SIR Corp.

Interim Consolidated Financial Statements
For the 12-week and 24-week periods ended February 15, 2009
(Unaudited)

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

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SIR Corp.
Consolidated Balance Sheets
(Unaudited)

(in thousands of dollars)

	February 15, 2009	August 31, 2008
Assets		
Current assets		
Cash and cash equivalents	2,726	1,483
Accounts receivable	3,160	3,773
Inventories	2,770	2,806
Prepaids, deposits and other assets	1,151	584
Current portion of loans, advances and notes receivable	180	180
	9,987	8,826
Loans, advances and notes receivable	408	707
Property and equipment	53,516	53,015
Goodwill (note 5)	5,625	5,625
Intangible and other assets	3,813	3,780
	73,349	71,953

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

SIR Corp.

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

(in thousands of dollars)

	February 15, 2009	August 31, 2008
Liabilities		
Current liabilities		
Bank indebtedness (note 6)	-	905
Accounts payable and accrued liabilities	18,245	16,679
Construction accounts payable and accrued liabilites	513	2,274
Current portion of long-term debt (note 6)	3,235	1,733
Current portion of other long-term liabilities	1,428	1,499
Amounts due to SIR Royalty Income Fund - net (note 7)	1,702	1,524
	25,123	24,614
Long-term debt (note 6)	11,075	8,777
Loan payable to SIR Royalty Income Fund (note 7)	35,541	35,531
Non-controlling interest in SIR Royalty Limited Partnership (note 7)	11,167	11,167
Other long-term liabilities	10,656	10,110
Future income taxes	-	9
	93,562	90,208
Non-controlling interest in other subsidiary companies	-	32
Shareholders' Deficiency		
Capital stock	17,605	17,605
Accumulated other comprehensive income	(202)	(202)
Deficit	(37,616)	(35,690)
	(20,213)	(18,287)
	73,349	71,953

Contingencies and commitments (note 9)

Subsequent event (note 13)

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

SIR Corp.

Consolidated Statements of Operations and Comprehensive Loss
(Unaudited)

(in thousands of dollars)

	12-week period ended February 15, 2009	12-week period ended February 10, 2008	24-week period ended February 15, 2009	24-week period ended February 10, 2008
Corporate restaurant operations				
Food and beverage revenue (note 11)	45,231	41,191	90,310	81,157
Cost of corporate restaurant operations				
Food and beverage	13,836	12,937	27,637	25,383
Labour	14,442	13,160	29,401	25,810
Direct cost of restaurant operations	10,387	9,497	21,308	19,272
Amortization of restaurant assets	2,272	1,777	4,499	3,509
	40,937	37,371	82,845	73,974
Earnings from corporate restaurant operations	4,294	3,820	7,465	7,183
Corporate costs	(2,343)	(2,435)	(4,935)	(5,180)
Restructuring costs (note 12)	(228)	-	(228)	-
Other amortization	(69)	(60)	(141)	(122)
	(2,640)	(2,495)	(5,304)	(5,302)
Earnings before the following items	1,654	1,325	2,161	1,881
Interest expense - net	(138)	(43)	(335)	(91)
Interest on loan payable to SIR Royalty Income Fund (note 7)	(691)	(691)	(1,381)	(1,381)
Non-controlling interest in SIR Royalty Limited Partnership (note 7)	(1,008)	(1,083)	(2,074)	(2,171)
Unrealized foreign exchange gain (loss)	52	(53)	(398)	100
Goodwill impairment (note 5)	-	(166)	-	(166)
Other income - net	93	120	53	132
Loss before income taxes and non-controlling interest in other subsidiary companies	(38)	(591)	(1,974)	(1,696)
Recovery of (provision for) income taxes	(1)	1	16	1
Loss before non-controlling interest in other subsidiary companies	(39)	(590)	(1,958)	(1,695)
Non-controlling interest in other subsidiary companies	-	-	32	18
Net loss and comprehensive loss for the period	(39)	(590)	(1,926)	(1,677)

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

SIR Corp.
Consolidated Statements of Deficit
(Unaudited)

(in thousands of dollars)

	12-week period ended February 15, 2009	12-week period ended February 10, 2008	24-week period ended February 15, 2009	24-week period ended February 10, 2008
Deficit - Beginning of period	(37,577)	(34,300)	(35,690)	(33,213)
Net loss for the period	(39)	(590)	(1,926)	(1,677)
Deficit - End of period	(37,616)	(34,890)	(37,616)	(34,890)

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

SIR Corp.
Consolidated Statements of Cash Flows
(Unaudited)

(in thousands of dollars)

	12-week period ended February 15, 2009	12-week period ended February 10, 2008	24-week period ended February 15, 2009	24-week period ended February 10, 2008
Cash provided by (used in)				
Operating activities				
Net loss for the period	(39)	(590)	(1,926)	(1,677)
Items not affecting cash				
Amortization	2,341	1,837	4,640	3,631
Non-controlling interest in other subsidiary companies	-	-	(32)	(18)
Future income taxes	-	-	(9)	-
Goodwill impairment (note 5)	-	166	-	166
Non-cash interest expense	(28)	(4)	1	5
Amortization of leasehold inducements	(217)	(210)	(383)	(378)
Unrealized foreign exchange loss (gain)	(52)	53	398	(100)
Other items	66	44	152	65
Landlord and other inducements received	262	5	912	504
Net change in working capital items (note 10)	163	575	1,559	272
Net cash provided by operations	2,496	1,876	5,312	2,470
Investing activities				
Purchase of property and equipment	(2,099)	(2,302)	(6,451)	(4,985)
Proceeds from sale of property and equipment	14	2	14	45
Acquisition of non-controlling interest (note 5)		(190)	-	(190)
Decrease in loans, advances and notes receivable	297	-	346	-
Restaurant pre-opening costs	(216)	(256)	(578)	(338)
Net cash used in investing activities	(2,004)	(2,746)	(6,669)	(5,468)
Financing activities				
Increase (decrease) in bank indebtedness	(914)	(426)	(905)	169
Proceeds from issuance of long-term debt	1,000	800	3,700	2,300
Principal repayment of long-term debt	(99)	(89)	(207)	(168)
Net cash provided by (used in) financing activities	(13)	285	2,588	2,301
Effect of foreign exchange rates on cash	-	2	12	(1)
Increase (decrease) in cash during the period	479	(583)	1,243	(698)
Cash and cash equivalents - Beginning of period	2,247	3,262	1,483	3,377
Cash and cash equivalents - End of period	2,726	2,679	2,726	2,679
Supplemental Information				
Interest paid	962	808	1,609	1,584
Income taxes paid	1	-	1	17

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

1. Nature of operations and fiscal year

Nature of operations

SIR Corp. (the "Company") is a private company amalgamated under the Business Corporations Act of Ontario. As at February 15, 2009, the Company operates a total of 45 (February 10, 2008 – 39) Concept and Signature restaurants in Canada (in Ontario, Quebec, Alberta and Nova Scotia) (the "SIR Restaurants"). The Concept restaurants are Jack Astor's Bar and Grill® ("Jack Astor's®"), Canyon Creek Chop House® ("Canyon Creek®") and Alice Fazooli's® and the Signature restaurants are *reds*®, Far Niente®/FOUR™/Petit Four™, and the Loose Moose Tap & Grill®. The Company also owns Jack Astor's (Cary & Las Colinas) Limited which operates one Jack Astor's restaurant in the United States.

On October 1, 2004, SIR Royalty Income Fund (the "Fund") filed a final prospectus for a public Offering of units of the Fund. The net proceeds of the Offering of $51,167,000 were used by the Fund to acquire certain bank debt of the Company (the "SIR Loan") and indirectly, through SIR Holdings Trust (the "Trust") all of the Ordinary LP units of SIR Royalty Limited Partnership (the "Partnership"). On October 12, 2004, the Partnership acquired from the Company the Canadian trademarks used in connection with the operation of the majority of the Company's restaurants in Canada (see note 7).

Fiscal year

The Company's fiscal year is made up of 52 or 53-week periods ending on the last Sunday in August. The fiscal quarters for the Company consist of accounting periods of 12, 12, 12 and 16 or 17 weeks, respectively. The fiscal years for 2009 and 2008 consist of 52 and 53 weeks, respectively.

2. Summary of significant accounting policies

Basis of presentation

These interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada for interim reporting. Accordingly, these financial statements do not include all of the disclosures required by generally accepted accounting principles for annual financial statements and should be read in conjunction with the annual consolidated financial statements of the Company. In the opinion of management, all adjustments considered necessary for fair presentation have been included. All such adjustments are of a normal recurring nature. Operating results for the 24-week period ended February 15, 2009 are not necessarily indicative of the results that may be expected for the 52-week period ended August 30, 2009.

There have been no changes in accounting policies as described in note 2 to the consolidated financial statements for the year ended August 31, 2008 except as described in note 3 below.

Seasonality

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

3. Changes in accounting policies and recently issued accounting pronouncements

Changes in accounting policies

Capital Disclosures – Handbook Section 1535

Handbook Section 1535 requires disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital and whether the entity has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance. The Company adopted this standard effective September 1, 2008 (see note 8 – Capital Management).

Financial Instruments – Disclosures – Handbook Section 3862

Handbook Section 3862 increases the disclosures currently required that will enable users to evaluate the significance of financial instruments for an entity's financial position and performance, including disclosures about fair value. In addition, disclosure is required of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about liquidity risk and market risk. The quantitative disclosures must also include a sensitivity analysis for each type of market risk to which an entity is exposed, showing how net income and other comprehensive income would have been affected by reasonably possible changes in the relevant risk variable. The Company adopted this standard effective September 1, 2008 (see note 4 – Financial Instruments).

Financial Instruments – Presentation – Handbook Section 3863

Handbook Section 3863 replaces the existing requirements on presentation of financial instruments which have been carried forward unchanged to this new section. The Company adopted this standard effective September 1, 2008.

Inventories – Handbook Section 3031

Handbook Section 3031 replaces Handbook Section 3030 – Inventories and provides more guidance on the measurement and disclosure requirements for inventories. The new standard allows the reversal of previous writedowns to net realizable value when there is a subsequent increase in the value of inventories. The Company adopted this standard effective September 1, 2008 and the adoption of this standard has not had any impact on the Company.

Recently issued accounting pronouncements

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 whether or not the Company is required to adopt IFRS and has not yet determined the impact.

Goodwill and intangible assets – Handbook Section 3064

Handbook Section 3064 replaces Handbook Section 3062 – Goodwill and intangible assets and Handbook Section 3450 – Research and development costs and establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The provisions relating to the definition and initial recognition of intangible assets, including internally generated intangible assets, are equivalent to the corresponding provisions of IFRS IAS 38, Intangible assets. This standard is effective for the Company for interim and annual financial statements beginning on August 31, 2009. Management has determined that the capitalization of restaurant pre-opening costs will no longer be permitted. However, Management has not yet quantified the impact of this change. Management has not yet determined the impact of the adoption of this change related to its goodwill and other intangible assets in its consolidated financial statements.

4. Financial Instruments

Classification

As at February 15, 2009, the classifications of the financial instruments, as well as their carrying and fair values are as follows:

	Classification	Carrying value	Fair value
		(in thousands of dollars)	
Cash and cash equivalents	Held for trading	2,726	2,726
Accounts receivable	Loans and Receivables	3,160	3,160
Loans, advances and notes receivable	Loans and Receivables	588	588
Accounts payable and accrued liabilities	Other Financial Liabilities	18,245	18,245
Construction accounts payable and accrued liabilities	Other Financial Liabilities	513	513
Long-term debt	Other Financial Liabilities	14,310	15,122
Amounts due to SIR Royalty Income Fund	Other Financial Liabilities	1,702	1,702
Loan payable to SIR Royalty Income Fund	Other Financial Liabilities	35,541	See below

Carrying and fair value

Cash and cash equivalents, accounts receivable, loans, advances and notes receivable, bank indebtedness, accounts payable and accrued liabilities, construction accounts payable and accrued liabilities and amounts due to SIR Royalty Income Fund are short term financial instruments whose fair value approximates the carrying amount given that they will mature in the short term, or in the case of loans, advances and notes receivable, the fair values of these items do not differ significantly from their carrying values. The fair value of the loan payable to SIR Royalty Income Fund could only be determined through the valuation of the debt. As a result, the determination of the fair value is not practicable with the constraints of timeliness and cost.

Objectives and policy relating to financial risk management

Financial risk management is carried out by the management of the Company and its Board of Directors. The Company's main financial risk exposure, as well as its risk management policy, is detailed as follows:

Interest rate risk

The loan payable to the SIR Royalty Income Fund, the U.S. loan payable, the loans payable to landlords and the capital lease obligations have fixed interest rates. Accordingly, changes in interest rates would not impact the consolidated statements of operations and comprehensive loss or the carrying value of these financial liabilities. However the fair value of these financial liabilities will vary with changes in the interest rate.

The Company currently has $12,740,000 in floating rate debt through its bank indebtedness and construction line. The Company incurred $111,000 and $228,000 of interest expense on these debts during the 12 week and 24-week periods ending February 15, 2009, respectively. An increase or decrease of 0.5% in the prime rate would have increased or decreased net loss and comprehensive loss for the 24-week period ended February 15, 2009 by $29,000, respectively.

The Company's policy is to invest excess cash in short-term investments and it is not the Company's practice to hedge against changes in interest rates.

Credit risk

Credit risk is defined as the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit risk in its cash and cash equivalents, accounts receivable, and loans, advances and notes receivable. The Company minimizes the credit risk of cash and cash equivalents by depositing funds with reputable financial institutions. The Company's accounts receivable, primarily comprise amounts due from major credit card companies and therefore management believes that its accounts receivable credit risk exposure is limited. The Company monitors the collectability of its loans, advances and notes receivable, predominately due from related parties, by reviewing them for impairment on an individual basis and writing the instrument down to its net realizable value. The Company has determined that the loans and advances to U.S. S.I.R. L.L.C. are impaired based on estimated future cash flows of the remaining U.S. operations. Accordingly, the carrying value of the loans and advances receivable are written down to their net realizable value. The Company has begun to receive payments on these loans and advances and accordingly recognized interest income of $25,000 and $51,000 during the 12-week and 24 week periods ending February 15, 2009.

Foreign currency exchange risk

The Company is exposed to foreign currency exchange rate risk with respect to its one Jack Astor's restaurant operating in the United States and to its loan and advances from U.S. S.I.R. L.L.C. and its subsidiaries. At February 15, 2009, the Company had financial assets of US$291,000 and financial liabilities of US$2,304,000. A 5% depreciation or appreciation in the Canadian dollar against the U.S. dollar, assuming that all other variables had remained the same, would have resulted in an increase or decrease in net loss and comprehensive loss of $120,000, for the 24-week period ended February 15, 2009.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Management believes 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. The company prepares budgets and forecasts to evaluate its ability to meet future cash obligations.

Included in cash and cash equivalents is $1,696,000 (August 31, 2008 - $1,295,000) of cash of the Partnership. These funds are consolidated for financial statement reporting purposes due to the Company's ownership. However, these funds can only be utilized by the Partnership and are not available to the parent company for other general corporate purposes. The funds are maintained in separate bank accounts of the Partnership.

The estimated contractual payments required for the financial liabilities are as follows:

	Remainder of 2009	2010	2011	2012	2013	Thereafter
			(in thousands of dollars)			
Accounts payable and accrued liabilities	18,245	-	-	-	-	-
Construction accounts payable and accrued liabilities	513	-	-	-	-	-
Long-term debt	249	3,050	2,987	2,796	2,790	3,250
Amounts due to SIR Royalty Income Fund	1,702	-	-	-	-	-
Loan payable to SIR Royalty Income Fund	-	-	-	-	-	40,000
	20,681	3,072	3,007	2,813	2,803	43,194

5. Acquisition of non-controlling interest

Effective December 17, 2007, the Company acquired the non-controlling interest's shares in Jack Astor's (Cary & Las Colinas) Limited for cash consideration of $190,000. The purchase price exceeded the non-controlling interest in the acquired net assets by $190,000. This amount has been allocated based on the fair value of the assets and liabilities acquired to goodwill and property and equipment. Jack Astor's (Cary & Las Colinas) Limited has experienced operating losses and therefore management tested the goodwill for impairment, subsequent to the acquisition. Management determined that the carrying value of the net assets exceeded the fair values of the business unit and accordingly, an impairment charge of $166,000 was recorded, for the 12-week and 24-week periods ended February 10, 2008, for the goodwill arising upon the acquisition of the non-controlling interest.

6. Bank indebtedness and long-term debt

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

The unused operating line and construction line as at February 15, 2009 is $1,995,000 and $260,000, respectively (August 31, 2008 – $1,090,000 and $3,960,000). As at February 15, 2009, the Company has outstanding letters of credit of $5,000 (August 31, 2008 – $5,000).

In compliance with Handbook section 3855, Financial Instruments – Recognition and Measurement, the Company has recorded its long-term debt at amortized cost. Effective August 27, 2007, the Company reclassified $850,000 of deferred financing fees and netted these against the long-term debt. The Company amortizes this cost over the expected life of the long-term debt using the effective interest rate method. Amortization of deferred financing fees of ($11,000) and $34,000 (2008 - $12,000 and $12,000) has been charged to interest expense (income) in the consolidated statements of operations for the 12-week and 24-week periods ended February 15, 2009.

Long-term debt includes one loan payable by Jack Astor's Cary, LLC, a subsidiary of Jack Astor's (Cary & Las Colinas) Limited for a total amount of $1,644,000 (U.S. $1,296,000) (August 31, 2008 – $1,447,000; U.S. $1,362,000) that is currently non-compliant with respect to certain financial and non-financial covenants. As a result, this loan is presented as a current liability. All payments due on the loan have been made to date, and no notices of default have been received by the borrowers. The loan is collateralized by the assets of Jack Astor's (Cary & Las Colinas) Limited.

7. SIR Royalty Income Fund

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

(a) SIR Loan

The $40,000,000 SIR Loan bears interest at 7.5% per annum, is due October 12, 2044 and is collateralized by a general security agreement covering substantially all of the assets of the Company. Interest expense of $691,000 and $1,381,000 (2008 - $691,000 and $1,381,000) was charged to the consolidated statements of operations for the 12-week and 24-week periods ended February 15, 2009.

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

In compliance with Handbook section 3855, Financial Instruments – Recognition and Measurement, the Company has recorded the SIR Loan at amortized cost. Effective August 27, 2007, the Company reclassified $4,488,000 of deferred financing fees and netted these against the SIR Loan. The Company amortizes this cost over the term of the SIR Loan using the effective interest method. Amortization of deferred financing fees of $5,000 and $10,000 (2008 - $5,000 and $10,000) have been charged to interest expense in the consolidated statements of operations for the 12-week and 24-week periods ended February 15, 2009.

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

	12-week period ended February 15, 2009	12-week period ended February 10, 2008	24-week period ended February 15, 2009	24-week period ended February 10, 2008
	(in thousands of dollars)			
Initial investment by the Fund	11,167	11,167	11,167	11,167
Non-controlling interest in earnings of the Partnership	1,008	1,083	2,074	2,171
Distributions declared on the Partnership's Units held by the non-controlling interest	(1,008)	(1,083)	(2,074)	(2,171)
Non-controlling interest in the Partnership	11,167	11,167	11,167	11,167
Pooled Revenue *	41,786	39,032	80,715	76,150
Partnership royalty income *	2,507	2,357	4,843	4,599
Other income	10	16	24	28
Partnership expenses	(33)	(33)	(53)	(48)
Net earnings of the Partnership	2,484	2,340	4,814	4,579
The Company's interest in the earnings of the Partnership	(1,476)	(1,257)	(2,740)	(2,408)
Non-controlling interest in the earnings of the Partnership	1,008	1,083	2,074	2,171

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

On October 12, 2004, the Partnership issued Ordinary LP and GP Units to the Fund for cash consideration of $11,167,000. The holders of the Ordinary LP Units are entitled to receive a pro rata share of all residual distributions of the Partnership and have the right to receive distributions in priority to the Class A GP Units which are held by the Company.

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

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

Under the terms of the License and Royalty Agreement, the Company may be required to pay a Make-Whole Payment in respect of the reduction in revenue for restaurants closed during a reporting period. The Company is not required to pay any Make-Whole Payments in respect of a closed restaurant following the date on which the number of restaurants in the Royalty pool is equal to or greater than 68 or following October 12, 2019, whichever occurs first. On January 1 of each year (the Adjustment Date), the restaurants subject to the License and Royalty Agreement are adjusted for new SIR Restaurants opened for at least 60 days proceeding such Adjustment Date. At each Adjustment Date, the Company will be entitled to convert its Class B GP Units of the Partnership to Class A GP Units of the Partnership based on a conversion formula defined in the Partnership Agreement. Additional Class B GP Units may be converted to Class A GP Units in respect of these new SIR Restaurants if actual revenues of the new SIR Restaurants exceed 80% of the initial estimated revenue. Conversely, converted Class A GP Units may be returned by the Company if the actual revenues 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, 2009, six (January 1, 2008 – three) new SIR Restaurants were added to the Royalty Pooled Restaurants in accordance with the License and Royalty Agreement. As consideration for the additional Royalty associated with the addition of six (January 1, 2008 – three) new restaurants on January 1, 2009, as well as the Second Incremental Adjustment for the three (January 1, 2008 – three) new SIR Restaurants added to the Royalty Pooled Restaurants on January 1, 2008, the Company converted its Class B GP units into Class A GP units based on the formula defined in the Partnership Agreement. The number of Class B GP units that the Company converted to Class A GP units was reduced by an adjustment for the closure of nil (2007 – two) SIR Restaurants during the prior calendar year. The net effect of these adjustments to the Royalty Pooled Restaurants was that the Company converted 1,077,000 (2008 – 194,000) Class B GP units of the Partnership into 1,077,000 (2008 – 194,000) Class A GP units of the Partnership on January 1, 2009 at an estimated fair value of $5,972,000 (2008 - $1,456,000). As a result of this exchange, the Company's interest in the Partnership increased to 33.7% effective January 1, 2009.

In addition, the revenues of three (2007 – three) new SIR Restaurants added to the Royalty pool on January 1, 2008 exceeded 80% of the Initial Adjustment's estimated revenue and, as a result, an Additional Distribution of $178,000 (January 1, 2008 – $77,000) was declared in December and paid in January 2009.

(c) **Amounts due to the SIR Royalty Income Fund**

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

	February 15, 2009	August 31, 2008
	(in thousands of dollars)	
Advances receivable	(1,292)	(1,573)
Interest payable on SIR Loan	386	283
Partnership distributions payable	2,608	2,814
Payable to the Fund and its subsidiaries – net	1,702	1,524

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

During the 12-week and 24-week periods ended February 15, 2009, distributions of $1,008,000 and $2,074,000 respectively, were declared to the Fund through the Partnership ($1,083,000 and $2,171,000 for the 12-week and 24-week periods ended February 10, 2008 respectively). The Fund, indirectly through the Trust, is entitled to receive a pro rata share of all residual distributions.

The Company, through the Partnership, has entered into an arrangement with the Fund and the Trust whereby the Partnership will provide or arrange for the provision of services required in the administration of the Fund and the Trust. The Partnership has arranged for these services to be provided by SIR GP Inc., in its capacity as the managing general partner of the Partnership. For the 12-week and 24-week periods ended February 15, 2009, the Partnership provided these services to the Fund and the Trust for consideration of $5,000 and $11,000, respectively ($5,000 and $11,000 for the 12-week and 24-week periods ended February 10, 2008), which was the amount of consideration agreed to by the related parties.

8. Capital Management

The Company's capital consists of its capital stock and deficit. The objectives in managing the capital are to safeguard the Company's ability to continue as a going concern, to provide financial capacity and flexibility to meet its strategic objectives, allow the Company to respond to changes in economic and/or marketplace conditions and to provide a return to its shareholders. The Company strives to maintain an optimal split between debt and equity with a view to balance its flexibility, while minimizing its cost of capital. The Company evaluates cash flow through its budgeting and forecasting process to help plan and track its capital objectives.

There are currently no external restrictions imposed on the Company's capital requirements. The Company is required to issue common shares upon the exercising of stock options by shareholders, directors and employees.

9. Contingencies and commitments

As at February 15, 2009, the Company has three commitments to lease properties upon which it plans to build three new restaurants. At the current date, the Company has not entered into any construction contracts for the three remaining restaurants to be built, but expects to in the future. Final costs of construction are subject to uncertainties as to their amounts and timing. Such things as finalization of design and final construction quotes could change the total cost of these projects.

10. Supplemental cash flow information

The net change in working capital items is as follows:

	12-week period ended		24-week period ended	
	February 15, 2009	February 10, 2008	February 15, 2009	February 10, 2008
	(in thousands of dollars)			
Accounts receivable and other receivables	342	283	241	81
Inventories	118	(13)	41	(74)
Prepaids, deposits and other assets	(335)	(184)	(563)	(373)
Trade accounts payable and accrued liabilities	310	545	1,379	198
Due to related parties	(204)	(52)	178	175
Accrued management bonus	(68)	(4)	283	265
	163	575	1,559	272

11. Segmented operations

The Company operates a portfolio of restaurants in Canada and the United States, which are categorized as Concept or Signature restaurants. Concept restaurants are brands that have been rolled out to multiple locations. Signature restaurants are one-of-a-kind brands. The accounting policies of the segments are the same as those described in the summary of accounting policies contained in the annual consolidated financial statements of the Company. The Company evaluates the performance of each segment based on earnings (loss) from operations before income taxes, interest, other non-recurring gains and losses, corporate costs and amortization of non-restaurant assets.

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

	12-week period ended		24-week period ended	
	February 15, 2009	**February 10, 2008**	**February 15, 2009**	**February 10, 2008**
	(in thousands of dollars)			
Food and beverage revenue				
Canada				
Jack Astor's	28,649	24,070	58,097	48,247
Canyon Creek	7,356	6,839	14,242	13,222
Alice Fazooli's	4,527	4,854	8,834	9,291
Signature	3,978	4,771	7,744	9,164
	44,510	40,534	88,917	79,924
United States				
Jack Astor's	721	657	1,393	1,233
	45,231	41,191	90,310	81,157

12. Restructuring costs

During the 12-week and 24-week periods ended February 15, 2009, the Company restructured their operations and incurred severance costs of $228,000. Of this amount, $144,000 has been paid as at February 15, 2009 and $84,000 will be paid during the remainder of fiscal 2009.

13. Subsequent event

Subsequent to February 15, 2009, the Company entered into an agreement to acquire the non-controlling interest's shares in Jack Astor's Don Mills Limited for cash consideration of $250,000.