SIR CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS

SECOND QUARTER FISCAL 2009

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

12 AND 24-WEEK PERIODS ENDED FEBRUARY 15, 2009

SIR CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE 12 AND 24-WEEK PERIODS ENDED FEBRUARY 15, 2009

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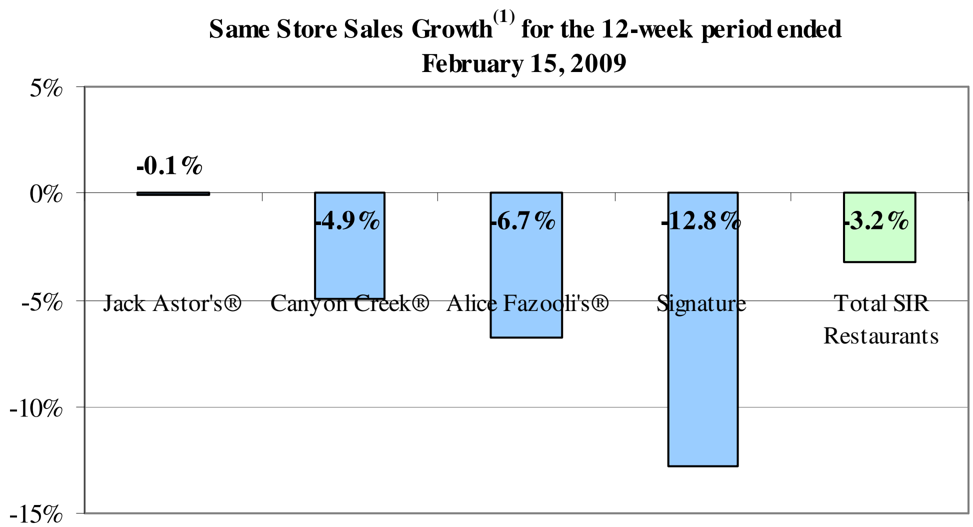
FOR THE 12 AND 24-WEEK PERIODS ENDED FEBRUARY 15, 2009

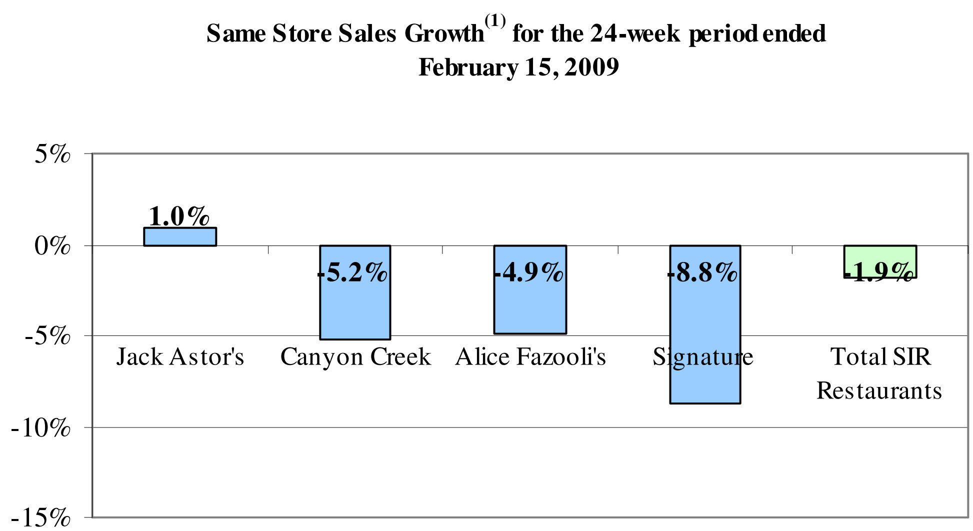
Executive Summary

SIR Corp.'s ("SIR's") second quarter of fiscal 2009 ("Q2") was from November 24, 2008 to February 15, 2009 inclusive.

Highlights for SIR's second quarter include:

- ***Consolidated revenue and Same Store Sales[(1)] ("SSS") (unaudited):***
  - Food and beverage revenue from corporate restaurant operations for Q2 was $45.2 million and $90.3 million year to date ("YTD"). This represents a $4.0 million or 9.8% increase over the prior year for the quarter and a $9.2 million or 11.3% increase over the prior year for YTD.
  - SIR experienced a decline in same store sales growth[(1)] ("SSSG") for restaurants in the Royalty pool of 3.2% and 1.9% for the 12 and 24-week periods ended February 15, 2009, respectively. The Canadian Restaurant and Foodservices Association ("CRFA") in its Long Term Foodservice Forecast, prepared in January 2009, projected sales in the full service restaurant category, in Canada, will decline by 3.1% in calendar 2009.





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(1) Same store sales includes revenue from all SIR restaurants except for those restaurants that were not open for the entire comparable periods in fiscal 2009 and fiscal 2008. The U.S. restaurant is not part of SSS. 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. Please refer to the reconciliation of consolidated revenue to SSS on page 8 and to the definition of SSS in the Revenue section on page 9.

- SSSG[1] for Jack Astor's, SIR's flagship Concept Restaurant brand that generates approximately 63% of YTD Pooled Revenue, declined 0.1% in the 12-week period ending February 15, 2009, but remained positive at 1.0% for the 24-week period ending February 15, 2009.
- The other operating segments showed a decline in SSSG[1] in Q2 and YTD. Canyon Creek declined 4.9% and 5.2%, Alice Fazooli's declined 6.7% and 4.9%, and the downtown Signature restaurants declined 12.8% and 8.8% for the 12-week and 24-week periods ending February 15, 2009, respectively.
- Management believes that the recent weaker economic conditions are the primary driver of the observed reduction in the velocity of growth for Jack Astor's and the year-over-year SSS[1] declines in Canyon Creek, Alice Fazooli's and the downtown Signature restaurants. Management believes that Jack Astor's somewhat lower average cheque, has contributed to reducing the impact of the economy and consumer confidence on Jack Astor's revenue in fiscal 2009. Restaurants with a higher average cheque, such as Canyon Creek and the downtown Toronto Signature Restaurants, tend to experience a greater decline in sales volumes. Management is not expecting an improvement in these conditions in the near future, which may be expected to negatively impact revenue and profit.

Investment in existing restaurants

- In Q1, SIR closed the Alice Fazooli's near the Square One shopping mall in Mississauga, Ontario, for 10 days to complete a repositioning and renovation. The intent of these changes was to broaden Alice Fazooli's market penetration, similar to the previously completed evolutions of the Jack Astor's (2004 through 2007). Management is reviewing the performance of this repositioning to assess its applicability across the rest of the Alice Fazooli's restaurants.
- Renovations in fiscal 2008 included the renovation of the Armadillo Steak House®/Loose Moose Tap & Grill®, in Q1, which now operates as the Loose Moose Tap & Grill on both floors of the premises, the renovation of the Soul of the Vine® into FOUR™/Petit Four™ in Q2 and Q3, the evolution of the last of the existing Jack Astor's restaurants originally in the Royalty pool in Q2 and the exterior and audio visual updates and modifications to the bar and lobby area of the Jack Astor's restaurant near the Square One shopping mall in Mississauga, Ontario, in Q4.

- ***Investment in new restaurants***
  - Six new restaurants opened in calendar year 2008 (four restaurants opened in Q3 and Q4 of fiscal 2008 and two restaurants opened in Q1 of fiscal 2009) and were added to the Royalty Pooled Restaurants effective January 1, 2009.
  - In Q1 of fiscal 2009, SIR opened two new Jack Astor's restaurants. On October 6, 2008, SIR opened a new Jack Astor's location near the corner of Don Mills Road and Lawrence Avenue in Toronto, Ontario, at a site in a "lifestyle mall" which was constructed in the same development where a former Jack Astor's restaurant existed. This former Jack Astor's was closed in fiscal 2006 and removed from the Royalty pool effective January 1, 2007. On October 31, 2008, SIR opened a new Jack Astor's location at the corner of Yonge and Bloor Streets, in Toronto, Ontario.
  - In Q3 of fiscal 2008, on April 7 and 8, 2008 respectively, SIR opened a new Jack Astor's and a new Canyon Creek near the Toronto Pearson International Airport.
  - In Q4 of fiscal 2008, on May 5, 2008, SIR opened a new Jack Astor's at Yonge and Dundas Streets in Toronto, Ontario. On July 7, 2008, SIR opened a new Jack Astor's on John Street in Toronto, Ontario, in the former Brasserie Frisco® location, which was closed on December 22, 2007. Management is encouraged by initial sales results at these new Jack Astor's locations. Brasserie Frisco was treated as a 2007 Closed Restaurant and SIR was required to pay a Make-Whole Payment from the date of closure to December 31, 2007.
  - In Q1 of fiscal 2008, a new Jack Astor's site opened in Burlington, Ontario, on October 15, 2007. The former Jack Astor's restaurant in Burlington was closed on September 29, 2007. SIR was required to pay a Make-Whole Payment from the date of closure to December 31, 2007, for the closed Burlington restaurant location. The closed restaurant was also removed from the Royalty Pooled Restaurants as a New Closed Restaurant, effective January 1, 2008 and the new Jack Astor's restaurant in Burlington was added to the Royalty Pooled Restaurants, effective January 1, 2008 as a New Additional Restaurant. The new site has provided higher revenues and therefore an increased Royalty stream to the SIR Royalty Limited Partnership (the "Partnership").

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

- SIR has secured one new additional site for a Jack Astor's restaurant in Boisbriand, Quebec with an expected opening date in fiscal year 2010 and two new additional sites, at the corner of Yonge and Gerrard Streets in Toronto, Ontario, with expected opening dates in calendar year 2011. Management continues to monitor current economic conditions and consumer confidence. Based on its assessment of these conditions, the timing of restaurant construction and opening schedules will be reviewed regularly by Management and adjusted as necessary.

- ***Net Loss***
  - The net loss for Q2 of $0.04 million was $0.55 million favourable to the same period in the prior year.
  - The YTD net loss of $1.9 million is $0.2 million unfavourable to the same period in the prior year. This is due in part to the $0.2 million in restructure costs that are not expected to recur and the increase in interest expense due to higher long term debt. There is also a $0.4 million foreign exchange loss in Q2 YTD 2009 compared to a $0.1 million gain in Q2 YTD 2008. Earnings from corporate restaurant operations have increased to offset these increased expenses. Although there has been a decline in SSS(1), this has been mitigated by the implementation of cost saving initiatives.

- ***Adjusted EBITDA(2)***
  - Adjusted EBITDA(2) for the second quarter is $4.2 million and $3.2 million in the current and prior year, respectively.
  - YTD adjusted EBITDA(2) is $7.0 million and $5.5 million in the current and prior year, respectively.

- ***Outlook***
  - Given the current economic environment, SIR has determined that the most prudent course of action is to reduce its growth plans and control its leverage. Prior to the economic slowdown, SIR had been following its sales building initiative it began after launching the SIR Royalty Income Fund (the "Fund") in fiscal 2005. Since then, SIR has opened ten new Jack Astor's restaurants and four new Canyon Creek restaurants. All the original Jack Astor's restaurants still in existence in the Royalty pool have undergone the sales building evolution program, with the last one completed in Q2 of fiscal 2008. The Jack Astor's location in the U.S. has also been evolved. In addition, all five Alice Fazooli's locations have been renovated, along with one Canyon Creek location, *reds*, Far Niente®, Soul of the Vine (conversion to FOUR/Petit Four) and the Armadillo Steak House/Loose Moose Tap & Grill (now the Loose Moose Tap & Grill). In Q1, SIR opened a Jack Astor's location near the corner of Don Mills Road and Lawrence Avenue in Toronto, Ontario and a Jack Astor's location at Yonge and Bloor Streets in Toronto, Ontario. In addition, three new sites for restaurants have been secured; one with an expected opening in fiscal year 2010 and two with expected openings in calendar year 2011. Additional sites will be considered, however SIR intends to slow its growth from the previously stated goal of 68 restaurants by December, 2010. Management is committed to maximizing the performance of all of its restaurants. All of this work is being done to set in place a foundation to support stable and growing sales and earnings for SIR over the longer term.
  - Management continues to monitor the economy and evaluate its potential impact on the Canadian business environment, particularly in relation to consumer confidence and availability of credit. SIR, like most other businesses, expects that the current economic downturn may significantly negatively affect its sales and profit prospects in the near future. In anticipation of a continuing economic downturn, SIR has implemented some cost saving initiatives and made changes to some marketing tactics. SIR continues to review its opportunities with regard to these and is also undertaking cash preservation strategies which include the previously announced slowing of growth plans.

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(2) References to EBITDA are to SIR's net loss before non-controlling interest in other subsidiary companies, provision for (recovery of) income taxes, other expense (income), provision for (recovery of) impairment of loans, advances and notes receivable, provision for 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. References to Adjusted EBITDA are to SIR's EBITDA plus restructuring costs that is a significant unusual item and not considered a normal recurring expense. Management believes that, in addition to net earnings or loss, EBITDA and Adjusted EBITDA are a useful supplemental measure in evaluating SIR's performance. EBITDA and Adjusted EBITDA are not financial measures recognized by Canadian generally accepted accounting principles ("GAAP") and do not have a standardized meaning prescribed by GAAP. Management cautions investors that EBITDA and Adjusted EBITDA should not replace net earnings or loss or cash flows from operating, investing and financing activities (as determined in accordance with GAAP), as an indicator of SIR's performance. SIR's method of calculating EBITDA and Adjusted EBITDA may differ from the methods used by other issuers. Therefore, SIR's EBITDA and Adjusted EBITDA may not be comparable to similar measures presented by other issuers. Please refer to the reconciliation of loss from continuing operations to EBITDA and Adjusted EBITDA on page 7 of this document.

- 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". This legislation was enacted in June, 2007. 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 February 15, 2009, SIR operates 45 Concept and Signature Restaurants in Canada (in Ontario, Quebec, Alberta and Nova Scotia). The Concept Restaurants are Jack Astor's, Canyon Creek and Alice Fazooli's. The Signature Restaurants are *reds*, Far Niente/FOUR/Petit Four, and the Loose Moose Tap & Grill. As at February 15, 2009, 45 SIR Restaurants were included in the SIR Royalty Pooled Restaurants.

As at February 15, 2009, SIR owned 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, but opened a new Jack Astor's in the same location in Q1. Subsequent to February 15, 2009, SIR entered into an agreement to acquire the non-controlling interest in Jack Astor's Don Mills Limited and will then own 100% of this restaurant. SIR also has an investment in one Jack Astor's restaurant in the USA which is not included in the Royalty Pooled Restaurants.

The three new Jack Astor's restaurants which opened during calendar year 2007 were added to the Royalty Pooled Restaurants on January 1, 2008. The five new Jack Astor's and one new Canyon Creek opened during calendar year 2008 were added to the Royalty Pooled Restaurants on January 1, 2009.

During calendar year 2007, SIR closed the former Jack Astor's in Burlington, Ontario and the Brasserie Frisco. These restaurants ceased to be part of the Royalty Pooled Restaurants on January 1, 2008.

On October 1, 2004, the SIR Royalty Income Fund (the "Fund") filed a final prospectus for a public Offering of Units of the Fund and the Offering closed on October 12, 2004. The net proceeds of the Offering of $51.2 million were used by the Fund to acquire the SIR Loan and indirectly, through the SIR Holdings Trust (the "Trust"), the SIR Rights owned or licensed by SIR or its subsidiaries and used in connection with the operation of SIR's restaurants in Canada. In 2004, the Partnership granted SIR a 99-year license to use the SIR Rights in most of Canada in consideration for a Royalty, payable by SIR to the Partnership, equal to 6% of the revenue of the 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 52 or 53-week periods ending on the last Sunday in August. Fiscal quarters of SIR consist of accounting periods of 12, 12, 12 and 16 (or 17) weeks, respectively. The fiscal years for 2009 and 2008 consist of 52 weeks and 53 weeks, respectively.

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 12 and 24-week periods ended February 15, 2009 and February 10, 2008, respectively. The unaudited consolidated 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	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) (unaudited)			
Corporate restaurant operations:				
Food and beverage revenue	45,231	41,191	90,310	81,157
Cost of corporate restaurant operations	40,937	37,371	82,845	73,974
Earnings from corporate restaurant operations	**4,294**	**3,820**	**7,465**	**7,183**
Net loss for the period	**(39)**	**(590)**	**(1,926)**	**(1,677)**

Balance Sheet	February 15, 2009	August 31, 2008
	(in thousands of dollars)	
	(unaudited)	
Total assets	73,349	71,953
Total long-term liabilities	68,439	65,594

EBITDA[2] and Adjusted EBITDA[2]

EDITDA[2] and Adjusted EBITDA[2] are non-GAAP measures used by SIR to supplement its reporting of net loss and net cash flow. EBITDA[2] and Adjusted EBITDA[2] consist of net loss 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] and Adjusted EBITDA[2] are useful estimates of the core business's contribution to cash flow from operations and uses this measure as a supplemental measure of SIR's performance. Similarly, SIR believes that certain investors may also find this non-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] and Adjusted EBITDA[2]:

Reconciliation of net loss for the period to EBITDA[2] and Adjusted EBITDA[2]	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) (unaudited)			
Net loss for the period	(39)	(590)	(1,926)	(1,677)
Add (deduct):				
Non-controlling interest in other subsidiary companies	-	-	(32)	(18)
Provision for (recovery of) income taxes	1	(1)	(16)	(1)
Other expense (income)	(93)	(120)	(53)	(132)
Goodwill impairment	-	166	-	166
Unrealized foreign exchange (gain) loss	(52)	53	398	(100)
Interest expense - net	138	43	335	91
Interest on loan payable to SIR Royalty Income Fund	691	691	1,381	1,381
Non-controlling interest in SIR Royalty Limited Partnership	1,008	1,083	2,074	2,171
Other amortization	69	60	141	122
Amortization of restaurant assets	2,272	1,777	4,499	3,509
EBITDA[2]	**3,995**	**3,162**	**6,801**	**5,512**
Restructuring costs	228	-	228	**-**
Adjusted EBITDA[2]	**4,223**	**3,162**	**7,029**	**5,512**
Income from Class A & B GP Units of the Partnership [3] (Not included in EBITDA[2] and Adjusted EBITDA[2] above)	785	566	1,359	1,027
6% Royalty obligations under License and Royalty Agreement [4]	2,507	2,357	4,843	4,599

[2] *See footnote [2] on page 5*

[3] *The 24-week periods ended February 15, 2009 and February 10, 2008 include the additional distribution paid to Class B GP Unitholders in December of each year, if any.*

Results of Operations

Reconciliation of Revenue from Consolidated Financial Statements to Pooled Revenue	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) (unaudited)			
Revenue reported in consolidated financial statements	45,231	41,191	90,310	81,157
Less: Revenue from corporate restaurant operations excluded from the Royalty pool[4]	(3,445)	(2,159)	(9,595)	(5,007)
Revenue for restaurants in the Royalty pool	**41,786**	**39,032**	**80,715**	**76,150**

Reconciliation of Revenue from Consolidated Financial Statements to Same Store Sales[1]	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) (unaudited)			
Revenue reported in consolidated financial statements	45,231	41,191	90,310	81,157
Less: Revenue from corporate restaurant operations excluded from same store sales[1]	(7,234)	(1,925)	(14,228)	(3,632)
Same store sales[1]	**37,997**	**39,266**	**76,082**	**77,525**

Same Store Sales[1] by Segment	12-Week Period Ended February 15, 2009	12-Week Period Ended February 10, 2008	% Fav. / (Unfav.)	24-Week Period Ended February 15, 2009	24-Week Period Ended February 10, 2008	% Fav. / (Unfav.)
	(in thousands of dollars) (unaudited)					
Jack Astor's	22,989	23,010	(0.1%)	46,967	46,525	1.0%
Canyon Creek	6,503	6,839	(4.9%)	12,537	13,222	(5.2%)
Alice Fazooli's	4,527	4,854	(6.7%)	8,834	9,291	(4.9%)
Signature Restaurants	3,978	4,563	(12.8%)	7,744	8,487	(8.8%)
Same store sales[1]	**37,997**	**39,266**	**(3.2%)**	**76,082**	**77,525**	**(1.9%)**

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

(4) *See the SIR Royalty Income Fund section of this document for the Royalty calculation. Pooled Revenue includes revenue from all restaurants included in the Royalty pool. On January 1st of each year, New Additional Restaurants are added and New Closed Restaurants are removed from the Royalty pool. Royalty obligations equal 6% of Pooled Revenue plus any Make-Whole Payments. The Royalty obligations for the 12 and 24-week periods ended February 10, 2008 include a Make-Whole Payment for the closed Jack Astor's location in Burlington and the closed Brasserie Frisco location, from their date of closure to December 31, 2007.*

Summary of Quarterly Results

Statement of Operations	2nd Quarter Ended February 15, 2009 (12 weeks)	1st Quarter Ended November 23, 2008 (12 weeks)	4th Quarter Ended August 31, 2008 (17 weeks)	3rd Quarter Ended May 4, 2008 (12 weeks)	2nd Quarter Ended February 10, 2008 (12 weeks)	1st Quarter Ended November 18, 2007 (12 weeks)	4th Quarter Ended August 26, 2007 (16 weeks)	3rd Quarter Ended May 6, 2007 (12 weeks)
	(in thousands of dollars) (unaudited)							
Corporate Restaurant Operations								
Food and beverage revenue	45,231	45,079	65,298	41,910	41,191	39,966	53,659	38,790
Cost of corporate restaurant operations	40,937	41,908	59,009	37,706	37,371	36,603	49,394	34,863
Earnings from corporate restaurant operations	4,294	3,171	6,289	4,204	3,820	3,363	4,265	3,927
Net loss from continuing operations for the period	(39)	(1,887)	(476)	(288)	(590)	(1,087)	(960)	(373)
Net loss for the period	(39)	(1,887)	(476)	(288)	(590)	(1,087)	(953)	(258)

Selected Unaudited Consolidated Statement of Cash Flows Information	2nd Quarter Ended February 15, 2009 (12 weeks)	1st Quarter Ended November 23, 2008 (12 weeks)	4th Quarter Ended August 31, 2008 (17 weeks)	3rd Quarter Ended May 4, 2008 (12 weeks)	2nd Quarter Ended February 10, 2008 (12 weeks)	1st Quarter Ended November 18, 2007 (12 weeks)	4th Quarter Ended August 26, 2007 (16 weeks)	3rd Quarter Ended May 6, 2007 (12 weeks)
	(in thousands of dollars) (unaudited)							
Net cash provided by operations	2,496	2,816	4,355	1,841	1,876	594	3,902	457
Net cash used in investing activities	(2,004)	(4,665)	(10,897)	(3,391)	(2,746)	(2,722)	(3,202)	(2,765)
Net cash provided by (used in) financing activities	(13)	2,601	5,005	1,890	285	2,016	(650)	39
Increase (decrease) in cash and cash equivalents during the period	479	764	(1,536)	340	(583)	(115)	(186)	(1,953)
Cash and cash equivalents – Beginning of period	2,247	1,483	3,019	2,679	3,262	3,377	3,563	5,516
Cash and cash equivalents – End of period	2,726	2,247	1,483	3,019	2,679	3,262	3,377	3,563

Revenue

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

i. Revenue (per the SIR unaudited consolidated statements of operations) – this is the total consolidated revenue of all restaurants for the period. The restaurants include all SIR restaurants and the revenue from the U.S. Jack Astor's. For the 12 and 24-week periods ended February 15, 2009, this revenue was $45.2 million and $90.3 million, respectively.

ii. Same Store Sales(1) – this is a sub-set of i above used for tracking comparable year-over-year sales. For Q2 fiscal 2009 and 2008, SSS(1) includes all SIR restaurants except for Jack Astor's and Canyon Creek near the Toronto Pearson International Airport, the new Jack Astor's in Burlington, Jack Astor's at the corner of Yonge & Dundas Streets in Toronto, Ontario, Jack Astor's on John Street in Toronto, Ontario, Jack Astor's near the corner of Don Mills and Lawrence Avenue in Toronto, Ontario and Jack Astor's at the corner of Yonge and Bloor Streets in Toronto, Ontario because they were not open for the entire comparable period in fiscal 2008. It also excludes revenue from the new Jack Astor's location in Burlington, Ontario and the closed Brasserie Frisco because they were not open for the entire comparable periods in fiscal 2009 and 2008. The U.S. restaurant is not part of SIR Restaurants. For the 12 and 24-week periods ended February 15, 2009, this revenue was $38.0 million and $76.1 million, respectively.

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

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. The restaurants in the Royalty pool are adjusted on January 1st of each year for New Additional Restaurants and New Closed Restaurants. Currently there are 45 restaurants in the Royalty pool. For the 12 and 24-week periods ended February 15, 2009, Pooled Revenue was $41.8 million and $80.7 million, respectively. The applicable Royalty payable to the Partnership on the Pooled Revenue for these periods was $2.5 million and $4.8 million, respectively.

Same Store Sales(1)

SSSG(1) declined 3.2% and 1.9% for the 12 and 24-week periods ended February 15, 2009, respectively. Management believes that the recent weaker economic conditions are the primary driver of the observed reduction in the velocity of growth for Jack Astor's and the year-over-year SSS(1) declines in Canyon Creek, Alice Fazooli's and the downtown Signature Restaurants. Management believes that Jack Astor's somewhat lower average cheque, has contributed to reducing the impact of the economy and consumer confidence on Jack Astor's revenue in fiscal 2009. Restaurants with a higher average cheque, such as Canyon Creek and the downtown Toronto Signature Restaurants, tend to experience a greater decline in sales volumes. The CRFA, in its Long Term Foodservice Forecast, prepared in January 2009, projected sales in the full service restaurant category, in Canada, will decline by 3.1% in calendar 2009. Management is not expecting an improvement in these conditions in the near future, which may be expected to negatively impact revenue and profit.

SSSG(1) for Jack Astor's, SIR's flagship Concept Restaurant brand which generates approximately 63% of YTD Pooled Revenue, declined 0.1% for the 12-week period ended February 15, 2009, but remained positive at 1.0% for the 24-week period ended February 15, 2009.

Canyon Creek's SSSG(1) declined 4.9% and 5.2% for the 12 and 24-week periods ended February 15, 2009. The SSSG(1) of Alice Fazooli's declined 6.7% and 4.9% for the 12 and 24-week periods ended February 15, 2009 and SSSG(1) of the downtown Toronto Signature Restaurants, declined 12.8% and 8.8% for the 12 and 24-week periods ended February 15, 2009.

Cost of Corporate Restaurant Operations

As a percentage of revenue, costs of corporate restaurant operations decreased to 90.5% for the 12-week period ended February 15, 2009 compared to 90.7% for the 12-week period ended February 10, 2008 and increased to 91.7% for the 24-week period ended February 15, 2009 compared to 91.1% for the 24-week period ended February 10, 2008. Higher labour costs are the main contributor to the increase in the 24-week period ended February 15, 2009 compared to the prior year and the majority of these higher labour costs were incurred in Q1. Increased labour costs are normally experienced during the start-up periods for new restaurants. During Q1 of fiscal 2009, SIR had four restaurants which Management considers to be in their start-up period compared to only one such restaurant in Q1 of fiscal 2008. The majority of these restaurants are now out of their start-up phase and are starting to experience improved labour costs, resulting in improvements to the percentage of costs of corporate restaurant operations to revenue for Q2 and YTD Q2.

Corporate costs

Corporate costs decreased $0.1 million for the 12-week period ended February 15, 2009 as compared to the 12-week period ended February 10, 2008 and decreased $0.2 million for the 24-week period ended February 15, 2009 compared to the 24-week period ended February 10, 2008. SIR is continually managing corporate costs to obtain efficiencies while revenues grow.

Restructure costs

During the 12 and 24-week periods ended February 15, 2009, SIR restructured their corporate and restaurant operations and incurred severance costs of $0.2 million.

Interest expense - net

Interest expense increased $0.1 million for the 12-week period ended February 15, 2009 compared to the 12-week period ended February 10, 2008, and increased $0.2 million for the 24-week period ended February 15, 2009 compared to the 24-week period ended February 10, 2008. The increase is mainly due to increased long term debt in fiscal 2009 versus fiscal 2008.

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

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

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

Interest on the SIR Loan totalled $0.7 million and $1.4 million for the 12 and 24-week periods ended February 15, 2009, respectively and the 12 and 24-week periods ended February 10, 2008, respectively.

The Fund's share of the income of the Partnership for the 12-week periods ended February 15, 2009 and February 10, 2008 of $1.0 million and $1.1 million, respectively, has been recorded as non-controlling interest in the unaudited consolidated statements of operations. The Fund's share of income of the Partnership was $2.1 million and $2.2 million for the 24-week periods ended February 15, 2009 and February 10, 2008, respectively.

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

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

There was an unrealized foreign exchange gain of JACL of $0.05 million for the 12-week period ended February 15, 2009 and an unrealized foreign exchange loss of $0.4 million for the 24-week period ended February 15, 2009. This is mainly due to the effect of the decrease in value of the Canadian dollar versus the US dollar during the period on the US denominated debt of JACL. This is compared to an unrealized foreign exchange loss of $0.05 million for the 12-week period ended February 10, 2008 and an unrealized foreign exchange gain of $0.1 million for the 24-week period ended February 10, 2008.

Recovery of (provision for) impairment of loans, advances and notes receivable

Prior to fiscal 2008, advances were made to U.S. S.I.R. L.L.C. and its subsidiaries to facilitate ongoing operations and the closure of certain restaurant operations. These advances are non-interest bearing, non-secured and due on demand. SIR has determined that these advances are impaired based on estimated future cash flows of the remaining U.S. operations. Accordingly, the loan and advances receivable are written down to their net realizable value of $0.6 million. In fiscal 2008, U.S. S.I.R. L.L.C. repaid $0.2 million of these advances to SIR and a further repayment of $0.3 million was made in fiscal 2009, to date. Accordingly, SIR recognized interest income of $0.03 million and $0.05 million during the 12 and 24-week periods ended February 15, 2009, respectively. 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 income is $0.1 million for the 12-week period ended February 15, 2009 and the 12-week period ended February 10, 2008 and $0.1 million for the 24-week period ended February 15, 2009 and the 24-week period ended February 10, 2008.

EBITDA[(2)] and Adjusted EBITDA[(2)]

EBITDA[(2)] is $4.0 million and $6.8 million for the 12 and 24-week periods ended February 15, 2009 as compared to $3.2 million and $5.5 million for the 12 and 24-week periods ended February 10, 2008. Adjusted EBITDA[(2)] is $4.2 million and $7.0 million for the 12 and 24-week periods ended February 15, 2009, as compared to $3.2 million and $5.5 million for the 12 and 24-week periods ended February 10, 2008 (see Selected Consolidated Historical Financial Information - Reconciliation of net loss for the period to EBITDA[(2)] and Adjusted EBITDA[(2)]).

SIR Royalty Income Fund

The following is a summary of the accounting implications of the SIR Loan and non-controlling interest of the Partnership:

(a) *SIR Loan*

The $40.0 million SIR Loan bears interest at 7.5% per annum and is due October 12, 2044. On 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).

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

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.

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 on the SIR Loan of $0.7 million and $1.4 million was charged to the unaudited consolidated statements of operations for the 12 and 24-week periods ended February 15, 2009, respectively ($0.7 million and $1.4 million for the 12 and 24-week periods ended February 10, 2008, 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. Due to a change in accounting policy, effective August 27, 2007, these costs have been deferred and are being amortized over 40 years, the term of the SIR Loan, using the effective interest rate method. Prior to this, the straight line method was used. Amortization of $0.005 million and $0.01 million has been recorded as interest expense in the unaudited consolidated statements of operations for the 12 and 24-week periods ended February 15, 2009 ($0.005 million and $0.01 million for the 12 and 24-week periods ended February 10, 2008). The financing costs are netted against the SIR Loan in the unaudited consolidated financial statements.

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

	12-week Period Ended 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) (unaudited)		
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 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 (5)	41,786	39,032	80,715	76,150
Partnership royalty income (6)	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
SIR's interest in the earnings of the Partnership:				
Income from Class A & B GP Units of the Partnership(7)	(785)	(566)	(1,359)	(1,027)
Income from Class C GP Units of the Partnership	(691)	(691)	(1,381)	(1,381)
	(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

(5) *Includes revenue from the SIR Restaurants subject to the License and Royalty Agreement and excludes revenue from JACL. Revenue from the six restaurants added to the Royalty pool on January 1, 2009 has been included in Pooled Revenue for the period from January 1, 2009 to February 15, 2009. Revenue from the three restaurants added to the Royalty pool on January 1, 2008, has been included in Pooled Revenue for the period from January 1, 2008 to February 15, 2009. 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 12 and 24-week periods ended February 15, 2009 and February 10, 2008 include the additional distribution of $0.18 million and $0.08 million declared and paid to SIR in the second quarter of 2009 and 2008, respectively.*

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.

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.

In 2004, the Partnership granted SIR a 99-year license to use the SIR Rights in most of Canada in consideration for a Royalty, payable by SIR to the Partnership, equal to 6% of the revenue of the restaurants included in 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, 2009, six (January 1, 2008 - three) new SIR Restaurants, were added to the Royalty pool in accordance with the License and Royalty Agreement. As consideration for the additional Royalty associated with the addition of six (January 1, 2008 – three) new restaurants on January 1, 2009, as well as the Second Incremental Adjustment for the three (January 1, 2007 – three) new SIR restaurants added to the Royalty Pooled Restaurants on January 1, 2008, 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 nil (2007 – two) SIR Restaurants during the prior calendar year. The net effect of these adjustments to the Royalty Pooled Restaurants was that SIR 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 $6.0 million (2008 - $1.5 million). As a result of this exchange, SIR's interest in the Partnership increased to 33.7% effective January 1, 2009. In addition, the revenues of three (January 1, 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 $0.18 million (December, 2008 - $0.08 million) was declared in December 2008 and paid in cash to SIR the following January.

(c) *Amounts due to the Fund* – (see Transactions with the SIR Royalty Income Fund in the Transactions with Related Parties section)

Liquidity and Capital Resources

Selected Consolidated Statement of Cash Flows Information	12-Week Period Ended 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) (unaudited)			
Net cash provided by operations	2,496	1,876	5,312	2,470
Net cash used in investing activities	(2,004)	(2,746)	(6,669)	(5,468)
Net cash provided by (used in) financing activities	(13)	285	2,588	2,301
Increase (Decrease) in cash and cash equivalents 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

Net cash provided by operations increased by $0.6 million for the 12-week period ended February 15, 2009 as compared to the 12-week period ended February 10, 2008. The increase is mainly attributable to the decrease in net loss for the period of $0.6 million, an increase in amortization of $0.5 million, offset by a decrease in the net change in working capital items of $0.4 million. Net cash provided by operations increased $2.8 million for the 24-week period ended February 15, 2009 as compared to the 24-week period ended February 10, 2008. This is mainly attributable to an increase in amortization of $1.0 million, a change in unrealized foreign exchange loss (gain) from a gain of $0.1 million to a loss of $0.4 million, an increase in landlord and other inducements received of $0.4 million and an increase in net change in working capital of $1.3 million.

Net cash used in investing activities for the 12-week period ended February 15, 2009 and February 10, 2008 was $2.0 million and $2.7 million, respectively. Net cash used in investing activities for the 24-week period ended February 15, 2009 and February 10, 2008, was $6.7 million and $5.5 million, respectively. Purchases of property and equipment and restaurant pre-opening costs amounted to $2.3 million and $2.6 million for the 12-week periods ended February 15, 2009 and February 10, 2008, respectively, and $7.0 million and $5.3 million for the 24-week periods ending February 15, 2009 and February 10, 2008, respectively. Fiscal 2009 expenditures are mainly the result of the construction costs of the two new Jack Astor's opened during Q1 of fiscal 2009. Expenditures for the 24-week period ended February 10, 2008 were mainly the result of renovations of Soul of the Vine and the Loose Moose Tap & Grill, the construction costs of the new Jack Astor's location in Burlington, Ontario and the continuing construction costs for the new Jack Astor's and Canyon Creek restaurants that opened in calendar year 2008.

During fiscal years 2005 to 2008 and YTD Q2 fiscal 2009, SIR has purchased property and equipment totalling approximately $58.4 million. This represents investments in new restaurants, (including fourteen completed as at February 15, 2009), major renovations of 26 existing restaurants, certain other profit enhancing initiatives (such as new patios and patio expansions) and maintenance capital expenditures. Management expects that these investments in new and existing restaurants and the profit enhancing initiatives will help position SIR to work through the current economic downturn.

During the 12-week period ended February 10, 2008, SIR acquired the non-controlling interest in JACL for $0.2 million. During the 12 and 24-week period ended February 15, 2009, SIR received $0.3 million in payments on its loans and advances from U.S. S.I.R. L.L.C. and its subsidiaries.

Net cash used by financing activities was $0.01 million for the 12-week period ended February 15, 2009 and net cash provided by financing activities was $2.6 million for the 24-week period ended February 15, 2009. Net cash provided by financing activities was $0.3 million and $2.3 million for the 12 and 24-week periods ended February 10, 2008, respectively. Bank indebtedness decreased $0.9 million during the 12-week period ended February 15, 2009 compared to $0.4 million during the 12-week period ended February 10, 2008. Bank indebtedness decreased $0.9 million during the 24-week period ended February 15, 2009 compared to an increase of $0.2 million during the 24-week period ended February 10, 2008. SIR received $1.0 million and $3.7 million from the issuance of long-term debt during the 12 and 24-week periods ended February 15, 2009 and $0.8 million and $2.3 million during the 12 and 24-week periods ended February 10, 2008.

The five new Jack Astor's restaurants and one new Canyon Creek restaurant that opened during calendar year 2008 were added to the Royalty Pooled Restaurants effective January 1, 2009. The two new Jack Astor's restaurants that opened in Hamilton, Ontario and Dartmouth, Nova Scotia during fiscal 2007 and the one that opened in Burlington, Ontario in Q1 of fiscal 2008 were added to the Royalty Pooled Restaurants effective January 1, 2008. At these times, 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 in each year was adjusted for a reduction related to the closure of two restaurants in calendar year 2007 and the Second Incremental Adjustment for the three (2007 – three) new additional restaurants that were added to the Royalty Pooled Restaurants on January 1, 2008. 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 February 15, 2009, SIR had current assets of $10.0 million (August 31, 2008 - $8.8 million) and current liabilities of $25.1 million (August 31, 2008 - $24.6 million) resulting in a working capital deficit of $15.1 million (August 31, 2008 - $15.8 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 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. As at February 15, 2009, SIR is in compliance with these covenants and expects to remain in compliance with the covenants in the next fiscal year. As at February 15, 2009, SIR had outstanding borrowings on its Operating Line of $nil and outstanding borrowings on its Construction Line of $12.7 million. The unused operating line and construction line as at February 15, 2009 was $2.0 million and $0.3 million, respectively. No further draws have been made on the Construction Line subsequent to Q2 of fiscal 2009. As at February 15, 2009, SIR had an obligation of $0.7 million in capital lease arrangements. 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.

Management continues to monitor the economy and evaluate its potential impact on the Canadian business environment, particularly in relation to consumer confidence and availability of credit. SIR, like most other businesses, expects that the current economic downturn may significantly negatively affect its sales and profit prospects in the near future. In anticipation of a continuing economic downturn, SIR has implemented some cost saving initiatives and revised its marketing tactics. SIR continues to review its opportunities with regard these and is undertaking cash preservation strategies which include the previously announced slowing of growth plans.

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. There is one loan remaining of $1.6 million (U.S. $1.3 million) and it is currently non-compliant with respect to certain financial and non-financial covenants. As a result, this loan is presented as a current liability in SIR's unaudited consolidated financial statements. All payments due on this loan have been made to date and the borrowers have not received any notices of default. The loan is secured by the assets of JACL and a pledge of the shares in JACL by SIR.

Contractual Obligations

In 2004, the Partnership granted SIR a 99-year license to use the SIR Rights in most of Canada in consideration for a Royalty, payable by SIR to the Partnership, equal to 6% of the revenue of the restaurants included in 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 unaudited consolidated financial statements, however the obligation for payments remains.

Under the terms of the License and Royalty Agreement, SIR may be required to pay a Make-Whole Payment in respect of the reduction in revenue for restaurants closed during a reporting period. SIR is not required to pay any Make-Whole Payment in respect of a closed restaurant following the date on which the number of 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.

Three 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, on September 29, 2007, the Jack Astor's in Burlington, Ontario was closed and on December 22, 2007, the Brasserie Frisco was closed. The Don Mills location was demolished by the landlord and has been redeveloped into a major "lifestyle mall". A new Jack Astor's was opened in this location on October 6, 2008. The Burlington location was replaced with a new Jack Astor's in a different location in Burlington, which opened on October 15, 2007 and this new location has started to provide higher revenues and therefore a greater Royalty stream to the Partnership. SIR has opened a new Jack Astor's on John Street, in Toronto, Ontario, in the former Brasserie Frisco location on July 7, 2008. 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 this 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 was also required to pay a Make-Whole Payment for the closed Burlington location and Brasserie Frisco from their respective dates of closure to December 31, 2007. Effective January 1, 2008, these restaurants were removed from the Royalty Pooled Restaurants as New Closed Restaurants.

SIR and its subsidiaries have entered into operating leases relating to its head office and restaurant locations with minimum annual payments. As at February 15, 2009, SIR had three commitments to lease properties and plans to build three new restaurants. At the current date, SIR has not entered into any construction contracts for these restaurants to be built, but expects to do so in the future. Final costs of construction are subject to uncertainties as to their amounts and timing. Such things as finalization of design and final construction quotes could change the total cost of these projects. SIR anticipates financing these construction costs with the Construction Line under its credit facility and through operating cash flow. SIR has entered into capital lease arrangements to lease restaurant equipment for up to $1.0 million and as at February 15, 2009, SIR had an obligation of $0.7 million. In addition, SIR was approved for a $16.0 million credit facility to help facilitate SIR's restaurant expansion plans. As at February 15, 2009, SIR had drawn $12.7 million on its Construction line and subsequent to Q2 of fiscal 2009, SIR has made no further draws. SIR intends to convert the construction facility to a five year term loan in accordance with the terms of the credit facility. SIR will be required to repay the principal amount (determined at the date of conversion to a term loan) in sixty equal monthly installments following the conversion (see Liquidity and Capital Resources section). SIR has estimated its contractual payments on the construction line to be as follows:

	(in thousands of dollars) (unaudited)
2010	2,548
2011	2,548
2012	2,548
2013	2,548
Thereafter	2,548

Off-Balance Sheet Arrangements

SIR has off-balance sheet arrangements with respect to its operating leases. These arrangements have not changed during the quarter. The reader will find this information in the annual Management Discussion and Analysis for the year ended August 31, 2008.

Transactions with Related Parties

SIR has entered into related party transactions with shareholders or companies controlled by shareholders of SIR and directors of SIR. The transactions are in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Significant transactions with related parties include:

- Payment for operational services provided by two shareholders of SIR in the amount of $0.1 million for the 12-week period ended February 15, 2009 (February 10, 2008 - $0.1 million) and $0.2 million for the 24-week period ended February 15, 2009 (February 10, 2008 - $0.3 million).
- Payment for design fees, charged to property and equipment, provided by one shareholder of SIR in the amount of $Nil for the 12-week period ended February 15, 2009 (February 10, 2008 – $0.1 million) and $0.1 million for the 24-week period ended February 15, 2009 (February 10, 2008 - $0.2 million).
- Payment for consulting fees provided indirectly by one of SIR's directors in the amount of $0.04 million for the 12 week period ended February 15, 2009 (February 10, 2008 - $0.02 million) and $ 0.1 million for the 24-week period ended February 15, 2009 (February 10, 2008 - $0.05 million).

Transactions with the SIR Royalty Income Fund

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

	February 15, 2009	August 31, 2008
	(in thousands of dollars)	
	(unaudited)	
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 and 24-week periods ended February 15, 2009, distributions of $1.0 million and $2.1 million, respectively ($1.1 million and $2.2 million, respectively for the 12 and 24-week periods ended February 10, 2008) 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.

Interest expense on the SIR Loan totalled $0.7 million and $1.4 million for the 12 and 24-week periods ended February 15, 2009, respectively ($0.7 million and $1.4 million for the 12 and 24-week periods ended February 10, 2008). The SIR Loan bears interest at 7.5% per annum.

SIR, through the Partnership, has entered into an arrangement with the Fund and the Trust whereby the Partnership will provide or arrange for the provision of services required in the administration of the Fund and the Trust. The Partnership has arranged for these services to be provided by SIR GP Inc., in its capacity as the managing general partner of the Partnership. The Partnership provided these services to the Fund and the Trust for consideration of $0.005 million and $0.01 million for the 12 and 24-week periods ended February 15, 2009, respectively ($0.005 million and $0.01 million, for the 12 and 24-week periods ended February 10, 2008) which was the amount of consideration agreed to by the related parties.

Critical Accounting Estimates

Management believes that there have been no substantial changes in the nature of critical accounting estimates since the year ended August 31, 2008. The reader will find this information in the annual MD&A for the year ended August 31, 2008.

Changes in Accounting Policies, Including Initial Adoption

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. SIR has adopted this standard effective September 1, 2008.

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. SIR has adopted this standard effective September 1, 2008.

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. SIR has adopted this standard effective September 1, 2008.

Handbook Section 3031 –Inventories 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 write downs to net realizable value when there is a subsequent increase in the value of inventories. SIR has adopted this standard effective September 1, 2008 and the adoption of this standard did not have any impact on SIR.

Recently Issued Accounting Pronouncements

Handbook Section 3064 Goodwill and intangible assets 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.

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 evaluating whether or not SIR is required to adopt IFRS 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, bank indebtedness, trade accounts payable and accrued liabilities, construction accounts payable and accrued liabilities, long-term debt 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 advances, loans and notes receivable, the fair values of these items do not differ significantly from their carrying values. The fair value of the long-term debt is $15.1 million. The fair value of the loan payable to the Fund could only be determined through the valuation of the debt. As a result, the determination of the fair value is not practical within the constraints of timeliness and cost.

SIR's financial instruments exposed to credit risk include cash and cash equivalents, accounts receivable and advances, loans and notes receivable. SIR places its cash and cash equivalents with institutions of high credit worthiness. Accounts receivable primarily comprise amounts due from major credit card companies, and as such, Management believes that its accounts receivable credit risk exposure is limited. SIR monitors the collectability of its advances, loans and notes receivable and establishes provisions when collection of the amounts becomes doubtful. The loan payable to the Fund has a fixed interest rate of 7.5% per annum and therefore changes in interest rates would not impact interest expense on the consolidated statements of operations and comprehensive income. However, the fair value of the loan payable to the Fund will vary with changes 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 economic conditions (particularly as they relate to the unprecedented recent deterioration of the economic environment and consumer confidence), availability of credit (particularly as it relates to the recent disruption in global credit markets), 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 31, 2008 Annual Information Form for further discussion on risks and uncertainties related to SIR.

SIR is a holder of partnership interests in the Partnership. The Fund is also an indirect holder of partnership interests in the Partnership. The income of the Fund must be computed and will be taxed in accordance with Canadian tax laws. There is no assurance that Canadian federal income tax laws respecting the treatment of trusts will not be changed in a manner which adversely affects Unitholders. 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 was enacted in June, 2007. As a result, the Fund recorded a future income tax expense in their 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 intends to continue to focus on maintaining restaurant sales and profits and reducing costs in light of the current economic conditions in Canada.

SIR intends to slow its growth from its previously stated goal of reaching a total restaurant count of 68 restaurants by December 2010. SIR currently has 45 restaurants open in Canada and since October 2004, the Fund's Initial Public Offering, SIR has opened fourteen new restaurants to date. It has secured three additional sites, one with a planned opening in fiscal year 2010 and two with planned openings in calendar year 2011. Given the current economic environment, SIR has determined the most prudent course of action is to reduce its growth plans and control its leverage. Additional sites will be considered, however growth is expected to be slowed for at least the next calendar year. Management continues to monitor current economic conditions and consumer confidence. Based on its assessment of these conditions, the timing of restaurant construction and opening schedules will be reviewed regularly by Management and adjusted as necessary.

Six new locations were added to the Royalty Pooled Restaurants effective January 1, 2009. These locations included the new Jack Astor's that opened on April 7, 2008 and the new Canyon Creek that opened on April 8, 2008, both near the Toronto Pearson International Airport, the new Jack Astor's that opened on May 5, 2008, at the corner of Yonge and Dundas Streets in downtown Toronto, Ontario, the new Jack Astor's in the closed Brasserie Frisco location that opened on July 7, 2008, the new Jack Astor's near the corner of Don Mills Road and Lawrence Avenue in Toronto, Ontario that opened on October 7, 2008, and the new Jack Astor's at one of Toronto's busiest and most highly-visible locations; the corner of Yonge and Bloor Streets that opened on October 31, 2008.

Three new Jack Astor's restaurants were added to the Royalty Pooled Restaurants effective January 1, 2008 (Jack Astor's in Hamilton, Ontario and Dartmouth, Nova Scotia, which both opened during fiscal 2007 and Jack Astor's in Burlington, Ontario which opened in Q1 of fiscal 2008). Two closed restaurants were removed from the Royalty Pooled Restaurants effective January 1, 2008.

On one of the three secured sites mentioned above, SIR has plans to construct a Jack Astor's in Boisbriand, Quebec which is expected to open in fiscal year 2010**.** The remaining two new sites are at the corner of Yonge and Gerrard Streets, in Toronto, Ontario and are expected to open in calendar year 2011.

In Q1, SIR closed the Alice Fazooli's near the Square One shopping mall in Mississauga, Ontario, for 10 days to complete a repositioning and renovation. The intent of these changes was to broaden Alice Fazooli's market penetration, similar to the previously completed evolutions of the Jack Astor's (2004 through 2007). Management is reviewing the performance of this repositioning to assess its applicability across the rest of the Alice Fazooli's restaurants.

Management believes that the recent weaker economic conditions have contributed to the observed reduction in the velocity of growth for Jack Astor's and the year-over-year SSS(1) declines in Canyon Creek, Alice Fazooli's and the downtown Signature Restaurants. Management believes that Jack Astor's somewhat lower average cheque, has contributed to reducing the impact of the economy and consumer confidence on Jack Astor's revenue in fiscal 2009. Restaurants with a higher average cheque, such as Canyon Creek and the downtown Toronto Signature Restaurants, tend to experience a greater decline in sales volumes. Management is not expecting an improvement in these conditions in the near future, which may be expected to negatively impact revenue and profit. The CRFA, in its Long Term Foodservice Forecast prepared in January 2009, projected sales in the full service restaurant category, in Canada, will decline by 3.1% in calendar 2009.

Management believes that there are sufficient cash resources retained in SIR from its cash generated by operations and its financing arrangements to fund its working capital requirements and current commitments for estimated construction costs for new restaurants. SIR has capital lease arrangements to lease restaurant equipment in the amount of $0.7 million. In addition, a lender has approved a $16.0 million credit facility which has helped 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". The proposed legislation was enacted in June, 2007. As a result, the Fund recorded a future income tax expense in their interim financial statements. The Trustees of the Fund and senior management of SIR will continue to monitor this development.

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

Management is carefully monitoring the effects on SIR's business of the recent deterioration in economic conditions and consumer confidence. SIR, like most other businesses, expects that the current economic downturn could significantly negatively affect its sales and profit prospects in the near future. In anticipation of a continuing economic downturn, SIR has implemented some cost saving initiatives and continues to review its opportunities with regard to other cost savings. SIR is also undertaking cash preservation strategies, which include the previously announced slowing of growth plans. SIR has shifted some of its marketing focus from media based concept marketing to individual restaurant marketing initiatives as one of these undertakings and continues to monitor this approach.

During the last five years, SIR has made significant investments in both new and existing restaurants. All but two of SIR's 45 restaurants have either been newly constructed or renovated within the past five years. This leaves SIR well positioned with modern and relevant concepts, which Management believes will help position SIR to work through the current economic downturn. SIR management is committed to maximizing the performance of all of its restaurants.

Forward Looking Information

Statements in this report, including the information set forth as to the future financial or operating performance of the Fund or SIR, that are not current or historical factual statements may constitute "forward-looking" information within the meaning of securities laws. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Fund, the Trust, the Partnership, SIR, the SIR Restaurants, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this document, such statements may include, among other language, such words as "may", "will", "expect", "believe", "plan", "anticipate", "intend", "estimate" and other similar terminology. These statements reflect Management's current expectations, estimates and projections regarding future events and operating performance and speak only as of the date of this document. Readers should not place undue importance on forward-looking statements and should not rely upon this information as of any other date. These forward-looking statements involve a number of risks and uncertainties. The following are some of the factors that could cause actual results to differ materially from those expressed in or underlying such forward-looking statements: competition; changes in demographic trends; changing consumer preferences and discretionary spending patterns; changes in consumer confidence; changes in national and local business and economic conditions; changes in availability of credit; legal proceedings and challenges to intellectual property rights; dependence of the Fund on the financial condition of SIR; legislation and governmental regulation; accounting policies and practices; and the results of operations and financial condition of SIR. The foregoing list of factors is not exhaustive. Many of these issues can affect the Fund's or SIR's actual results and could cause their actual results to differ materially from those expressed or implied in any forward-looking statements made by, or on behalf of, the Fund or SIR. Readers are cautioned that forward-looking statements are not guarantees of future performance, and should not place undue reliance on them. The Fund and SIR expressly disclaim any obligation or undertaking to publicly release any updates or revisions to any forward-looking statements contained herein to reflect any change in expectations, estimates and projections with regard thereto or any changes in events, conditions or circumstances on which any statement is based, except as expressly required by law. This Management Discussion and Analysis is provided as of March 27, 2009**.**

In formulating the forward-looking statements contained herein, Management has assumed that business conditions affecting SIR's restaurants and the Fund will continue substantially in the ordinary course, including without limitation with respect to general industry conditions, regulations (including those regarding employees, food safety, tobacco and alcohol), weather, taxes, foreign exchange rates and interest rates, that there will be no pandemics or other material outbreaks of disease or safety issues affecting humans or animals or food products, and that there will be no unplanned material changes in its facilities, equipment, customer and employee relations, or credit arrangements. Management is not anticipating an improvement, in the near future, in economic conditions (particularly as it relates to the recent unprecedented deterioration of the economic environment and consumer confidence, which could significantly negatively affect sales and profit prospects in the near future). Management is not anticipating an improvement, in the near future, in the availability of credit (particularly as it relates to the recent disruption of world credit markets, which could significantly negatively affect sales and profit prospects in the near future). These assumptions, although considered reasonable by Management at the time of preparation, may prove to be incorrect. In particular, in estimating the revenues for the five new Jack Astor's restaurants, and one new Canyon Creek restaurant added to the Royalty pool on January 1, 2009, Management has assumed that they will operate consistent with other Jack Astor's and Canyon Creek restaurants. For more information concerning the Fund's risks and uncertainties, please refer to the October 2004 final prospectus, and/or its March 31, 2009 Annual Information Form, all of which are available under the Fund's profile at www.sedar.com.

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