SIR CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED AUGUST 26, 2007

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FOR THE 52-WEEK PERIOD ENDED AUGUST 26, 2007

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FOR THE 52-WEEK PERIOD ENDED AUGUST 26, 2007

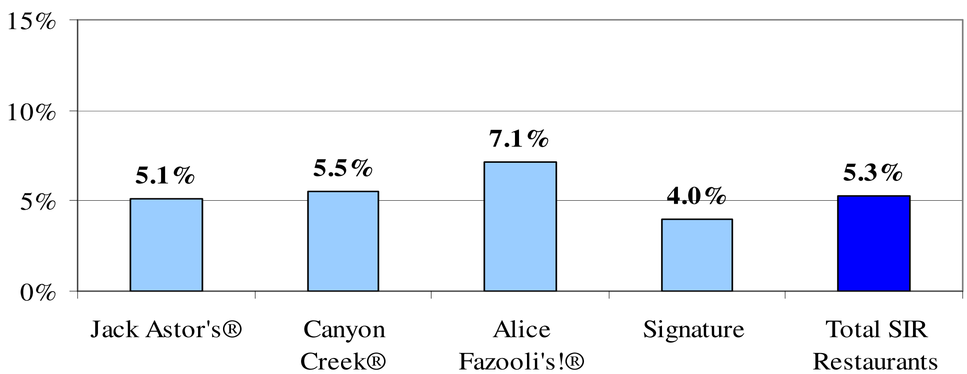
Executive Summary

SIR Corp.'s ("SIR") fourth quarter of fiscal 2007 ("Q4") was from May 7, 2007 to August 26, 2007 inclusive. During Q4, SIR continued with its growth strategy and continued to experience total and same store sales growth[(1)] ("SSSG"). Same store sales[(1)] ("SSS") and SSSG[(1)] are non-GAAP measures. Please refer to the reconciliation of consolidated revenue to SSS[(1)] on page 8 and to the definition of SSS[(1)] in the Revenue section on page 9.

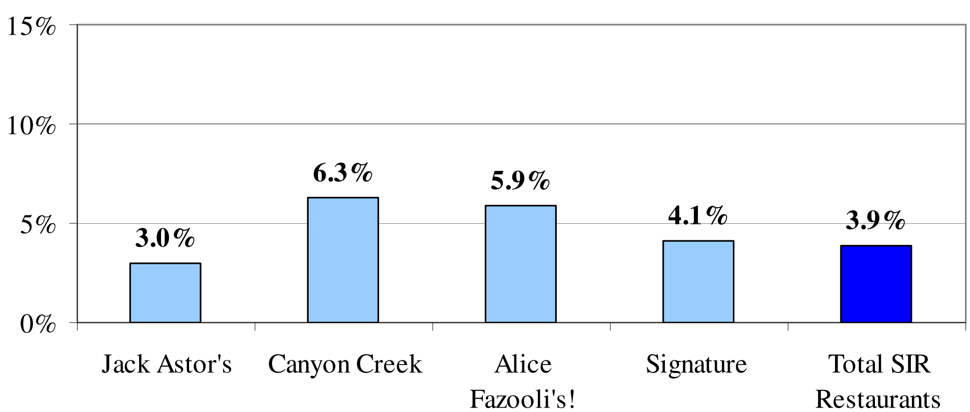
Highlights for SIR's fourth quarter include:

- ***Growth in both consolidated revenue and SSS[(1)] (unaudited):***
  - Corporate restaurant operations' food and beverage revenue from corporate restaurant operations for the fourth quarter was $53.7 million and $167.2 million year to date ("YTD"). This represents a $6.4 million or 13.6% increase over the prior year for the quarter and a $14.1 million or 9.2% increase over the prior year for the YTD.
  - SSSG[(1)] for restaurants in the Royalty pool was 5.3% and 3.9% for the 16 and 52-week periods ended August 26, 2007, respectively.

Same Store Sales Growth[(1)] for the 16-week period ended August 26, 2007



Same Store Sales Growth[(1)] for the 52-week period ended August 26, 2007



[(1)] Same store sales includes revenue from all SIR restaurants except for the three Canyon Creeks located in Scarborough, Vaughan and Niagara Falls, Ontario, and the two Jack Astor's located in Hamilton, Ontario and Dartmouth, Nova Scotia because they were not open for the entire comparable period in fiscal 2006 (the US restaurant is not part of SSS). SSS also excludes revenue for the Jack Astor's in Don Mills because it was closed during fiscal 2006. Same store sales growth is the percentage increase in SSS over the prior comparable period. SSS and SSSG are non-GAAP measures that do not have standardized meanings prescribed by GAAP. 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.

- SSSG[(1)] for the Concept Restaurants (Jack Astor's, Canyon Creek and Alice Fazooli's!), which generate approximately 88.0% of YTD Pooled Revenue, was 5.4% and 3.8% for the 16 and 52-week periods ended August 26, 2007, respectively.
- SSSG[(1)] for Jack Astor's, SIR's flagship Concept Restaurant brand that generates approximately 61.2% of YTD Pooled Revenue, was 5.1% and 3.0% for the 16 and 52-week periods ended August 26, 2007, respectively.
- Canyon Creek continues to perform well, with SSSG[(1)] of 5.5% and 6.3% for the 16 and 52-week periods ended August 26, 2007, respectively.
- For the 16 and 52-week periods ended August 26, 2007, SSSG[(1)] of Alice Fazooli's! was 7.1% and 5.9%, respectively.
- SSSG[(1)] of the downtown Toronto Signature Restaurants, which represent approximately 12.0% of YTD Pooled Revenue, was 4.0% and 4.1% for the 16 and 52-week periods ended August 26, 2007, respectively.

- ***Investment in existing restaurants***
  - To date, all but one existing Jack Astor's restaurant originally in the Royalty pool has undergone the successful evolution process. SIR expects to evolve this remaining Jack Astor's restaurant in fiscal 2008. The Jack Astor's restaurants experienced strong SSSG[(1)], averaging over 10% in the first year following the year of evolution. Now that the program is near completion and most of the evolved restaurants have been evolved for more than one year, the velocity of Jack Astor's SSSG[(1)] driven by the evolutions is reduced.
  - The last of five Alice Fazooli's! restaurants was renovated in October 2006. Average revenue increases in the first full year after each renovation have been in excess of 10%.
  - A major renovation of reds® was completed in Q1 of fiscal 2007. Management is pleased with the results of the renovations and reds continues to experience strong sales growth since the renovation.
  - A major renovation of one Canyon Creek restaurant was completed in Q4 of 2007.
  - Continued Jack Astor's advertising program with a leading marketing firm. In 2006, Jack Astor's earned Gold recognitions at the London International Advertising Awards (for its Italian Festival) and also at the Canadian Marketing Association Awards.
  - Subsequent to fiscal 2007, the Armadillo Steak House®/Loose Moose Tap & Grill® underwent a renovation and will now operate as the Loose Moose Tap & Grill on both floors of the premises and renovations at the Soul of the Vine® took place in order to introduce an innovative bakery concept, Petit Four™ Bakery, which targets the lucrative catering and take-out markets in the downtown Toronto core.

- ***Investment in new restaurants***
  - A new Canyon Creek restaurant opened at the Fallsview Casino Resort in Niagara Falls, Ontario during Q1, on August 28, 2006. Two other Canyon Creek restaurants opened during the latter half of fiscal 2006. Each of these three restaurants was added to the Royalty Pooled Restaurants effective January 1, 2007.
  - During Q3 of fiscal 2007, on March 26, 2007, SIR opened a new Jack Astor's restaurant in Hamilton, Ontario. During Q4 of fiscal 2007, on May 7, 2007, SIR opened a new Jack Astor's restaurant in Dartmouth, Nova Scotia. It is anticipated that these restaurants will be added to the Royalty Pooled Restaurants effective January 1, 2008.
  - Subsequent to the end of fiscal 2007, a new Jack Astor's site opened in Burlington, Ontario, on October 15, 2007. The existing Jack Astor's restaurant in Burlington was closed on September 29, 2007. With respect to the closed Burlington restaurant location, SIR is required to pay a Make-Whole Payment from the date of closure to December 31, 2007. Effective January 1, 2008, the closed restaurant would be removed from the Royalty Pooled Restaurants as a New Closed Restaurant. The new site is expected to provide higher revenues and therefore a greater Royalty stream to the SIR Royalty Limited Partnership (the "Partnership"). The new Jack Astor's restaurant in Burlington is expected to be added to the Royalty Pooled Restaurants effective January 1, 2008 as a New Additional Restaurant.
  - A new Jack Astor's in Whitby, Ontario opened during Q1 of fiscal 2006, on August 31, 2005. This restaurant, along with the Jack Astor's that opened on February 2, 2005 in downtown Toronto, became part of the Royalty Pooled Restaurants effective January 1, 2006.
  - SIR has secured three additional sites for Jack Astor's and Canyon Creek restaurants. One of these new sites is for a Jack Astor's at the corner of Dundas and Yonge Streets in Toronto, Ontario which is expected to open in fiscal 2008. Two new sites have been secured near the Toronto Pearson International Airport for a Jack Astor's and a Canyon Creek, under one lease, which are also expected to open in fiscal 2008.

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

- ***Closed restaurants***
  - During Q4 of fiscal 2006, the Jack Astor's in Don Mills, Ontario was closed. This location has been demolished by the landlord and is to be redeveloped into a major "lifestyle mall". It is expected that this project will be completed in the second half of calendar year 2008 and a new Jack Astor's would open in this location at that time. Revenue from this restaurant has been excluded from SSS(1) and effective January 1, 2007, is no longer part of the Royalty pool.
  - Subsequent to August 26, 2007, SIR announced that Brasserie Frisco® would be closed on December 22, 2007 and a new Jack Astor's is expected to open in the former Brasserie Frisco location in the first half of calendar year 2008. After evaluating a range of options, SIR determined that converting Brasserie Frisco into a new Jack Astor's is the best use of this prime downtown Toronto location. Brasserie Frisco will be treated as a 2007 Closed Restaurant and, in accordance with the License and Royalty Agreement, on January 1, 2008, the revenue of the closed restaurant will be netted against the revenue of the new SIR Restaurants opened between November 2, 2006 and November 1, 2007 to determine the number of Class B GP units of the Partnership, held by SIR, which can be converted into Class A GP units of the Partnership effective January 1, 2008. SIR is required to pay a Make-Whole Payment from the date of closure to December 31, 2007.

- ***Net Loss from Continuing Operations***
  - The net loss from continuing operations for Q4 of $1.0 million was $0.4 million favourable to the same period in the prior year.
  - The YTD net loss from continuing operations of $4.4 million is $0.5 million favourable to the same period in the prior year.

- ***EBITDA(2)***
  - EBITDA(2) is a non-GAAP measure. Please refer to the reconciliation of loss from continuing operations to EBITDA(2) on page 7 of this document.
  - EBITDA(2) for the fourth quarter is $3.8 million and $3.1 million in the current and prior year, respectively**.**
  - YTD EBITDA(2) is $11.0 million and $10.2 million in the current and prior year, respectively.

Outlook

- Following the successful launch of the SIR Royalty Income Fund (the "Fund"), in fiscal 2005, SIR began a sales building initiative by investing in new and existing restaurants. It began in fiscal 2005 with the sales building evolutions of nine Jack Astor's (in addition to the four evolutions completed in fiscal 2004), the renovations of three Alice Fazooli's!, and the opening of a Jack Astor's on the corner of University Avenue and Front Street in downtown Toronto. This was followed in fiscal 2006 with the opening of a Jack Astor's in Whitby, Ontario, the opening of two new Canyon Creek locations in Scarborough and Vaughan, Ontario, six more Jack Astor's evolutions, an Alice Fazooli's! renovation and a major renovation of Far Niente®. The Jack Astor's evolution program started in 2004 and now only one of the Jack Astor's currently operating remains to be evolved. It is expected that this Jack Astor's will be evolved in fiscal 2008. The Jack Astor's location in the U.S. was evolved in Q4 of fiscal 2006. During Q1 of fiscal 2007, the fifth of the five Alice Fazooli's! locations and reds was renovated. During Q4 of fiscal 2007, one of the Canyon Creek locations was renovated. In addition, a new Canyon Creek opened on August 28, 2006, in a prime location at the Fallsview Casino Resort in Niagara Falls, Ontario and two new Jack Astor's started operating, one in Hamilton, Ontario on March 26, 2007 and one in Dartmouth, Nova Scotia on May 7, 2007. Three new sites for Jack Astor's and Canyon Creek restaurants have been secured with expected openings in fiscal 2008. In addition, SIR expects to reopen the Jack Astor's location in Don Mills, Ontario in the second half of calendar year 2008. All of this work is being done to set in place a foundation for anticipated sales growth and improved earnings for SIR. Management is committed to maximizing the performance of all of its restaurants.
- During Q4 of fiscal 2007, SIR completed a $16.0 million financing arrangement that is expected to help facilitate SIR's restaurant expansion plans (see Liquidity and Capital Resources section).

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(1) See footnote (1) on page 3

(2) References to EBITDA are to SIR's net loss from continuing operations before non-controlling interest in other subsidiary companies, provision for (recovery of) income taxes, other expense (income), provisions for impairment of notes receivable, long-lived assets and goodwill, 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, other amortization and amortization of restaurant assets. Management believes that, in addition to net earnings or loss, EBITDA is a useful supplemental measure in evaluating SIR's performance. EBITDA is not a financial measure recognized by Canadian generally accepted accounting principles ("GAAP") and does not have a standardized meaning prescribed by GAAP. Management cautions investors that EBITDA should not replace net earnings or loss or cash flows from operating, investing and financing activities (as determined in accordance with GAAP), as an indicator of SIR's performance. SIR's method of calculating EBITDA may differ from the methods used by other issuers. Therefore, SIR's EBITDA may not be comparable to similar measures presented by other issuers.

On October 31, 2006, the Federal Department of Finance announced a plan that proposes changes to the manner in which distributions from certain publicly listed flow-through entities ("FTE's") including income funds are taxed. However, existing Income Trusts would not be subject to this proposed taxation of distributions until the 2011 taxation year so long as the Fund meets the requirements for "normal growth". On December 21, 2006, the Federal Department of Finance issued draft legislation on the proposed taxation legislation for public comment. The proposed legislation has since received a third reading and therefore is considered to be substantively enacted. As a result, the Fund has recorded a future income tax expense in their current interim financial statements. The Trustees of the Fund and senior management of SIR will continue to monitor this development.

Overview

SIR is a private company amalgamated under the Business Corporations Act of Ontario. As at August 26, 2007**,** SIR operates 40 Concept and Signature Restaurants in Canada (in Ontario, Quebec, Alberta and Nova Scotia). The Concept Restaurants are Jack Astor's Bar and Grill, Canyon Creek Chop House® and Alice Fazooli's!. The Signature Restaurants are reds, Far Niente/Soul of the Vine, Brasserie Frisco, and the Armadillo Steak House/the Loose Moose Tap & Grill. As at August 26, 2007, 38 SIR Restaurants were included in the SIR Royalty Pooled Restaurants. The three new Canyon Creek restaurants which opened during calendar year 2006: one in Scarborough, Ontario, one in Vaughan, Ontario, and one located at the Fallsview Casino Resort in Niagara Falls, Ontario, were added to the Royalty Pooled Restaurants on January 1, 2007. The two new Jack Astor's which opened during calendar year 2005 (downtown Toronto in February and one in Whitby, Ontario in late August) were added to the Royalty Pooled Restaurants on January 1, 2006. SIR started operating one new Jack Astor's restaurant located in Hamilton, Ontario on March 26, 2007, and a second one located in Dartmouth, Nova Scotia, on May 7, 2007. Subsequent to August 26, 2007, SIR closed the existing Jack Astor's in Burlington, Ontario and opened a Jack Astor's in a new location in Burlington, Ontario. SIR owns 100% of all its Canadian restaurants, except for Jack Astor's Don Mills Limited (50%). SIR closed the Jack Astor's location in Don Mills, Ontario during fiscal 2006, on May 27, 2006. This restaurant ceased to be part of the Royalty Pooled Restaurants on January 1, 2007. SIR also has an investment in one Jack Astor's restaurant in the USA which is not included in the Royalty Pooled Restaurants. Substantially all the assets of SIR's other U.S. restaurant were sold on February 10, 2006 (see Discontinued Operation).

On October 1, 2004, the Fund filed a final prospectus for a public Offering of Units of the Fund and the Offering closed on October 12, 2004. The net proceeds of the Offering of $51.2 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. The Partnership granted SIR a 99-year license to use the SIR Rights in most of Canada in consideration for a Royalty, payable by SIR to the Partnership, equal to 6% of the revenue of the restaurants included in the Royalty Pooled Restaurants. The Partnership also issued its own securities to SIR in return for the SIR Rights acquired.

SIR's fiscal year is comprised of 13 periods of four weeks each, ending on the last Sunday in August. To preserve this year-end, an additional week must be added approximately every five years. Fiscal quarters of SIR consist of accounting periods of 12, 12, 12 and 16 (or 17) weeks.

Seasonality

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

Selected Consolidated Historical Financial Information

The following tables set out selected financial information of SIR for the 16 and 52-week periods ended August 26, 2007 and August 27, 2006. The financial statements of SIR are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are presented in Canadian dollars. This information should be read in conjunction with the annual audited consolidated financial statements of SIR, including the notes thereto.

Statements of Operations	16-Week Period Ended August 26, 2007	16-Week Period Ended August 27, 2006	52-Week Period Ended August 26, 2007	52-Week Period Ended August 27, 2006
	(in thousands of dollars)			
	(unaudited)	(unaudited)		
Corporate restaurant operations:				
Food and beverage revenue	53,659	47,233	167,213	153,065
Cost of corporate restaurant operations	49,394	43,260	152,999	139,035
Earnings from corporate restaurant operations	**4,265**	**3,973**	**14,214**	**14,030**
Net loss from continuing operations for the period	**(960)**	**(1,376)**	**(4,382)**	**(4,892)**
Net loss for the period	**(953)**	**(1,405)**	**(4,311)**	**(5,051)**

Balance Sheet	August 26, 2007	August 27, 2006
	(in thousands of dollars)	
Total assets	65,823	67,241
Total long-term liabilities	59,602	57,724

EBITDA[(2)]

EBITDA[(2)] is a non-GAAP measure used by SIR to supplement its reporting of net loss from continuing operations and net cash flow from continuing operations. EBITDA[(2)] consists of loss from continuing operations for the period excluding certain non-cash expenses and other expenses that SIR considers not to be of an operating nature. SIR believes that EBITDA[(2)] is a useful estimate of the core business's contribution to cash flow from continuing operations and uses this measure as a supplemental measure of SIR's performance. Similarly, SIR believes that certain investors may also find this non-GAAP measure to be a useful measure for their independent evaluation of SIR's performance.

The following table reconciles net loss from continuing operations for the period to EBITDA[(2)]:

Reconciliation of net loss from continuing operations for the period to EBITDA[(2)]	16-Week Period Ended August 26, 2007	16-Week Period Ended August 27, 2006	52-Week Period Ended August 26, 2007	52-Week Period Ended August 27, 2006
	(in thousands of dollars) (unaudited)			
Net loss from continuing operations for the period	(960)	(1,376)	(4,382)	(4,892)
Add (deduct):				
Non-controlling interest in other subsidiary companies	(38)	141	(54)	147
Provision for income taxes	6	72	11	243
Other expense (income)	43	(806)	155	(550)
Provision for impairment of investments and loans receivable	-	-	100	135
Provision for impairment of long-lived assets	-	332	-	332
Unrealized foreign exchange (gain) loss	(94)	7	(91)	(175)
Interest expense - net	78	89	162	380
Interest on loan payable to SIR Royalty Income Fund	921	921	2,992	2,992
Non-controlling interest in SIR Royalty Limited Partnership	1,477	1,383	4,499	4,488
Other amortization	79	112	282	339
Amortization of restaurant assets	2,328	2,246	7,303	6,795
EBITDA[(2)]	**3,840**	**3,121**	**10,977**	**10,234**
Income from Class A & B GP Units of the Partnership [(3)] (Not included in EBITDA[(2)] above)	601	410	1,983	1,106
6% Royalty obligations under License and Royalty Agreement [(4)]	3,013	2,746	9,549	8,683

(2) See footnote (2) on page 5

(3) Includes the additional distribution paid to Class B GP Unitholders in December of each year, if any.

(4) See the SIR Royalty Income Fund section of this document for the Royalty calculation. On January 1, 2007, three restaurants were added to the Royalty pool. Revenues from these three restaurants have been included in Pooled Revenue for the period from January 1, 2007 to August 26, 2007. On January 1, 2006, two restaurants were added to the Royalty pool. Revenues from these two restaurants have been included in Pooled Revenue for the 16 and 52-week periods ended August 26, 2007, but only revenues for the period January 1, 2006 to August 27, 2006 are included in the 52-week period ended August 27, 2006. Revenue from the U.S. restaurant and the new Jack Astor's in Hamilton, Ontario and Dartmouth, Nova Scotia are not part of Pooled Revenue. The Royalty obligation for the 52-week period ended August 26, 2007 includes a Make-Whole Payment, up to December 31, 2006, for the closed Jack Astor's location in Don Mills, Ontario.

Results of Operations

Reconciliation of Revenue from Consolidated Financial Statements to Pooled Revenue	16-Week Period Ended August 26, 2007 (unaudited)	16-Week Period Ended August 27, 2006 (unaudited)	52-Week Period Ended August 26, 2007	52-Week Period Ended August 27, 2006
	(in thousands of dollars)			
Revenue reported in consolidated financial statements	53,659	47,233	167,213	153,065
Less: Revenue from corporate restaurant operations excluded from the Royalty pool[4]	(3,427)	(2,212)	(9,075)	(9,099)
Revenue for restaurants in the Royalty pool	**50,232**	**45,021**	**158,138**	**143,966**

Reconciliation of Revenue from Consolidated Financial Statements to Same Store Sales[1]	16-Week Period Ended August 26, 2007 (unaudited)	16-Week Period Ended August 27, 2006 (unaudited)	52-Week Period Ended August 26, 2007	52-Week Period Ended August 27, 2006
	(in thousands of dollars)			
Revenue reported in consolidated financial statements	53,659	47,233	167,213	153,065
Less: Revenue from corporate restaurant operations excluded from same store sales[1]	(6,443)	(2,382)	(15,310)	(6,796)
Same store sales[1]	**47,216**	**44,851**	**151,903**	**146,269**

Same Store Sales[1] by Segment	16-Week Period Ended August 26, 2007	16-Week Period Ended August 27, 2006	% Fav. / (Unfav.)	52-Week Period Ended August 26, 2007	52-Week Period Ended August 27, 2006	% Fav. / (Unfav.)
	(in thousands of dollars) (unaudited)					
Jack Astor's	31,231	29,715	5.1	96,755	93,945	3.0
Alice Fazooli's!	6,104	5,697	7.1	19,424	18,342	5.9
Canyon Creek	4,568	4,328	5.5	16,800	15,809	6.3
Signature Restaurants	5,313	5,111	4.0	18,924	18,173	4.1
Same store sales[1]	**47,216**	**44,851**	**5.3**	**151,903**	**146,269**	**3.9**

Summary of Quarterly Results

Statement of Operations	4th Quarter Ended August 26, 2007 (16 weeks)	3rd Quarter Ended May 6, 2007 (12 weeks)	2nd Quarter Ended February 11, 2007 (12 weeks)	1st Quarter Ended November 19, 2006 (12 weeks)	4th Quarter Ended August 27, 2006 (16 weeks)	3rd Quarter Ended May 7, 2006 (12 weeks)	2nd Quarter Ended February 12, 2006 (12 weeks)	1st Quarter Ended November 20, 2005** (12 weeks)
Corporate Restaurant Operations	(in thousands of dollars) (unaudited)							
Food and beverage revenue	53,659	38,790	38,351	36,413	47,233	35,975	35,774	34,083
Cost of corporate restaurant operations	49,394	34,863	34,874	33,868	43,260	32,117	32,212	31,446
Earnings from corporate restaurant operations	4,265	3,927	3,477	2,545	3,973	3,858	3,562	2,637
Net loss from continuing operations for the period	(960)	(373)	(845)	(2,204)	(1,376)	(496)	(1,098)	(1,922)
Net loss for the period	(953)	(258)	(857)	(2,243)	(1,405)	(392)	(1,222)	(2,032)

*** Prior period balances reflect the reclassification of the discontinued operation (see Discontinued Operation)*

[1] *See footnote [1] on page 3*
[4] *See footnote [4] on page 7*

Selected Consolidated Statement of Cash Flows Information	4th Quarter Ended August 26, 2007 (16 weeks)	3rd Quarter Ended May 6, 2007 (12 weeks)	2nd Quarter Ended February 11, 2007 (12 weeks)	1st Quarter Ended November 19, 2006 (12 weeks)	4th Quarter Ended August 27, 2006 (16 weeks)	3rd Quarter Ended May 7, 2006 (12 weeks)	2nd Quarter Ended February 12, 2006 (12 weeks)	1st Quarter Ended November 20, 2005** (12 weeks)
	(in thousands of dollars) (unaudited)							
Net cash from (used in) continuing operations	3,902	457	3,087	136	2,400	1,420	2,388	(269)
Net cash used in continuing investing activities	(3,202)	(2,765)	(2,309)	(2,847)	(3,286)	(3,897)	(3,479)	(3,610)
Net cash from (used in) continuing financing activities	(650)	39	(122)	(642)	4,924	(86)	(80)	(84)
Increase (decrease) in cash and cash equivalents during the period	(186)	(1,953)	661	(3,357)	4,060	(2,548)	(1,498)	(4,055)
Cash and cash equivalents – Beginning of period	3,563	5,516	4,855	8,212	4,152	6,700	8,198	12,253
Cash and cash equivalents – End of period	3,377	3,563	5,516	4,855	8,212	4,152	6,700	8,198

*** Prior period balances reflect the reclassification of the discontinued operation (see Discontinued Operation)*

Revenue

There are a number of references to different revenue groupings used in the consolidated financial statements, the notes to the 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 the 40 SIR restaurants and the revenue from the continuing USA Jack Astor's. For the 16 and 52-week periods ended August 26, 2007 this revenue was $53.7 million and $167.2 million, respectively.

ii. Same Store Sales(1) – this is a sub-set of i above used for tracking comparable year-over-year sales. For Q4 fiscal 2007 and 2006, SSS(1) includes all SIR restaurants except for Canyon Creek in Scarborough, Canyon Creek in Vaughan, the Canyon Creek located at the Fallsview Casino Resort in Niagara Falls, Ontario, Jack Astor's in Hamilton, Ontario and Jack Astor's in Dartmouth, Nova Scotia because they were not open for the entire comparable period in fiscal 2006 (the US restaurant is not part of SIR Restaurants). SSS(1) also excludes revenue for the Jack Astor's in Don Mills because it was closed during fiscal 2006. For the 16 and 52-week periods ended August 26, 2007, this revenue was $47.2 million and $151.9 million, respectively.

iii. Pooled Revenue - this is the revenue subject to the License and Royalty Agreement – this includes revenue from all restaurants included in the Royalty pool. Fiscal 2007 Pooled Revenue includes revenue from 33 of the 34 restaurants included in the Royalty pool as of October 12, 2004 because the Jack Astor's location in Don Mills was closed in fiscal 2006. Fiscal 2007 Pooled Revenue also includes revenue from the two new Jack Astor's restaurants that were added to the Royalty pool on January 1, 2006, and revenue for the period from January 1, 2007 to August 26, 2007 from the three new Canyon Creek restaurants that were added to the Royalty pool on January 1, 2007. Pooled Revenue in Fiscal 2007 excludes revenue from the Jack Astor's locations in Hamilton, Ontario and Dartmouth, Nova Scotia. For the 16 and 52-week periods ended August 26, 2007, Pooled Revenue was $50.2 million and $158.1 million, respectively. The applicable Royalty payable to the Partnership on the Pooled Revenue for these periods was $3.0 million and $9.5 million, respectively and includes a Make-Whole Payment with respect to the closed Jack Astor's location in Don Mills, for the period from the date of closure to December 31, 2006.

Same Store Sales(1)

SSSG(1) was 5.3% and 3.9% for the 16 and 52-week periods ended August 26, 2007, respectively. The Concept Restaurants (Jack Astor's, Canyon Creek and Alice Fazooli's!) generate approximately 88.0% of YTD Pooled Revenue, while the Signature restaurants generate the other approximate 12.0% of YTD Pooled Revenue.

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(1) See footnote (1) on page 3

SSSG[(1)] for Jack Astor's, SIR's flagship Concept Restaurant brand which generates approximately 61.2% of YTD Pooled Revenue was 5.1% and 3.0% for the 16 and 52-week periods ended August 26, 2007, respectively. This growth was achieved on top of the 5.2% and 8.2% SSSG[(1)] experienced for the 16 and 52-week periods ended August 27, 2006. To date, all but one existing Jack Astor's restaurants originally in the Royalty pool have been evolved. The Jack Astor's restaurants experienced strong SSSG[(1)] averaging over 10% in the first year following the year of evolution. Now that the program is near completion and most of the evolved restaurants have been evolved for more than one year, the velocity of Jack Astor's SSSG[(1)] driven by the evolutions is reduced.

Canyon Creek continues to perform well, with SSSG[(1)] of 5.5% and 6.3% for the 16 and 52-week periods ended August 26, 2007, respectively. During the 16-week period ended August 26, 2007, one Canyon Creek location was closed for 11 days for major renovations.

SSSG[(1)] of Alice Fazooli's! was 7.1% and 5.9% for the 16 and 52-week periods ended August 26, 2007, respectively. The fifth of the five Alice Fazooli's! locations was closed for 11 days for renovations during the first quarter of fiscal 2007.

SSSG[(1)] of the downtown Toronto Signature Restaurants, which represent approximately 12.0% of YTD Pooled Revenue, was 4.0% and 4.1% for the 16 and 52-week period ended August 26, 2007, respectively. During the 12-week period ended November 19, 2006, reds was closed for 11 days for renovations. Management is pleased with the results of the renovations and reds has experienced strong sales growth since the renovation. In addition, Far Niente/Soul of the Vine continues to experience strong sales growth, due in part to its renovation in Q1 of the prior year. Subsequent to fiscal 2007, renovations at the Soul of the Vine took place in order to introduce an innovative bakery concept, Petit Four Bakery, which targets the lucrative catering and take-out markets in the downtown Toronto core.

These increases in SSS[(1)] are partially offset by the decline in SSS[(1)] at Brasserie Frisco and the Armadillo Steak House/the Loose Moose Tap & Grill. The Armadillo Steak House/Loose Moose Tap & Grill underwent a renovation subsequent to fiscal 2007 year end, and will now operate as the Loose Moose Tap & Grill on both floors of the premises. In addition, subsequent to fiscal 2007 year end, SIR announced that Brasserie Frisco would be closed and a new Jack Astor's would open in the former Brasserie Frisco location. After evaluating a range of options, SIR determined that converting Brasserie Frisco into a new Jack Astor's is the best use of this prime downtown Toronto location.

Management believes that changes in smoking legislation in Ontario and Quebec negatively affected bar sales in fiscal 2007, particularly in those restaurants that previously benefited from Designated Smoking Rooms in their bars. During the fourth quarter the negative effect was lessened because patios, which allow smoking, were open. Management believes that the effect of the Smoke Free Ontario Act will continue to mitigate over time.

Cost of Corporate Restaurant Operations

As a percentage of revenue, costs of corporate restaurant operations increased to 92.1% for the 16-week period ended August 26, 2007 from 91.6% for the 16-week period ended August 27, 2006 and increased to 91.5% for the 52-week period ended August 26, 2007 from 90.8% for the 52-week period ended August 27, 2006. Although the three new Canyon Creek locations have contributed to the increase in consolidated food and beverage revenue, as a group, they have had a negative impact on earnings from corporate restaurant operations, resulting in the small increase in costs as a percentage of revenue in both the 16 and 52-week periods ended August 26, 2007. The unfavourable impact these restaurants had on earnings has lessened since the first quarter and significantly improved in two of the three new locations. Management believes that the performance of all three new restaurants will improve in future quarters as awareness builds for these locations, in a manner similar to the build experienced for the previous four Canyon Creek openings. Increased food costs have also contributed to the increase in costs as a percentage of revenue in the 16 and 52-week period ended August 26, 2007.

Corporate costs

Corporate costs decreased $0.3 million for the 16-week period ended August 26, 2007 as compared to the 16-week period ended August 27, 2006 and decreased $0.05 million for the 52-week period ended August 26, 2007 compared to the 52-week period ended August 27, 2006.

Interest expense - net

Interest expense decreased $0.2 million for the 52-week period ended August 26, 2007 compared to the 52-week period ended August 27, 2006. The Class A redeemable special shares were converted to common shares during Q4 of fiscal 2006, resulting in lower interest expense for the 52-week period ended August 26, 2007.

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.

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(1) See footnote (1) on page 3

Interest on the SIR Loan totalled $0.9 million and $3.0 million for both the 16 and 52-week periods ended August 26, 2007, respectively and the 16 and 52-week periods ended August 27, 2006, respectively.

The Fund's share of the income of the Partnership for the 16-week period ended August 26, 2007 and August 27, 2006 of $1.5 million and $1.4 million, respectively has been recorded as non-controlling interest in the consolidated statements of operations. The Fund's share of income of the Partnership was $4.5 million for both the 52-week periods ended August 26, 2007 and August 27, 2006.

Jack Astor's (Cary & Las Colinas) Limited ("JACL") and unrealized foreign exchange gain

SIR accounts for its investment in JACL as an integrated operation. Therefore, SIR uses the temporal method to translate the transactions and balances of JACL, recognizing foreign currency translation gains and losses in the consolidated statements of operations.

During the second quarter of fiscal 2006, SIR's investment in JACL was reduced when the operations of Jack Astor's Las Colinas, LLC, a subsidiary of JACL, was closed and substantially all of its assets were sold. Accordingly, the results from this operation have been classified as a discontinued operation (see Discontinued Operation).

The unrealized foreign exchange gain for the continuing operations of JACL is $0.09 million and $0.09 million for the 16 and 52-week periods ended August 26, 2007. There was an unrealized foreign exchange loss of $0.01 million and an unrealized foreign exchange gain of $0.2 million for the 16 and 52-week periods ended August 27, 2006, respectively.

Provision for impairment of notes receivable

During the 52-week period ended August 26, 2007, SIR advanced $0.3 million to U.S. S.I.R. L.L.C. and its subsidiaries to facilitate the repayment of certain debt that became due. The advance is non-interest bearing, non-secured and due on demand. SIR has determined that this advance is impaired based on estimated future cash flows of the remaining U.S. operations. Accordingly, the $0.3 million of advances and notes receivable from U.S. S.I.R. L.L.C. and its subsidiaries are written down to their net realizable value of $0.2 million. The provision of $0.1 million is included in the provision for impairment of notes receivable in the consolidated statements of operations. While SIR has no obligation to fund the U.S. operations, 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 and the bank credit facility (see Liquidity and Capital Resources section).

Other income (expense)

Other expense is $0.04 million for the 16-week period ended August 26, 2007 compared to an income of $0.8 million for the 16-week period ended August 27, 2006. Other expense is $0.2 million for the 52-week period ended August 26, 2007 compared to an income of $0.6 million for the 52-week period ended August 27, 2006. The main reason for the variance is that fiscal 2006 included a lease settlement amount of $0.8 million.

EBITDA[(2)]

EBITDA[(2)] is $3.8 million and $11.0 million for the 16 and 52-week periods ended August 26, 2007, compared to $3.1 million and $10.2 million for the 16 and 52-week periods ended August 27, 2006 (see Selected Consolidated Historical Financial Information - Reconciliation of net loss from continuing operations for the period to 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 SIR Loan bears interest at 7.5% per annum, is due October 12, 2044. On August 9, 2007, the Fund entered into an agreement to subordinate and postpone its claims against SIR in favour of the bank. The Partnership and the Fund have not guaranteed this credit facility (see Liquidity and Capital Resources section).

The bank 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 bank. 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 an Interlender Agreement.

(2) *See footnote (2) on page 5*

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.

Interest expense of $0.9 million and $3.0 million was charged to the consolidated statements of operations for the 16 and 52-week periods ended August 26, 2007, respectively ($0.9 million and $3.0 million for the 16 and 52-week periods ended August 27, 2006, respectively).

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

Financing costs of $4.8 million were incurred in fiscal 2005 in respect of the issuance of the SIR Loan and Partnership Units. These costs have been deferred and are being amortized over 40 years, the term of the SIR Loan. These costs are recorded in intangible and other assets in the consolidated financial statements. Amortization of $0.04 million and $0.1 million has been recorded as interest expense in the consolidated statements of operations for the 16 and 52-week periods ended August 26, 2007, respectively ($0.04 million and $0.1 million for the 16 and 52-week periods ended August 27, 2006) (see Recently Issued Accounting Pronouncements for changes in disclosure subsequent to fiscal 2007).

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

	16-Week Period Ended		**52-Week Period Ended**	
	August 26, 2007	**August 27, 2006**	**August 26, 2007**	**August 27, 2006**
	(in thousands of dollars)			
	(unaudited)	(unaudited)		
Initial investment by the Fund	11,167	11,167	11,167	11,167
Non-controlling interest in earnings of the Partnership	1,477	1,383	4,499	4,488
Distributions declared on the Partnership's Units held by non-controlling interest	(1,477)	(1,383)	(4,499)	(4,488)
Non-controlling interest in the Partnership	11,167	11,167	11,167	11,167
Pooled Revenue [5]	50,232	45,021	158,138	143,966
Partnership Royalty income [6]	3,013	2,746	9,549	8,683
Other income	18	17	54	41
Partnership expenses	(32)	(49)	(129)	(138)
Net earnings of the Partnership	2,999	2,714	9,474	8,586
SIR's interest in the earnings of the Partnership:				
Income from Class A & B GP Units of the Partnership[7]	(601)	(410)	(1,983)	(1,106)
Income from Class C GP Units of the Partnership	(921)	(921)	(2,992)	(2,992)
	(1,522)	(1,331)	(4,975)	(4,098)
Non-controlling interest in the earnings of the Partnership	1,477	1,383	4,499	4,488

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 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 initial 595,185 Class A GP Units which are held by SIR.

[5] Includes revenue from the SIR Restaurants subject to the License and Royalty Agreement and excludes revenue from JACL. On January 1, 2007, three restaurants were added to the Royalty pool. Revenues from these three restaurants have been included in Pooled Revenue for the period from January 1, 2007 to August 26, 2007. On January 1, 2006, two restaurants were added to the Royalty pool. Revenues from these two restaurants have been included in Pooled Revenue for the 16 and 52-week periods ended August 26, 2007, but for the comparable period in fiscal 2006, only revenues for the period from January 1, 2006 to August 27, 2006 are included. 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.
[6] 6% of Pooled Revenue plus a Make-Whole Payment for closed locations, included in the Royalty pool.
[7] The 52-week period ended August 26, 2007 includes the additional distribution of $0.2 million declared and paid to SIR in the second quarter.

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

Under the terms of the License and Royalty Agreement, 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 Payments in respect of a closed restaurant following the date on which the number of restaurants in the Royalty pool is equal to or greater than 68 or following October 12, 2019, whichever occurs first. On January 1 of each year (the "Adjustment Date"), following December 31, 2005, the restaurants subject to the License and Royalty Agreement are adjusted for new SIR Restaurants opened for at least 60 days preceding such Adjustment Date. At each Adjustment Date, SIR will be entitled to convert its Class B GP Units of the Partnership to Class A GP Units of the Partnership based on 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 revenue and the formula defined in the Partnership Agreement. Conversely, converted Class A GP Units may be returned by SIR if the actual revenues of the new SIR Restaurants are less than 80% of the initial estimated revenue. In December of each year, an additional distribution may be payable to the Class B GP unitholders based on actual revenues of the new SIR Restaurants exceeding 80% of the initial estimated revenue or there may be a reduction in the distributions to the Class A GP unitholders if revenues are less than 80% of the initial estimated revenue.

On January 1, 2007, three new SIR Restaurants, Canyon Creek in Scarborough, Canyon Creek in Vaughan, and the Canyon Creek restaurant located at the Fallsview Casino Resort in Niagara Falls, Ontario, 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, SIR 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 SIR converted to Class A GP Units was reduced by an adjustment for the closure of one SIR Restaurant during calendar year 2006. The net effect of these adjustments to the Royalty Pooled Restaurants was that SIR 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 $3.5 million. As a result of this exchange, SIR's interest in the Partnership increased to 21.4% effective January 1, 2007. As actual revenues, for the calendar year 2007, of the three new SIR Restaurants added to the Royalty pool on January 1, 2007 are not yet known, the additional Class B GP Units that may be converted to Class A GP Units and the additional distribution have not yet been determined. Currently, management expects to exceed 80% of the initial estimated revenue, which is expected to result in an additional distribution.

On January 1, 2006, two new SIR Restaurants, Jack Astor's on the corner of Front Street and University Avenue in downtown Toronto and Jack Astor's in Whitby, Ontario 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 two new restaurants, SIR 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 $4.1 million. The revenues of these new SIR Restaurants exceeded 80% of the Initial Adjustment's estimated revenue and, as a result, an additional distribution of $0.2 million was declared in December 2006 and paid in cash to SIR in January 2007.

(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	16-Week Period Ended August 26, 2007	16-Week Period Ended August 27, 2006	52-Week Period Ended August 26, 2007	52-Week Period Ended August 27, 2006
		(in thousands of dollars)		
	(unaudited)	(unaudited)		
Net cash from continuing operations	3,902	2,400	7,582	5,939
Net cash used in continuing investing activities	(3,202)	(3,286)	(11,123)	(14,272)
Net cash from (used in) continuing financing activities	(650)	4,924	(1,375)	4,674
Increase (decrease) in cash and cash equivalents during the period	(186)	4,060	(4,835)	(4,041)
Cash and cash equivalents – Beginning of period	3,563	4,152	8,212	12,253
Cash and cash equivalents – End of period	3,377	8,212	3,377	8,212

Net cash provided by continuing operations increased by $1.5 million for the 16-week period ended August 26, 2007 as compared to the 16-week period ended August 27, 2006. The increase is mainly attributable to an increase in the receipt of leasehold inducements of $0.7 million and an increase in cash provided by working capital items of $1.0 million. Cash provided by continuing operations increased by $1.6 million for the 52-week period ended August 26, 2007 as compared to the 52-week period ended August 27, 2006. This is mainly attributable to the increase in the amount received for leasehold inducements of $1.0 million and an increase in the net change in working capital items of $0.5 million.

During fiscal years 2005, 2006 and 2007, SIR has purchased property and equipment totalling approximately $34.0 million. This represents investments in new restaurants, (including seven completed as at August 26, 2007 and four in progress), major renovations of 23 existing restaurants, certain other profit enhancing initiatives (such as new patios and patio expansions) and maintenance capital expenditures. Management expects that the investments in new and existing restaurants and the profit enhancing initiatives will contribute to improved earnings and cash flow from continuing operations going forward. SIR expects to continue to invest in new restaurants and restaurant renovations, although for the near future a smaller percentage of capital spending would be expected to be directed toward renovations.

Net cash used in investing activities from continuing operations for the 16-week period ended August 26, 2007 and August 27, 2006 was $3.2 million and $3.3 million, respectively. Cash used in investing activities from continuing operations for the 52-week period ended August 26, 2007 and August 27, 2006 was $11.1 million and $14.3 million, respectively. Purchases of property and equipment amounted to $3.1 million and $4.3 million for the 16-week periods ended August 26, 2007 and August 27, 2006, respectively and $10.7 million and $14.8 million for the 52-week periods ended August 26, 2007 and August 27, 2006, respectively. Fiscal 2007 purchases are a result of the first quarter renovations of reds and the fifth Alice Fazooli's! location, the renovation in the fourth quarter of Canyon Creek Sherway, the construction costs of the new Jack Astor's locations in Hamilton, Ontario and Dartmouth, Nova Scotia and the continuing construction costs for the new Jack Astor's and Canyon Creek restaurants expected to open in fiscal 2008. Purchases in the 52-week period ended August 27, 2006, are a result of the evolutions of six Jack Astor's locations, one in the fourth quarter, the renovation of one Alice Fazooli's! location in the third quarter, the renovation of Far Niente in the first quarter and the construction costs of the three new Canyon Creek locations. SIR also advanced $0.3 million and $0.2 million to U.S. S.I.R. L.L.C. and its subsidiaries during the 52-week periods ended August 26, 2007 and August 27, 2006, respectively. The advance is non-interest bearing, non-secured and due on demand. In addition, SIR received $0.7 million and $1.3 million from the repayment of shareholder loans during the 52-week periods ended August 26, 2007 and August 27, 2006, respectively.

Proceeds from sale of discontinued operation for the 52-week period ended August 27, 2006 of $2.5 million relates to the proceeds of disposition of assets of Jack Astor's Las Colinas, LLC (a subsidiary of JACL). The cash proceeds on this disposition were used to repay the related bank loan of $2.5 million, (U.S. $2.1 million), as at February 10, 2006 and is included in principal repayment of long-term debt of discontinued operation.

Net cash used in continuing financing activities was $0.6 million and $1.4 million for the 16 and 52-week periods ended August 26, 2007, respectively. Net cash provided from continuing financing activities was $4.9 million and $4.7 million for the 16 and 52-week periods ended August 27, 2006.

SIR incurred financing fees, related to the new credit facility, of $0.9 million and increased its bank indebtedness by $0.3 million during the 16 and 52-week periods ended August 26, 2007. In addition, SIR made payments to non-controlling interest in other subsidiary companies of $0.2 million and received proceeds from non-controlling interest in other subsidiary companies of $0.1 million during the 52-week period ended August 27, 2006. SIR also made principal repayments of long term debt of $0.7 million during the 52-week period ended August 26, 2007 compared to $0.3 million during the 52-week period ended August 27, 2006. During the fourth quarter of fiscal 2006, SIR issued 2,463,055 common shares to certain existing shareholders for cash of $5.0 million. In addition, the issued and outstanding Class A special shares, including the 12% cumulative dividend were converted to 1,943,977 common shares at a price of $2.03 per common share.

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

The two new Canyon Creek restaurants that opened in Scarborough and Vaughan, Ontario, during fiscal 2006 and the one that opened at the Fallsview Casino Resort in Niagara Falls, Ontario in Q1 of fiscal 2007, on August 28, 2006, were added to the Royalty Pooled Restaurants effective January 1, 2007. At that time SIR received additional Class A GP Units in accordance with the formula for adjustment for addition of restaurants added to the Royalty pool. The amount of Class A GP Units received was adjusted for a reduction related to the closure of one restaurant in 2006 and the Second Incremental Adjustment for the two new additional restaurants that were added to the Royalty Pooled Restaurants on January 1, 2006. 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 of August 26, 2007, SIR had current assets of $9.5 million (August 27, 2006 - $15.9 million) and current liabilities of $22.0 million (August 27, 2006 - $20.7 million) resulting in a working capital deficit of $12.5 million (August 27, 2006 - $4.8 million). Revenues in the restaurant business are largely paid by cash and credit card 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 there are sufficient cash resources retained in SIR from its cash generated by operations to fund its working capital requirements and current commitments for estimated construction costs for new restaurants. During the fourth quarter of fiscal 2007, SIR entered into a $16.0 million credit facility. The credit facility consists of a two-year revolving credit facility ("Operating Line") up to $2.0 million, a two-year revolving construction credit facility ("Construction Line") for up to $13.0 million and a treasury management facility for up to $1.0 million. 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, Bankers' 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 Bankers' 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. As at August 26, 2007, SIR had outstanding borrowings of $0.3 million and $Nil on its Operating Line and Construction Line, respectively. Subsequent to August 26, 2007, SIR has drawn $1.5 million, on its Construction Line. In addition, during the 12-week period ended February 11, 2007, SIR entered into a capital lease arrangement to lease restaurant equipment for up to $0.4 million. As at August 26, 2007, SIR had drawn the full $0.4 million. Subsequent to August 26, 2007, SIR entered into a second capital lease arrangement to lease restaurant equipment for up to $0.6 million. Amounts drawn on the above mentioned credit facility and capital lease arrangements are Permitted Indebtedness as defined in the SIR General Security Agreement and the Partnership General Security Agreement.

Certain bank loans were entered into by Jack Astor's Cary, LLC, a subsidiary of JACL, in fiscal year 2001 and are guaranteed by SIR. These loans of $1.6 million (U.S. $1.5 million) are currently non-compliant with respect to certain financial and non-financial covenants. As a result, these loans are presented as a current liability in SIR's consolidated financial statements. All payments due on the loans have been made to date and the borrowers have not received any notices of default. The loans are secured by the assets of JACL and a pledge of the shares in JACL by SIR.

Contractual Obligations

The Partnership has granted SIR a 99-year license to use the SIR Rights in most of Canada in consideration for a Royalty, payable by SIR to the Partnership, equal to 6% of the revenue of the restaurants included in the Royalty pool. Payment of the Royalty is secured by the Partnership General Security Agreement. On August 9, 2007, the Fund entered into an agreement to subordinate and postpone its claims against SIR in favour of the bank. 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 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 restaurants in the Royalty pool is equal to or greater than 68, or following October 12, 2019, whichever occurs first. On January 1 of each year (the "Adjustment Date"), following December 31, 2005, the restaurants subject to the License and Royalty Agreement are adjusted for new SIR restaurants opened for at least 60 days preceding such Adjustment Date. At each Adjustment Date, SIR will be entitled to convert its Class B GP Units of the Partnership to Class A GP Units of the Partnership based on a formula defined in the Partnership Agreement.

Two Royalty Pooled Restaurants have been closed since the IPO was completed. On May 27, 2006 the Jack Astor's in Don Mills, Ontario was closed and on September 29, 2007, the Jack Astor's in Burlington, Ontario was closed. The Don Mills location has been demolished by the landlord and is to be redeveloped into a major "lifestyle mall". It is expected that this project will be completed in the second half of 2008 and a new Jack Astor's would open in this location at that time. The Burlington location was replaced with a new Jack Astor's in a different location in Burlington, which opened on October 15, 2007 and it is anticipated that this new location will provide higher revenues and therefore a greater Royalty stream to the Partnership. Under the terms of the License and Royalty Agreement, SIR was required to pay a Make-Whole Payment for the Don Mills location from the date of the closure until December 31, 2006. In accordance with the License and Royalty Agreement, on January 1, 2007, the revenue of the closed restaurant was netted against the revenue of the new SIR Restaurants opened from November 2, 2005 to November 1, 2006, when determining the number of Class B GP Units of the Partnership, held by SIR, that were converted into Class A GP Units of the Partnership. Similarly, SIR is required to pay a Make-Whole Payment for the closed Burlington location, from the date of closure to December 31, 2007 and effective January 1, 2008, it will be removed from the Royalty Pooled Restaurants as a New Closed Restaurant.

SIR and its subsidiaries have entered into operating leases relating to its head office and restaurant locations with minimum annual payments. As at August 26, 2007, SIR had three commitments to lease properties on which SIR has or plans to build four restaurants. 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. SIR anticipates that additional construction costs of approximately $7.5 million will be incurred on these sites from what has already been incurred and recorded as at August 26, 2007.

During fiscal 2007, SIR entered into a capital lease arrangement to lease restaurant equipment for up to $0.4 million and as at August 26, 2007, SIR had drawn the full amount. Subsequent to August 26, 2007, SIR entered into a second capital lease arrangement to lease restaurant equipment for up to $0.6 million. In addition, during the fourth quarter of fiscal 2007, a lender approved a $16.0 million credit facility to help facilitate SIR's restaurant expansion plans (see Liquidity and Capital Resources section).

SIR has the following contractual obligations as of August 26, 2007 (in thousands of dollars):

	1 Year	2 – 3 Years	4 – 5 Years	Thereafter	Total
Operating leases	9,798	19,383	15,593	36,601	81,375
Long-term debt repayments [8]	304	602	402	801	2,109
SIR Loan	-	-	-	40,000	40,000
Estimated contractual commitments [9]	7,500	-	-	-	7,500
	17,602	19,985	15,995	77,402	130,984

The above table excludes obligations under SIR's new credit facilities. As at November 22, 2007, SIR has drawn $1.5 million on its construction facility. SIR intends to convert the construction facility to a five year term loan in accordance with the terms of the credit facility. Accordingly, at the current date, the amount and timing of the payments under the construction facility are not known and therefore are excluded from the table above.

SIR has a Management Bonus Program that provides restaurant managers and area directors with an opportunity to earn a bonus upon leaving the organization if he/she has at least five years of service. This bonus is based upon the value of the restaurant(s) at that time, using cash flows over a three year period and percentages that range from 2% to 10%. Upon leaving the plan, the participants' bonuses are paid in three installments over a two year period. At August 26, 2007, $3.5 million has been accrued in respect of this bonus plan. The timing of the payments is uncertain and therefore this obligation has been excluded from the above table.

Off-Balance Sheet Arrangements

SIR has off-balance sheet arrangements with respect to its operating leases (see Contractual Obligations section).

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 three shareholders of SIR in the amounts of $0.8 million for the 52-week period ended August 26, 2007 (August 27, 2006 - $0.8 million).
- SIR leases its head office space directly or indirectly from certain shareholders of SIR. SIR paid $0.2 million for the 52-week period ended August 26, 2007 (August 27, 2006 - $0.2 million). SIR has a lease commitment to certain shareholders of SIR related to its head office premises that expires on December 31, 2010. The payments under this lease will be $0.2 million, $0.2 million and $0.1 million for fiscal years 2008, 2009 and 2010, respectively.
- Payment for consulting fees provided by one shareholder of SIR in the amount of $0.05 million for the 52-week period ended August 26, 2007 (August 27, 2006 - $0.03 million).
- Payment for consulting fees provided indirectly by one of SIR's directors in the amount of $0.2 million for the 52-week period ended August 26, 2007 (August 27, 2006 - $0.2 million).

During the third quarter of fiscal 2005, SIR advanced $2.0 million to four shareholders of SIR to facilitate the purchase of shares of the Company from other shareholders of SIR. The loans bore interest at prime plus 1%, with principal and interest due February 16, 2007. During the fourth quarter of fiscal 2006, $1.4 million of these advances, including interest, were repaid and during the 12-week period ended May 6, 2007, the remaining loan amount of $0.7 million was repaid. This transaction has not had any impact on the number of outstanding common stock or options of SIR. There was no interest income related to the loans receivable for the 16-week period ended August 26, 2007 and $0.02 million of interest income for the 52-week period ended August 26, 2007, respectively ($0.03 million and $0.1 million for the 16 and 52-week periods ended August 27, 2006, respectively).

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

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

Transactions with the SIR Royalty Income Fund

Amounts due to (from) the 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	483	492
Partnership distributions payable	1,824	1,467
Payable to the 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 16 and 52-week periods ended August 26, 2007, distributions of $1.5 million and $4.5 million, respectively ($1.4 million and $4.5 million, respectively for the 16 and 52-week periods ended August 27, 2006) were declared to the Fund by the Partnership. The Fund, indirectly through the Trust, is entitled to receive a pro rata share of all residual distributions.

SIR, through the Partnership, has entered into an arrangement with the Fund and the Trust whereby the Partnership will provide or arrange for the provision of services required in the administration of the Fund and the Trust. The Partnership has arranged for these services to be provided by SIR GP Inc., in its capacity as the managing general partner of the Partnership. The Partnership provided these services to the Fund and the Trust for consideration of $0.008 million and $0.024 million, for the 16 and 52-week periods ended August 26, 2007, respectively ($0.008 million and $0.024 million, for the 16 and 52-week periods ended August 27, 2006) which was the amount of consideration agreed to by the related parties.

Interest expense on the SIR Loan totalled $0.9 million and $3.0 million for the 16 and 52-week periods ended August 26, 2007, respectively ($0.9 million and $3.0 million for the 16 and 52-week periods ended August 27, 2006). The SIR Loan bears interest at 7.5% per annum.

Discontinued Operation

During fiscal 2006, SIR sold substantially all the assets of one of its USA restaurant operations, Jack Astor's Las Colinas, LLC, a subsidiary of JACL, for cash consideration of $2.5 million (U.S. $2.2 million) and recognized a loss on disposal of $0.1 million. The proceeds from the sale of the assets were used to repay the associated U.S. bank debt, at the time, of $2.5 million (U.S. $2.1 million).

The net earnings from discontinued operation for the 52-week period ended August 26, 2007 was $0.07 million (2006 - $0.2 million net loss). The net earnings include an unrealized foreign exchange gain of $0.04 million and $0.1 million for the 52-week periods ended August 26, 2007 and August 27, 2006, respectively.

Critical Accounting Estimates

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

Under Canadian GAAP, goodwill is not amortized but is tested for impairment, at least annually. Management applies a fair-value-based test to the carrying value of each reporting unit. A goodwill impairment charge would be recorded if the amount of the recorded goodwill exceeds the difference between the fair value of the reporting unit and the carrying value of the net assets of each respective reporting unit.

Under Canadian GAAP, an impairment charge is recognized for long-lived assets, including intangible assets with definite lives, when an event or change in circumstances causes an asset's carrying value to exceed the total undiscounted cash flows expected from its use and eventual disposition. As a result of a decline in sales and earnings from certain restaurants, SIR conducted an impairment analysis of these restaurants' property and equipment. The analysis showed that the estimated future cash flows for one restaurant in fiscal 2006 were not sufficient to recover the carrying value of the property and equipment and accordingly, an impairment provision for continuing operations of $0.3 million was recorded to write down the assets to their fair values. The fair values were determined by discounting the estimated future cash flows related to the restaurants. There was no impairment charge required in fiscal 2007.

SIR adopted the provisions of CICA Handbook Section 3110, Asset Retirement Obligations, effective August 30, 2004 with respect to estimated lease end remediation costs. SIR has estimated an asset retirement liability of $0.3 million (2006 - $0.3 million) and a corresponding leasehold improvement of $0.1 million (2006 - $0.1 million) as at August 26, 2007.

SIR follows the asset and liability method of accounting for income taxes. Future income tax assets are recognized only to the extent that Management determines it is more likely than not that the future income tax assets will be realized. At August 26, 2007, SIR had approximately $24 million in non-capital losses carried forward in Canada available to reduce taxable income in future years. At August 26, 2007, SIR has recognized $1.8 million of the benefit of these losses in the financial statements. SIR recorded a valuation allowance of $7.3 million at August 26, 2007 against the net future tax assets. Future changes in the valuation allowance are thus expected based on changes in Management's assessment of the likelihood of realizing the future tax asset, and will directly impact income tax expense and therefore net income.

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

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

Recently Issued Accounting Pronouncements

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

Transitional provisions for this Section are complex and vary based on the type of financial instrument under consideration. Effective August 27, 2007, SIR 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. SIR'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 consolidate 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.

Handbook Section 1530, Comprehensive Income, introduces a new requirement to temporarily present certain gains and losses outside net income. SIR has 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. SIR 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 a comprehensive income item in shareholders' deficiency on the consolidated balance sheets.

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

Handbook Section 1535, Capital Disclosures, 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 SIR 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.

Handbook Section 3862, Financial Instruments - Disclosures, 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 SIR 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.

Handbook Section 3863, Financial Instruments – Presentation, replaces the existing requirements on presentation of financial instruments which have been carried forward unchanged to this new section. This standard is effective for SIR 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 SIR's financial statements and has not yet determined the impact.

Financial Instruments and Other Instruments

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

SIR's financial instruments exposed to credit risk include cash and cash equivalents and due from shareholders. SIR places its cash and cash equivalents with institutions of high credit worthiness. The amount due from shareholder was received during Q3 of fiscal 2007. Accounts receivable primarily comprise amounts due from major credit card companies, and as such, Management believes that its accounts receivable credit risk exposure is limited. SIR is exposed to interest rate risk arising from fluctuations in interest rates. SIR is exposed to exchange rate risk in respect of transactions and certain guarantees denominated in U.S. dollars.

Risks and Uncertainties

The performance of SIR is dependent on many factors. The restaurant industry generally, and in particular, the casual and fine dining segment of this industry, is intensely competitive with respect to price, service, location, food quality and qualified staff. Recently, competition has increased in the mid-price, full-service, casual and fine dining sectors in which many of the SIR Restaurants operate. In addition, factors such as inflation, increased food, labour and benefits costs, taxes, government regulations (including those governing alcoholic beverages), weather, seasonality, public safety issues and the availability and quality of food, services and products sold in the restaurants affect the restaurant industry in general and therefore SIR. Please refer to the Fund's March 30, 2007 Annual Information Form for further discussion on risks and uncertainties related to SIR.

SIR is the 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. On October 31, 2006, the Federal Department of Finance announced a plan that proposes changes to the manner in which distributions from certain publicly listed flow-through entities ("FTE's") including income funds are taxed. The proposed changes to the current legislation would have certain distributions of FTEs' income subject to tax at corporate income tax rates and investors in the FTE would be taxed as though the distributions were dividends. Existing Income Trusts would not be subject to this proposed taxation of distributions until the 2011 taxation year so long as the Fund meets the requirements for "normal growth". On December 15, 2006, the Federal Department of Finance released guidance provisioning the amount of growth that FTE's are permitted to experience without jeopardizing its deferral of these new proposed taxation rules. The 2011 date will hold for those FTE's whose equity capital growth does not exceed the greater of $50 million and the FTE's market capitalization as of the end of trading on October 31, 2006. The proposed legislation has since received a third reading and therefore is considered to be substantively enacted. As a result, the Fund recorded a future income tax expense in their current interim financial statements.

SIR is considering this announcement and the possible impact of the proposed rules to it and to the Fund. The proposed rules may adversely affect the value and marketability of SIR's indirect interests in the Fund, and at such time as the proposed rules apply to the Fund, the distributable cash of the Fund may be materially reduced. As a result, the proposed 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's program of significantly investing in new and existing restaurants was accelerated after the launch of the Fund in October 2004. This momentum has continued into fiscal 2007 with the opening of the Canyon Creek restaurant at the Fallsview Casino Resort in Niagara Falls, Ontario, the opening of the Jack Astor's restaurants in Hamilton, Ontario and Dartmouth, Nova Scotia, the renovations of reds*,* one Canyon Creek and the last of the five Alice Fazooli's! locations.

SIR intends to continue to focus on growing existing restaurant revenues and expanding the number of SIR Restaurants subject to the SIR Rights in Canada.

Two new Jack Astor's restaurants (one on the corner of Front Street and University Avenue in downtown Toronto and one in Whitby, Ontario) became part of SIR's Royalty Pooled Restaurants, effective January 1, 2006. During the third quarter of fiscal 2007, SIR started operating a new Jack Astor's restaurant located in Hamilton, Ontario and during the fourth quarter of fiscal 2007, SIR started operating a new Jack Astor's restaurant located in Dartmouth, Nova Scotia. It is anticipated that these restaurants will be added to the Royalty Pooled Restaurants effective January 1, 2008. SIR has secured four additional sites for Jack Astor's and Canyon Creek restaurants, with expected openings in fiscal 2008. One site is located in Burlington, Ontario, and started operations on October 15, 2007. Another site is located at the corner of Dundas and Yonge Streets in Toronto, Ontario and two sites are located near the Toronto Pearson International Airport each of which is expected to open in fiscal 2008. In addition, SIR expects to reopen the Jack Astor's location in Don Mills, Ontario in the second half of calendar year 2008. SIR plans to continue to seek high quality new sites for Jack Astor's and Canyon Creek restaurants**.**

SIR opened three new Canyon Creek restaurants in the 2006 calendar year, one in Scarborough, Ontario on March 6, 2006, one in Vaughan, Ontario on May 17, 2006 and one in a prime location at the Fallsview Casino Resort in Niagara Falls, Ontario on August 28, 2006. Each of these three restaurants was added to the Royalty Pooled Restaurants effective January 1, 2007.

SIR has evolved the majority of its Jack Astor's locations and these restaurants experienced strong SSSG[(1)], averaging over 10% in the first year following the year of evolution. The velocity of the Jack Astor's SSSG[(1)] has slowed somewhat from fiscal 2005 and fiscal 2006 levels now that the program is near completion and most of the evolved restaurants have been evolved for more than one year. SIR intends to evolve the last of the original Jack Astor's restaurants in fiscal 2008.

The renovation of the fifth Alice Fazooli's! location was completed during Q1 of fiscal 2007. Alice Fazooli's! has experienced average sales increases in excess of 10% over the prior year during the first year following their renovations. SSSG[(1)] of Alice Fazooli's! was 7.1% and 5.9% for the 16 and 52-week periods ended August 26, 2007, respectively.

Canyon Creek continues to perform well, with SSSG[(1)] of 5.5% and 6.3% for the 16 and 52-week periods ended August 26, 2007, respectively.

During the fourth quarter of fiscal 2007, Alice Fazooli's! and Canyon Creek launched their first major radio campaigns. The impact on revenue has been favourable and both concepts have continued to use radio advertising in the first quarter of fiscal 2008.

reds was closed for 11 days for major renovations during Q1 of fiscal 2007. Management is pleased with the results of the renovations at reds and it has experienced strong sales growth since the renovation.

Far Niente/Soul of the Vine continues to experience strong sales growth, due in part to its renovation in Q1 of the prior year. Subsequent to August 26, 2007, renovations at the Soul of the Vine took place in order to introduce an innovative bakery concept, Petit Four Bakery, which targets the lucrative catering and take-out markets in the downtown Toronto core. Petit Four Bakery is not being treated as a New Restaurant under the License and Royalty Agreement. The revenue of Petit Four Bakery will be added to Pooled Revenue from the date of opening and SIR will not be converting any Class B GP Units into Class A GP Units of the Partnership in exchange for this additional revenue stream.

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

Management expects to continue to focus on improving revenue and earnings in the Armadillo Steak House/the Loose Moose Tap & Grill. Subsequent to August 26, 2007, SIR renovated the Armadillo Steak House/The Loose Moose Tap & Grill and is now operating the entire space as the Loose Moose Tap & Grill. Management expects that this change will provide higher revenues and increased profits.

Subsequent to August 26, 2007, SIR announced that Brasserie Frisco would be closed and a new Jack Astor's would open in the former Brasserie Frisco location. After evaluating a range of options, SIR determined that converting Brasserie Frisco into a new Jack Astor's is the best use of this prime downtown Toronto location.

Brasserie Frisco will close on December 22, 2007 and the new Jack Astor's is expected to open in the first half of calendar year 2008. Brasserie Frisco will be treated as a 2007 Closed Restaurant and, in accordance with the License and Royalty Agreement, on January 1, 2008, the revenue of the closed restaurant will be netted against the revenue of the new SIR Restaurants opened between November 2, 2006 and November 1, 2007 to determine the number of Class B GP Units of the Partnership, held by SIR, which can be converted into Class A GP Units of the Partnership effective January 1, 2008.

Management believes that the Smoke-Free Ontario Act (effective May 30, 2006) has had a negative impact on bar sales in fiscal 2007, year to date, especially in restaurants that previously had Designated Smoking Rooms. Management expects that the negative effect of this Smoke-Free Ontario Act will continue to mitigate over time as non-smoking guests replace smoking guests and smoking guests return. The effect of the Smoke-Free Ontario Act was reduced during the fourth quarter of fiscal 2007, when patios, which allow smoking, were open.

During 2006, SIR raised $5.0 million in new capital through the issuance of common shares that were purchased by certain existing shareholders of SIR. SIR used the new capital primarily to support its restaurant growth plans.

Management believes that there are sufficient cash resources retained in SIR from its cash generated by operations and it's financing arrangements to fund its working capital requirements and current commitments for estimated construction costs for new restaurants. During the second quarter of fiscal 2007, SIR entered into a capital lease arrangement to lease restaurant equipment for up to $0.4 million. Subsequent to August 26, 2007, SIR entered into a second capital lease arrangement to lease restaurant equipment for up to $0.6 million. In addition, during the fourth quarter of fiscal 2007, a lender approved a $16.0 million credit facility to help facilitate SIR's restaurant expansion plans (see Liquidity and Capital Resources section).

On October 31, 2006, the Federal Department of Finance announced a plan that proposes changes to the manner in which distributions from certain publicly listed flow-through entities ("FTE's") including income funds are taxed. However, existing Income Trusts would not be subject to this proposed taxation of distributions until the 2011 taxation year so long as the Fund meets the requirements for "normal growth". On December 21, 2006, the Federal Department of Finance issued draft legislation on the proposed taxation legislation for public comment. The proposed legislation has since received a third reading and therefore is considered to be substantively enacted. As a result, the Fund recorded a future income tax expense in their current interim financial statements. The Trustees of the Fund and senior management of SIR will continue to monitor this development.

During the 16 and 52-week periods ended August 26, 2007, the U.S. operating losses of JACL consumed cash flow of $0.1 million and $1.2 million, respectively ($0.4 million and $1.1 million for the 16 and 52-week periods ended August 27, 2006). A substantial part of this was to fund the renovation that occurred at the end of fiscal 2006, to fund operations during the closure for the renovation, and to repay certain debt.

During fiscal 2008, SIR expects to continue to make significant investments in both new and existing restaurants, although a smaller percentage of capital spending is expected to be directed toward renovations. This will set in place a foundation for anticipated sales growth and improved earnings. Management is committed to maximizing the performance of all of its restaurants.

Forward Looking Information

Certain statements in this document may constitute "forward-looking" statements which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of SIR to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this document, such statements are such words as "may", "will", "expect", "believe", "plan", "anticipate", "intend", "estimate" and other similar terminology. These statements reflect Management's current expectations regarding future events and operating performance and speak only as of the date of this document. These forward-looking statements involve a number of risks and uncertainties. SIR expressly disclaims any obligation or undertaking to publicly release any updates or revisions to any forward-looking statements contained herein to reflect any change in expectations with regard thereto or any changes in events, conditions or circumstances on which any statement is based.

In formulating the forward-looking statements contained herein, management has assumed, among other things, that business and economic conditions affecting SIR's restaurants will continue substantially in the ordinary course, including without limitation with respect to 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 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. In particular, in estimating the revenues for the three new Canyon Creek restaurants, management has assumed that they will operate consistent with other Canyon Creek restaurants. See also "Risk Factors" in the SIR Royalty Income Fund March 30, 2007 Annual Information Form.

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