226	167	59
Computer equipment and software	1,824	1,499	325
Restaurants			
Land	1,213	-	1,213
Buildings	1,712	559	1,153
Furniture, fixtures and equipment	28,098	11,744	16,354
Leasehold improvements	39,250	16,511	22,739
	<u>72,705</u>	<u>30,851</u>	<u>41,854</u>
			August 27, 2006
	Cost	Accumulated amortization	Net
	(in thousands of dollars)		
Corporate			
Furniture, fixtures and equipment	382	363	19
Leasehold improvements	287	159	128
Computer equipment and software	1,766	1,401	365
Restaurants			
Land	1,213	-	1,213
Buildings	1,714	474	1,240
Furniture, fixtures and equipment	24,514	9,926	14,588
Leasehold improvements	33,408	12,928	20,480
	<u>63,284</u>	<u>25,251</u>	<u>38,033</u>

Amortization of property and equipment charged to the consolidated statements of operations for the 52-week period ended August 26, 2007 was \$6,984,000 (52-week period ended August 27, 2006 - \$6,492,000).

Property and equipment includes \$1,964,000 (August 27, 2006 - \$2,468,000) of costs for restaurants under development which are not being amortized as at August 26, 2007.

Property and equipment includes computer equipment held under capital leases with a cost of \$459,000 (2006 - \$Nil) and net book value of \$452,000 (2006 - \$Nil).

SIR Corp.

Notes to Consolidated Financial Statements

As a result of a decline in sales and earnings from certain restaurants, the Company conducted an impairment analysis of these restaurants' property and equipment. The analysis indicated that the estimated future cash flow for one restaurant, in the Signature operating segment, in fiscal 2006, was not sufficient to recover the carrying value of the property and equipment and, accordingly, an impairment loss of \$332,000 was recorded to write down restaurant furniture, fixtures and equipment and leasehold improvements to their fair values. The fair values were determined by discounting the estimated future cash flows related to the restaurant.

7 Intangible and other assets

	August 26, 2007		
	Cost	Accumulated amortization (in thousands of dollars)	Net
Restaurant pre-opening costs	4,984	3,051	1,933
Intangible lease assets	1,779	1,072	707
Deferred financing fees	5,689	351	5,338
	12,452	4,474	7,978

	August 27, 2006		
	Cost \$	Accumulated amortization \$ (in thousands of dollars)	Net \$
Restaurant pre-opening costs	4,157	2,609	1,548
Intangible lease assets	1,779	913	866
Deferred financing fees	4,832	223	4,609
	10,768	3,745	7,023

Restaurant pre-opening costs include \$100,000 (2006 - \$281,000) of costs which are not being amortized at August 26, 2007 because the pre-operating period has not been completed.

Deferred financing fees include costs of \$4,832,000 in respect of issuing Partnership units and the SIR Loan that have been deferred and are being amortized over the term of the SIR Loan (note 9(a)) and costs of \$857,000 in respect of a new credit agreement the Company entered into on August 9, 2007, which are also being amortized over the term of the credit agreement (note 8).

SIR Corp.

Notes to Consolidated Financial Statements

A summary of the allocation of the amortization of intangible and other assets charged to the consolidated statements of operations:

	August 26, 2007	August 27, 2006
	(in thousands of dollars)	
Amortization expense	601	642
Interest expense	128	121
	<hr/>	<hr/>
	729	763
	<hr/>	<hr/>

8 Bank indebtedness and long-term debt

On August 9, 2007, the Company entered into a \$16,000,000 credit facility. The credit facility consists of a two year revolving credit facility (“operating line”) up to \$2,000,000, a two year revolving construction credit facility (“construction line”) for up to \$13,000,000 and a treasury management facility for up to \$1,000,000. Outstanding balances under the construction line for completed restaurants convert into a five year amortizing term loan at the end of the committed period or earlier, such as semi-annual, to be determined by SIR and the lender. The construction line and the operating line are two year committed facilities, renewable annually thereafter at the lender’s sole discretion for a 364-day period. The structure of the facility may be in the form of direct advances, banker’s acceptances, letters of credit or guarantee and the fixed term loan (up to a five year term). The rates of interest on the financing are banker’s acceptance rate plus 1.75% and prime rate plus 0.25%. The financing arrangement is collateralized by a general security agreement and entitles the lender to a first charge on all of SIR’s assets, including a pledge of all shares and SIR Corp.’s investment in the Partnership and a specific assignment of rights under the License and Royalty Agreement. For greater certainty, the lender does not have a pledge over the assets of the Partnership. The financing arrangement contains certain financial and non-financial covenants.

The unused operating line and construction line as at August 26, 2007 is \$1,677,000 and \$13,000,000, respectively. As at August 26, 2007, the Company has outstanding letters of credit of \$15,000.

SIR Corp.

Notes to Consolidated Financial Statements

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

	August 26, 2007	August 27, 2006
	(in thousands of dollars)	
Loans payable (US\$1,483,000; 2006 – US\$1,594,000), bearing interest at 9.01%, due February 1, 2016, repayable in monthly blended instalments of principal and interest of \$22,000 (US\$21,000) (a)	1,585	1,797
Loans payable (US\$31,000; 2006 – US\$90,000), bearing interest at 8.3%, due February 1, 2008, repayable in monthly blended instalments of principal and interest of \$6,000 (US\$5,000) (a)	33	101
Loan payable (2006 – US\$308,000), bearing interest at 15%, due August 31, 2006	-	346
Loan payable, bearing interest at 7%, due March 31, 2007, repayable in monthly blended instalments of principal and interest of \$6,000	-	47
Loans payable to landlords, non-interest bearing, repayable in monthly instalments, maturing between May 31, 2009 and June 22, 2010	79	112
Capital lease obligation, bearing interest between 9.8% and 10.7%, repayable in monthly instalments, maturing between June 15, 2010 and February 1, 2011	412	-
	2,109	2,403
Current portion	(1,759)	(2,325)
	350	78

- (a) These loans were entered into by Jack Astors Cary, LLC, a subsidiary of Jack Astor's (Cary & Las Colinas) Limited, in fiscal 2001 and are guaranteed by the Company. These loans are currently non-compliant with respect to certain financial and non-financial covenants. As a result, these loans are presented as a current liability. All payments due on the loans have been made to date and no notices of default have been received by the borrowers. The loans are secured by the assets of Jack Astor's (Cary & Las Colinas) Limited and a pledge of the shares in Jack Astor's (Cary & Las Colinas) Limited.

SIR Corp.

Notes to Consolidated Financial Statements

The principal amount of loans payable, in thousands of dollars, is repayable as follows:

	\$
2008	304
2009	284
2010	318
2011	216
2012	186
Thereafter	801
	<hr/>
	2,109
	<hr/>

A summary of the effective interest rate on long-term debt and interest expense, in thousands of dollars, is as follows:

	August 26, 2007	August 27, 2006
Weighted average interest rate on long-term debt	10.0%	9.45%
Interest expense relating to long-term debt	\$185	\$239
Interest on capital lease obligation, included in interest expense	\$11	-

9 SIR Royalty Income Fund

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

The \$40,000,000 SIR Loan bears interest at 7.5% per annum and is due October 12, 2044. On August 9, 2007, the Fund entered into an agreement to subordinate and postpone its claims against the Company in favour of the bank. The Partnership and the Fund have not guaranteed this credit facility (note 8).

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 License 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 an Interlender Agreement.

Under the Interlender Agreement, absent a default or event of default under the Credit Agreement, 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 bank is pursuing remedies). The Interlender Agreement also contains various other typical covenants of the Fund and the Partnership.

SIR Corp.

Notes to Consolidated Financial Statements

Interest expense charged to the consolidated statements of operations for the 52-week period ended August 26, 2007 was \$2,992,000 (52-week period ended August 27, 2006 - \$2,992,000).

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

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

	52-week period ended August 26, 2007	52-week period ended August 27, 2006
	(in thousands of dollars)	
Initial investment by the Fund	11,167	11,167
Non-controlling interest in earnings of the Partnership	4,499	4,488
Distributions declared on the Partnership units held by the non-controlling interest	(4,499)	(4,488)
Non-controlling interest in the Partnership	<u>11,167</u>	<u>11,167</u>
Pooled revenue *	<u>158,138</u>	<u>143,966</u>
Partnership royalty income *	9,549	8,683
Other income	54	41
Partnership expenses	(129)	(138)
Net earnings of the Partnership	9,474	8,586
Company's interest in the earnings of the Partnership	<u>(4,975)</u>	<u>(4,098)</u>
Non-controlling interest in the earnings of the Partnership	<u>4,499</u>	<u>4,488</u>

*Includes revenue from the SIR Restaurants subject to the License and Royalty Agreement and excludes revenue for Jack Astor's (Cary & Las Colinas) Limited, Jack Astor's in Hamilton, Ontario and the Jack Astor's in Dartmouth, Nova Scotia. Revenue from Jack Astor's on Front Street and the Jack Astor's in Whitby is only included for the period from January 1, 2006 (the date these restaurants became part of the Royalty pool) to August 26, 2007. Revenue from the Canyon Creek restaurants in Scarborough, Vaughan and Niagara Falls is only included for the period from January 1, 2007 (the date these restaurants became part of the Royalty pool) to August 26, 2007. 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, from the date of closure to December 31, 2006, for the closed Jack Astor's Don Mills location.

SIR Corp.

Notes to Consolidated Financial Statements

On October 12, 2004, the Partnership issued Ordinary LP and GP units to the Fund for cash 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 and have the right to receive distributions in priority to the Class A GP units which are held by the Company.

The holders of the Class A GP units are entitled to receive a pro rata share of all residual distributions of the Partnership and subject to the subordination provisions, the Class A GP units are exchangeable into units of the Fund. Distributions to the Company, as holder of the initial 595,185 Class A GP units of the Partnership, representing the initial retained interest in the Partnership, through the exchange feature, as at the closing date of the offering, were subordinated to distributions by the Partnership to the Trust on the Ordinary LP units and the Class A LP units (if any). The subordination of distributions on the Class A GP units ended on August 26, 2007 when both the minimum revenue condition and the average monthly cash distribution per Fund unit condition were met.

The Partnership owns the Canadian trademarks (the “SIR Rights”) formerly owned or licensed by the Company or its subsidiaries and used in connection with the operation of the majority of the Company’s restaurants in Canada. The Partnership has granted the Company a 99-year license to use the SIR Rights in most of Canada in consideration for a Royalty, payable by the Company to the Partnership, equal to 6% of the revenue of the restaurants included in the Royalty pool (the “License and Royalty Agreement”).

Under the terms of the License and Royalty Agreement, the Company may be required to pay a Make-Whole Payment in respect of the reduction in revenue for restaurants closed during a reporting period. The Company is not required to pay any Make-Whole Payment in respect of a closed restaurant following the date on which the number of restaurants in the Royalty pool is equal to or greater than 68 or following October 12, 2019, whichever occurs first. On January 1 of each year (the “Adjustment Date”), following December 31, 2005, the restaurants subject to the License and Royalty Agreement are adjusted for new SIR Restaurants opened for at least 60 days preceding such Adjustment Date. At each Adjustment Date, the Company will be entitled to convert its Class B GP units of the Partnership to Class A GP units of the Partnership based on the formula defined in the Partnership Agreement.

On January 1, 2007, three new SIR restaurants were added to the Royalty pool in accordance with the License and Royalty Agreement. As consideration for the additional Royalty associated with the addition of three new restaurants on January 1, 2007, as well as the Second Incremental Adjustment for the two new SIR restaurants added to the Royalty Pooled Restaurants on January 1, 2006, the Company converted its Class B GP units into Class A GP units based on the formula defined in the Partnership Agreement. The number of Class B GP units that the Company converted to Class A GP units was reduced by an adjustment for the closure of one SIR Restaurant during the calendar year 2006. The net effect of these adjustments to the Royalty Pooled Restaurants was that the Company converted 421,004 Class B GP units of the Partnership into 421,004 Class A GP units of the Partnership on January 1, 2007 at an estimated fair value of \$3,532,000.

SIR Corp.

Notes to Consolidated Financial Statements

On January 1, 2006, two new SIR Restaurants were added to the Royalty pool in accordance with the License and Royalty Agreement. As consideration for the additional Royalty associated with the addition to two new restaurants, the Company converted 438,820 Class B GP units to 438,820 Class A GP units based on the formula defined in the Partnership Agreement. The 438,820 Class A GP units have been recorded at their estimated fair value of \$4,063,000. The revenues of these new SIR Restaurants exceeded 80% of the Initial Adjustment's estimated revenue and, as a result, an additional distribution of \$231,000 was declared in December 2006 and paid in cash to the Company in January 2007.

(c) Amounts due to SIR Royalty Income Fund

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

	August 26, 2007	August 27, 2006
	(in thousands of dollars)	
Advances receivable	(1,047)	(874)
Interest payable on SIR Loan (note 9(a))	483	492
Partnership distributions payable (note 9(b))	1,824	1,467
	<hr/>	<hr/>
Payable to SIR Royalty Income Fund and its subsidiaries – net	1,260	1,085

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

During the 52-week period ended August 26, 2007, distributions of \$4,499,000 (52-week period ended August 27, 2006 - \$4,488,000) were declared to the Fund through the Partnership. The Fund, indirectly through the Trust, is entitled to receive a pro rata share of all residual distributions.

The Company, through the Partnership, has entered into an arrangement with the Fund and the Trust whereby the Partnership will provide or arrange for the provision of services required in the administration of the Fund and the Trust. The Partnership has arranged for these services to be provided by SIR GP Inc., in its capacity as the Managing General Partner of the Partnership. For the 52-week period ended August 26, 2007, the Partnership provided these services to the Fund and the Trust for consideration of \$24,000 (52-week period ended August 27, 2006 - \$24,000), which was the amount of consideration agreed to by the related parties.

SIR Corp.

Notes to Consolidated Financial Statements

10 Other long-term liabilities

	August 26, 2007	August 27, 2006
	(in thousands of dollars)	
Deferred revenue	300	412
Leasehold inducements	5,061	3,475
Accrued management bonus (a)	3,477	3,376
Asset retirement obligation (b)	314	299
	<hr/>	<hr/>
Current portion	9,152 (1,067)	7,562 (1,083)
	<hr/>	<hr/>
	8,085	6,479

- (a) The Company has a management bonus program that provides restaurant managers and area directors with the opportunity to earn a bonus based on the cash flow of the restaurant(s). The percentage of cash flow earned depends on the manager's and area director's years of service and ranges from 0% to 10%. The managers and area directors also have the opportunity to earn a bonus upon leaving the organization if he/she has at least five years of service. This bonus is based on the value of the restaurant(s) at that time, using cash flows over a three-year period and a percentage that ranges from 2% to 10%. Upon leaving the plan, the participant's bonus is paid in three instalments over a two-year period.
- (b) The Company has recorded an asset retirement obligation in respect of the estimated lease-end remediation costs. The asset retirement obligation was estimated based on a discounted cash flow analysis using the following key assumptions:

	August 26, 2007	August 27, 2006
Total undiscounted estimated cash flows, in thousands of dollars	\$607	\$582
Expected timing of repayments	1.3 years to 14.6 years	1.5 years to 14.2 years
Discount rate	7.5%	7.5%

SIR Corp.

Notes to Consolidated Financial Statements

11 Capital stock and redeemable shares

Capital stock

Authorized

Unlimited number of common shares

Issued and outstanding

	<u>August 26, 2007</u>		<u>August 27, 2006</u>	
	<u>Number of</u> <u>shares</u> <u>(in thousands)</u>	<u>\$</u>	<u>Number of</u> <u>shares</u> <u>(in thousands)</u>	<u>\$</u>
Common shares				
Balance – Beginning of period	15,775	17,649	11,368	8,703
Issued on exercise of stock options	20	-	-	-
Issued for cash consideration	-	-	2,463	5,000
Issued in exchange for redemption of Class A special shares	-	-	1,944	3,946
Repurchased	(20)	(22)	-	-
Balance – End of period	<u>15,775</u>	<u>17,627</u>	<u>15,775</u>	<u>17,649</u>

During 2007, 20,000 stock options were exercised for no consideration. The Company immediately repurchased 20,000 shares of the Company for total cash consideration of \$41,000. Of this amount, \$22,000 was charged to capital stock and \$18,000 was charged to deficit.

On June 5, 2006, 2,463,055 shares were issued to certain existing shareholders for cash consideration of \$5,000,000.

On June 30, 2006, 1,943,977 shares were issued in exchange for the redemption of all the issued and outstanding Class A special shares plus accrued interest.

SIR Corp.

Notes to Consolidated Financial Statements

Stock option plan

A summary of the status of the Company's stock option plan as at August 26, 2007 and August 27, 2006 and changes during the periods is presented below:

	Number of options outstanding	Weighted average exercise price per share \$
Balance – August 28, 2005 and August 27, 2006	2,221,450	0.03
Exercised during 2007	(20,000)	-
	<hr/>	<hr/>
Balance – August 26, 2007	2,201,450	0.03

As at August 26, 2007, the outstanding and exercisable options to purchase common shares are as follows:

Option price range	Options outstanding			Options exercisable	
	Number outstanding	Weighted average remaining life (years)	Weighted average exercise price \$	Number exercisable	Weighted average exercise price \$
\$Nil (a)	54,000	-	Nil	54,000	Nil
\$0.01 (b)	2,112,450	13.5	0.01	2,112,450	0.01
\$1.00 (U.S.) (c)	<u>35,000</u>	-	1.00 (U.S.)	<u>35,000</u>	1.00 (U.S.)
	<u>2,201,450</u>			<u>2,201,450</u>	

As at August 27, 2006, the outstanding and exercisable options to purchase common shares are as follows:

Option price range	Options outstanding			Options exercisable	
	Number outstanding	Weighted average remaining life (years)	Weighted average exercise price \$	Number exercisable	Weighted average exercise price \$
\$Nil (a)	74,000	-	Nil	74,000	Nil
\$0.01 (b)	2,112,450	14.5	0.01	2,112,450	0.01
\$1.00 (U.S.) (c)	<u>35,000</u>	-	1.00 (U.S.)	<u>35,000</u>	1.00 (U.S.)
	<u>2,221,450</u>			<u>2,221,450</u>	

SIR Corp.

Notes to Consolidated Financial Statements

- (a) These options have all vested. Upon death, permanent disability or resignation of employment with the Company, the Company retains the right to purchase the employee's remaining interest at a negotiated price which shall be paid over three years. These options do not expire.
- (b) The options vested at the date of grant and expire on the twentieth anniversary after the date of grant.
- (c) The options vest at the fourth anniversary after the date of grant. In the event of death, disability or resignation or replacement as a director, the Company retains the right to purchase the optionee's remaining interest at a negotiated price which shall be paid over three years. These options do not expire.

Redeemable shares

The Class A special shares, including the 12% cumulative dividend, were converted on June 30, 2006 to 1,943,977 common shares at a price of \$2.03 per common share. Since the Class A special shares were redeemable at the option of the holder, the shares were classified as a liability with the cumulative dividend recognized as interest expense in the consolidated statements of operations. Interest expense relating to the Class A special shares for the 52-week period ended August 26, 2007 was \$Nil (52-week period ended August 27, 2006 - \$287,000).

12 Related party transactions

In addition to the transactions disclosed elsewhere in these consolidated financial statements, the Company entered into the following related party transactions:

	August 26, 2007	August 27, 2006
	(in thousands of dollars)	
Corporate costs		
Paid operational services provided by three shareholders of the Company	835	788
Paid rent for its head office premises and one restaurant to certain shareholders of the Company (directly or indirectly)	205	225
Paid consulting fees indirectly to one of the Company's directors	8	93
Paid consulting fees to one shareholder of the Company	48	29
Direct costs of restaurant operations		
Paid consulting fees indirectly to one of the Company's directors	148	105
Property and equipment		
Paid design fees provided by one shareholder of the Company	48	-

The above transactions are in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

SIR Corp.

Notes to Consolidated Financial Statements

The Company has a lease commitment to certain shareholders of the Company related to its head office premises that expires on December 31, 2010. The payments under this lease will be \$190,000, \$190,000 and \$63,000 for fiscal years 2008, 2009 and 2010, respectively.

During the year, the Company repaid a loan due to shareholders of \$23,000. Interest expense relating to the loan for the 52-week period ended August 26, 2007 was \$Nil (52-week period ended August 27, 2006 - \$3,000).

13 Contingencies and commitments

In the normal course of business the Company is threatened from time to time with, or named as a defendant in, legal proceedings, including those relating to wrongful dismissal or personal injury. Many claims are covered by the Company's insurance policies and none of the current claims are expected to have a material adverse effect on the Company.

The Company and its subsidiaries have entered into operating leases relating to its head office and retail locations with minimum annual payments (excluding occupancy cost and percentage rent) as follows:

	August 26, 2007
	(in thousands of dollars)
2008	9,798
2009	10,034
2010	9,349
2011	7,968
2012	7,625
Thereafter	<u>36,601</u>
	<u>81,375</u>

As at August 26, 2007, the Company had entered into three commitments to lease properties and has or is currently constructing restaurants on these properties. 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. The Company expects to spend an additional \$7,500,000 to complete the construction of these restaurants.

SIR Corp.

Notes to Consolidated Financial Statements

14 Supplemental cash flow information

The net change in working capital items is as follows:

	August 26, 2007	August 27, 2006
	(in thousands of dollars)	
Accounts receivable and other receivables	698	(1,115)
Inventories	(153)	3
Prepays, deposits and other assets	(143)	(61)
Income taxes receivable/payable	(129)	221
Accounts payable and accrued liabilities	1,553	1,567
Due to related parties	175	178
Accrued management bonus	101	817
	<hr/> 2,102	<hr/> 1,610

Other non-cash items consist of the following:

	August 26, 2007	August 27, 2006
	(in thousands of dollars)	
Loss on disposal of property and equipment	391	439
Deferred revenue	(112)	(72)
Other	(52)	5
	<hr/> 227	<hr/> 372

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

	August 26, 2007	August 27, 2006
	(in thousands of dollars)	
Interest paid	<hr/> 3,134	<hr/> 3,119
Rent paid	<hr/> 8,599	<hr/> 8,035
Income taxes paid	<hr/> 134	<hr/> 84
Non-cash purchases of property and equipment	<hr/> 1,319	<hr/> 1,296
Purchases of property and equipment under capital leases	<hr/> 459	<hr/> -
Receivable for leasehold inducement	<hr/> 499	<hr/> 858

SIR Corp.

Notes to Consolidated Financial Statements

15 Income taxes

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

	August 26, 2007	August 27, 2006
	(in thousands of dollars)	
Current	5	305
Future	6	(62)
	<u>11</u>	<u>243</u>

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

	August 26, 2007	August 27, 2006
	(in thousands of dollars)	
Loss before income taxes, loss from equity accounted investment and non-controlling interest in other subsidiary companies	<u>(4,425)</u>	<u>(4,502)</u>
Income tax recovery at Canadian statutory rate of 34% (August 27, 2006 – 35%)	(1,505)	(1,576)
Increased (decreased) by the effect of		
Non-controlling interest in SIR Royalty Limited Partnership	1,530	1,571
Non-deductible expenses	33	131
Deductible expenses	(1,067)	-
Differences in effective tax rates	(55)	(31)
Change in valuation allowance	1,026	(492)
Change in future tax rates	-	381
Non-taxable foreign exchange	30	61
Other	19	198
	<u>11</u>	<u>243</u>

SIR Corp.

Notes to Consolidated Financial Statements

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

	August 26, 2007	August 27, 2006
	(in thousands of dollars)	
Property and equipment	(2,896)	(2,983)
Intangible and other assets	(1,713)	(1,349)
Loss carry-forwards	9,022	8,306
Accrued management bonus	1,114	1,049
Leasehold inducements	1,638	1,128
Asset retirement obligation	101	95
	<hr/>	<hr/>
Valuation allowance	7,266	6,246
	(7,266)	(6,240)
	<hr/>	<hr/>
	-	6
	<hr/>	<hr/>

As at August 26, 2007, the Company and its subsidiaries have available non-capital losses of \$23,835,000 (August 27, 2006 - \$22,395,000) for income tax purposes, which expire as follows:

	August 26, 2007	
	(in thousands of dollars)	
2008	556	
2009	1,796	
2010	1,664	
2011	1,769	
2015	8,788	
2016	2,741	
2017	2,208	
2024	2,189	
2025	1,109	
2026	328	
2027	687	
	<hr/>	
	23,835	
	<hr/>	

In aggregate, the Company has recognized \$1,756,000 (August 27, 2006 - \$2,066,000) of the benefit of the non-capital losses and \$Nil (2006 - \$Nil) of capital losses. The benefits of non-capital losses have been recognized to the extent that these can be offset by other future income tax liabilities.

SIR Corp.

Notes to Consolidated Financial Statements

16 Other income (expense)

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

	August 26, 2007	August 27, 2006
	(in thousands of dollars)	
Loss on disposal of property and equipment	(391)	(439)
Gift certificates	115	99
Lease settlement (a)	-	829
Other	121	61
	<u>(155)</u>	<u>550</u>

- (a) On May 27, 2006, the Company closed the Jack Astor's location in Don Mills, Ontario. The landlord has demolished this location and intends to redevelop it into a major "lifestyle mall". It is expected that this project will be completed in the second half of the 2008 calendar year and a Jack Astor's restaurant will open in this location at that time. The lease related to this location has been terminated and, accordingly, the Company reached a settlement with the landlord. Under the terms of the License and Royalty Agreement, the Company was required to pay a Make-Whole Payment for this location from the date of closure to December 31, 2006. In accordance with the License and Royalty Agreement, on January 1, 2007, the closed restaurant was netted against the Pooled Revenue of new SIR Restaurants opened on or before November 1, 2006, to determine the number of Class B GP units of the Partnership which were converted into Class A GP units of the Partnership (see note 9).

SIR Corp.

Notes to Consolidated Financial Statements

17 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 significant accounting policies. The Company evaluates the performance of each segment based on earnings (loss) from operations before income taxes, interest, other non-recurring gains and losses, corporate costs and amortization of non-restaurant assets.

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

	August 26, 2007	August 27, 2006
	(in thousands of dollars)	
Food and beverage revenue		
Canada		
Jack Astor's	99,959	96,341
Alice Fazooli's!	19,424	18,342
Canyon Creek Chop House	26,509	17,976
Signature	18,924	18,173
	<hr/>	<hr/>
	164,816	150,832
United States		
Jack Astor's	2,397	2,233
	<hr/>	<hr/>
	167,213	153,065
	<hr/>	<hr/>

18 Comparative figures

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