

# **SIR Corp.**

Interim Consolidated Financial Statements

**For the 12-week and 24-week periods ended February 10, 2008**

(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)

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(in thousands of dollars)

February 10,      August 26,  
2008                      2007

**Assets**

**Current assets**

|                                    |              |              |
|------------------------------------|--------------|--------------|
| Cash and cash equivalents          | 2,679        | 3,377        |
| Accounts receivable                | 3,085        | 3,100        |
| Inventories                        | 2,306        | 2,233        |
| Prepays, deposits and other assets | 1,144        | 773          |
|                                    | <u>9,214</u> | <u>9,483</u> |

**Investments, loans, advances and notes receivable**

762                      772

**Property and equipment**

45,624                      41,854

**Goodwill (note 4)**

5,736                      5,736

**Intangible and other assets (note 3)**

2,681                      7,978

64,017                      65,823

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 10,<br>2008 | August 26,<br>2007 |
|---|----------------------|--------------------|
| <b>Liabilities</b>  |                      |                    |
| <b>Current liabilities</b>  |                      |                    |
| Bank indebtedness (note 5)  | 477                  | 308                |
| Trade accounts payable and accrued liabilities                              | 16,396               | 16,231             |
| Construction accounts payable and accrued liabilities                       | 3,258                | 1,319              |
| Current portion of long-term debt (note 5)                                  | 1,653                | 1,759              |
| Current portion of other long-term liabilities                              | 1,193                | 1,067              |
| Amounts due to SIR Royalty Income Fund - net (note 6)                       | 1,435                | 1,260              |
| Income taxes payable  | -                    | 7                  |
|   | <u>24,412</u>        | <u>21,951</u>      |
| <b>Long-term debt (notes 3 and 5)</b>                                       | 1,906                | 350                |
| <b>Loan payable to SIR Royalty Income Fund (notes 3 and 6)</b>              | 35,521               | 40,000             |
| <b>Non-controlling interest in SIR Royalty Limited Partnership (note 6)</b> | 11,167               | 11,167             |
| <b>Other long-term liabilities</b>  | 8,436                | 8,085              |
|   | <u>81,442</u>        | <u>81,553</u>      |
| <b>Non-controlling interest in other subsidiary companies</b>               | 40                   | 58                 |
|   | <u>40</u>            | <u>58</u>          |
| <b>Shareholders' Deficiency</b>   |                      |                    |
| <b>Capital stock</b>  | 17,627               | 17,627             |
| <b>Accumulated other comprehensive income (note 3)</b>                      | (202)                | (202)              |
| <b>Deficit</b>  | (34,890)             | (33,213)           |
|   | <u>(17,465)</u>      | <u>(15,788)</u>    |
|   | <u>64,017</u>        | <u>65,823</u>      |

**Contingencies and commitments (note 7)**

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 |                      | 24-week period ended |                      |
|--|----------------------|----------------------|----------------------|----------------------|
|  | February 10,<br>2008 | February 11,<br>2007 | February 10,<br>2008 | February 11,<br>2007 |
| <b>Corporate restaurant operations</b>   |                      |                      |                      |                      |
| <b>Food and beverage revenue (note 8)</b>  | 41,191               | 38,351               | 81,157               | 74,764               |
| <b>Cost of corporate restaurant operations</b>   |                      |                      |                      |                      |
| Food and beverage  | 12,937               | 12,196               | 25,383               | 23,647               |
| Labour   | 13,160               | 11,925               | 25,810               | 23,246               |
| Direct cost of restaurant operations   | 9,497                | 9,108                | 19,272               | 18,511               |
| Amortization of restaurant assets  | 1,777                | 1,645                | 3,509                | 3,338                |
|  | 37,371               | 34,874               | 73,974               | 68,742               |
| <b>Earnings from corporate restaurant operations</b>                                       | <b>3,820</b>         | <b>3,477</b>         | <b>7,183</b>         | <b>6,022</b>         |
| Corporate costs  | (2,435)              | (2,559)              | (5,180)              | (5,227)              |
| Other amortization   | (60)                 | (66)                 | (122)                | (139)                |
|  | (2,495)              | (2,625)              | (5,302)              | (5,366)              |
| <b>Earnings before the following items</b>   | <b>1,325</b>         | <b>852</b>           | <b>1,881</b>         | <b>656</b>           |
| Interest expense - net   | (43)                 | (28)                 | (91)                 | (43)                 |
| Interest on loan payable to SIR Royalty Income Fund (note 6)                               | (691)                | (691)                | (1,381)              | (1,381)              |
| Non-controlling interest in SIR Royalty Limited Partnership (note 6)                       | (1,083)              | (884)                | (2,171)              | (1,927)              |
| Unrealized foreign exchange gain (loss)  | (53)                 | (41)                 | 100                  | (93)                 |
| Goodwill impairment (note 4)   | (166)                | -                    | (166)                | -                    |
| Provision for impairment of investments, loans, advances and notes receivable              | -                    | -                    | -                    | (100)                |
| Other income (expense)   | 120                  | (60)                 | 132                  | (168)                |
| <b>Loss before income taxes and non-controlling interest in other subsidiary companies</b> | <b>(591)</b>         | <b>(852)</b>         | <b>(1,696)</b>       | <b>(3,056)</b>       |
| <b>Recovery of income taxes</b>  | <b>1</b>             | <b>6</b>             | <b>1</b>             | <b>6</b>             |
| <b>Loss before non-controlling interest in other subsidiary companies</b>                  | <b>(590)</b>         | <b>(846)</b>         | <b>(1,695)</b>       | <b>(3,050)</b>       |
| Non-controlling interest in other subsidiary companies                                     | -                    | 1                    | 18                   | 1                    |
| <b>Net loss from continuing operations for the period</b>                                  | <b>(590)</b>         | <b>(845)</b>         | <b>(1,677)</b>       | <b>(3,049)</b>       |
| <b>Net loss from discontinued operation for the period</b>                                 | <b>-</b>             | <b>(12)</b>          | <b>-</b>             | <b>(51)</b>          |
| <b>Net loss and comprehensive loss for the period</b>                                      | <b>(590)</b>         | <b>(857)</b>         | <b>(1,677)</b>       | <b>(3,100)</b>       |

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

**SIR Corp.**  
Consolidated Statements of Deficit  
(Unaudited)

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(in thousands of dollars)

|  | 12-week period ended |                      | 24-week period ended |                      |
|--|----------------------|----------------------|----------------------|----------------------|
|  | February 10,<br>2008 | February 11,<br>2007 | February 10,<br>2008 | February 11,<br>2007 |
| <b>Deficit - Beginning of period</b>       | (34,300)             | (31,127)             | (33,213)             | (28,884)             |
| Net loss for the period                    | (590)                | (857)                | (1,677)              | (3,100)              |
| Purchase of capital stock for cancellation | -                    | (18)                 | -                    | (18)                 |
| <b>Deficit - End of period</b>             | <b>(34,890)</b>      | <b>(32,002)</b>      | <b>(34,890)</b>      | <b>(32,002)</b>      |

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 |                      | 24-week period ended |                      |
|---|----------------------|----------------------|----------------------|----------------------|
|   | February 10,<br>2008 | February 11,<br>2007 | February 10,<br>2008 | February 11,<br>2007 |
| <b>Cash provided by (used in)</b>   |                      |                      |                      |                      |
| <b>Operating activities</b>   |                      |                      |                      |                      |
| Net loss from continuing operations for the period                            | (590)                | (845)                | (1,677)              | (3,049)              |
| Items not affecting cash  |                      |                      |                      |                      |
| Amortization  | 1,837                | 1,711                | 3,631                | 3,477                |
| Non-controlling interest in other subsidiary companies                        | -                    | (1)                  | (18)                 | (1)                  |
| Future income taxes   | -                    | 6                    | -                    | 6                    |
| Provision for impairment of investments, loans, advances and notes receivable | -                    | -                    | -                    | 100                  |
| Goodwill impairment (note 4)  | 166                  | -                    | 166                  | -                    |
| Non-cash interest expense   | (4)                  | 22                   | 5                    | 43                   |
| Amortization of leasehold inducements   | (210)                | (145)                | (378)                | (299)                |
| Unrealized foreign exchange loss (gain)                                       | 53                   | 41                   | (100)                | 93                   |
| Other items   | 44                   | 158                  | 65                   | 274                  |
| Landlord inducements received   | 5                    | 653                  | 504                  | 1,511                |
| Net change in working capital items (note 9)                                  | 575                  | 1,487                | 272                  | 1,068                |
| Net cash provided by continuing operations                                    | 1,876                | 3,087                | 2,470                | 3,223                |
| Net cash provided by (used in) discontinued operation                         | -                    | 3                    | -                    | (1)                  |
|   | 1,876                | 3,090                | 2,470                | 3,222                |
| <b>Investing activities</b>   |                      |                      |                      |                      |
| Purchase of property and equipment  | (2,302)              | (2,185)              | (4,985)              | (4,595)              |
| Proceeds from sale of property and equipment                                  | 2                    | 7                    | 45                   | 17                   |
| Acquisition of non-controlling interest (note 4)                              | (190)                | -                    | (190)                | -                    |
| Increase in investments, loans, advances and notes receivable                 | -                    | (40)                 | -                    | (452)                |
| Restaurant pre-opening costs  | (256)                | (91)                 | (338)                | (126)                |
| Net cash used in investing activities   | (2,746)              | (2,309)              | (5,468)              | (5,156)              |
| <b>Financing activities</b>   |                      |                      |                      |                      |
| Increase (decrease) in bank indebtedness                                      | (426)                | -                    | 169                  | -                    |
| Payments to shareholders  | -                    | -                    | -                    | (23)                 |
| Payments to non-controlling interest in subsidiary companies                  | -                    | -                    | -                    | (206)                |
| Proceeds from issuance of long-term debt                                      | 800                  | -                    | 2,300                | -                    |
| Principal repayment of long-term debt   | (89)                 | (81)                 | (168)                | (494)                |
| Purchase of common shares   | -                    | (41)                 | -                    | (41)                 |
| Net cash provided by (used in) financing activities                           | 285                  | (122)                | 2,301                | (764)                |
| Effect of foreign exchange rates on cash                                      | 2                    | 2                    | (1)                  | 2                    |
| <b>Increase (decrease) in cash during the period</b>                          | <b>(583)</b>         | <b>661</b>           | <b>(698)</b>         | <b>(2,696)</b>       |
| <b>Cash and cash equivalents - Beginning of period</b>                        | <b>3,262</b>         | <b>4,855</b>         | <b>3,377</b>         | <b>8,212</b>         |
| <b>Cash and cash equivalents - End of period</b>                              | <b>2,679</b>         | <b>5,516</b>         | <b>2,679</b>         | <b>5,516</b>         |
| <b>Supplemental Information</b>   |                      |                      |                      |                      |
| Interest paid   | 808                  | 917                  | 1,584                | 1,608                |
| Income taxes paid   | -                    | 46                   | 17                   | 68                   |

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

# **SIR Corp.**

Notes to Interim Consolidated Financial Statements  
(Unaudited)

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## **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 10, 2008, the Company operates a total of 39 (2007 – 38) Concept and Signature restaurants in Canada (in Ontario, Quebec, Alberta and Nova Scotia) (the “SIR Restaurants”). The Concept restaurants are Jack Astor’s®, Canyon Creek Chop House® and Alice Fazooli’s!® and the Signature restaurants are *reds*®, Far Niente®/Soul of the Vine®, 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 6).

### **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 2008 fiscal year consists of 53 weeks while the 2007 fiscal year consisted of 52 weeks.

## **2. 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 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 10, 2008 are not necessarily indicative of the results that may be expected for the 53-week period ended August 31, 2008.

There have been no changes in accounting policies as described in note 2 to the consolidated financial statements for the year ended August 26, 2007 except as described in note 3 below.

# **SIR Corp.**

## Notes to Interim Consolidated Financial Statements (Unaudited)

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### **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**

##### **Financial Instruments – Recognition and Measurement, Handbook Section 3855**

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

Effective August 27, 2007, the Company elected to classify its cash and cash equivalents as held for trading which are carried at fair value and to classify its accounts receivable and notes receivable as loans and receivables which are carried at amortized cost. The Company's trade accounts payable and accrued liabilities, construction accounts payable and accrued liabilities, amounts due to related parties, long-term debt and loan payable to SIR Royalty Income Fund, are classified as other liabilities and are also carried at amortized cost.

Deferred financing fees of \$5,338,000 related to the SIR Loan and the long-term debt prior to August 26, 2007 were presented as a separate asset on the consolidated balance sheet and amortized on a straight-line basis over the terms of the loans. Effective August 27, 2007, deferred financing fees are recognized as an offset to the carrying value of the SIR Loan and the long-term debt and amortized using the effective interest rate method.

##### **Comprehensive Income, Handbook Section 1530**

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

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

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



# **SIR Corp.**

## Notes to Interim Consolidated Financial Statements (Unaudited)

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### **Hedges – Handbook Section 3865**

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

### **Recently issued accounting pronouncements**

#### **Capital Disclosures – Handbook Section 1535**

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

#### **Financial Instruments – Disclosures – Handbook Section 3862**

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

#### **Financial Instruments – Presentation – Handbook Section 3863**

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

#### **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 generating 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 not yet determined the impact of the adoption of this change on the disclosure in its consolidated financial statements.

# **SIR Corp.**

## Notes to Interim Consolidated Financial Statements (Unaudited)

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### **International Financial Reporting Standards**

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

#### **4. 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 goodwill arising upon the acquisition of the non-controlling interest.

#### **5. 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 10, 2008 is \$1,518,000 and \$10,700,000, respectively (August 26, 2007 – \$1,677,000 and \$13,000,000). As at February 10, 2008, the Company has outstanding letters of credit of \$5,000 (August 26, 2007 – \$15,000).

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.

Long-term debt includes one (August 26, 2007 – two) loan payable by Jack Astor's Cary, LLC, a subsidiary of Jack Astor's (Cary & Las Colinas) Limited for a total amount of \$1,454,000 (U.S. \$1,424,000) (August 26, 2007 – \$1,618,000; U.S. \$1,514,000) 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.

# SIR Corp.

## Notes to Interim Consolidated Financial Statements (Unaudited)

### 6. SIR Royalty Income Fund

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

#### (a) SIR Loan

The 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 (2007 – \$691,000 and \$1,381,000) was charged to the consolidated statement of operations for the 12-week and 24-week periods ended February 10, 2008.

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 long-term debt.

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

|  | 12-week period ended      |                      | 24-week period ended |                      |
|--|---------------------------|----------------------|----------------------|----------------------|
|  | February 10,<br>2008      | February 11,<br>2007 | February 10,<br>2008 | February 11,<br>2007 |
|  | (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                                | 1,083                     | 884                  | 2,171                | 1,927                |
| Distributions declared on the Partnership's Units held by the non-controlling interest | (1,083)                   | (884)                | (2,171)              | (1,927)              |
| Non-controlling interest in the Partnership  | <u>11,167</u>             | <u>11,167</u>        | <u>11,167</u>        | <u>11,167</u>        |
| Pooled Revenue *   | <u>39,032</u>             | <u>36,469</u>        | <u>76,150</u>        | <u>70,262</u>        |
| Partnership royalty income *   | 2,357                     | 2,208                | 4,599                | 4,277                |
| Other income   | 16                        | 9                    | 28                   | 22                   |
| Partnership expenses   | (33)                      | (42)                 | (48)                 | (63)                 |
| Net earnings of the Partnership  | <u>2,340</u>              | <u>2,175</u>         | <u>4,579</u>         | <u>4,236</u>         |
| The Company's interest in the earnings of the Partnership                              | <u>(1,257)</u>            | <u>(1,291)</u>       | <u>(2,408)</u>       | <u>(2,309)</u>       |
| Non-controlling interest in the earnings of the Partnership                            | <u>1,083</u>              | <u>884</u>           | <u>2,171</u>         | <u>1,927</u>         |

\* Includes revenue from 41 (February 11, 2007 – 38) 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.

## **SIR Corp.**

### Notes to Interim Consolidated Financial Statements (Unaudited)

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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, 2008, three (2007 – 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 three (2007 – three) new restaurants on January 1, 2008, as well as the Second Incremental Adjustment for the three (2006 – two) new SIR Restaurants added to the Royalty Pooled Restaurants on January 1, 2007, 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 two (2006 – one) SIR Restaurants during the prior calendar year. The net effect of these adjustments to the Royalty Pooled Restaurants was that the Company converted 194,000 (2007 – 421,000) Class B GP units of the Partnership into 194,000 (2007 - 421,000) Class A GP units of the Partnership on January 1, 2008 at an estimated fair value of \$1,456,000 (2007 - \$3,532,000). As a result of this exchange, the Company’s interest in the Partnership increased to 23.5% effective January 1, 2008.

## SIR Corp.

### Notes to Interim Consolidated Financial Statements (Unaudited)

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In addition, the revenues of three (2006 – two) new SIR Restaurants added to the Royalty pool on January 1, 2007 exceeded 80% of the Initial Adjustment's estimated revenue and, as a result, an Additional Distribution of \$77,000 (2006 – 231,000) was declared and paid in the 12-week period ended February 10, 2008.

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

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

|  | February 10,<br>2008      | August 26,<br>2007 |
|--|---------------------------|--------------------|
|  | (in thousands of dollars) |                    |
| Advances receivable                            | (1,311)                   | (1,047)            |
| Interest payable on SIR Loan                   | 364                       | 483                |
| Partnership distributions payable              | 2,382                     | 1,824              |
|  | <hr/>                     | <hr/>              |
| Payable to the Fund and its subsidiaries – net | 1,435                     | 1,260              |

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

During the 12-week and 24-week periods ended February 11, 2008 and November 18, 2007 distributions of \$1,083,000 and \$2,171,000 respectively were declared to the Fund through the Partnership (\$884,000 and \$1,927,000 for the 12-week and 24-week periods ended February 11, 2007 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 10, 2008 the Partnership provided these services to the Fund and the Trust for consideration of \$5,000 and \$11,000, respectively (\$4,000 and \$10,000 for the 12-week and 24-week periods ended February 11, 2007), which was the amount of consideration agreed to by the related parties.

# SIR Corp.

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### 7. Contingencies and commitments

The Company has sites for eight new restaurants that are or will be under construction with expected openings in calendar 2008 and 2009. Currently, the Company has begun construction on five of these restaurants. The Company expects to spend an additional \$8,000,000 to complete the construction of these five restaurants. At the current date, the Company has not entered into any construction contracts for three of the eight restaurants, but expects to do so in the near 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.

### 8. 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 10,<br>2008      | February 11,<br>2007 | February 10,<br>2008 | February 11,<br>2007 |
|                                  | (in thousands of dollars) |                      |                      |                      |
| <b>Food and beverage revenue</b> |                           |                      |                      |                      |
| Canada                           |                           |                      |                      |                      |
| Jack Astor's                     | 24,070                    | 21,687               | 48,247               | 43,196               |
| Alice Fazooli's!                 | 4,854                     | 4,693                | 9,291                | 8,879                |
| Canyon Creek Chop House          | 6,839                     | 6,706                | 13,222               | 12,666               |
| Signature                        | 4,771                     | 4,736                | 9,164                | 8,996                |
|                                  | <u>40,534</u>             | <u>37,822</u>        | <u>79,924</u>        | <u>73,737</u>        |
| United States                    |                           |                      |                      |                      |
| Jack Astor's                     | <u>657</u>                | <u>529</u>           | <u>1,233</u>         | <u>1,027</u>         |
|                                  | <u>41,191</u>             | <u>38,351</u>        | <u>81,157</u>        | <u>74,764</u>        |

# SIR Corp.

Notes to Interim Consolidated Financial Statements  
(Unaudited)

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## 9. Supplemental cash flow information

The net change in working capital items is as follows:

|   | 12-week period ended      |                      | 24-week period ended |                      |
|---|---------------------------|----------------------|----------------------|----------------------|
|   | February 10,<br>2008      | February 11,<br>2007 | February 10,<br>2008 | February 11,<br>2007 |
|   | (in thousands of dollars) |                      |                      |                      |
| Accounts receivable and other<br>receivables      | 283                       | 36                   | 81                   | 156                  |
| Inventories                                       | (13)                      | (52)                 | (74)                 | (233)                |
| Prepays, deposits and other assets                | (184)                     | (204)                | (373)                | (489)                |
| Income taxes receivable/payable                   | -                         | (58)                 | -                    | (79)                 |
| Trade accounts payable and<br>accrued liabilities | 545                       | 1,090                | 198                  | 989                  |
| Due to related parties                            | (52)                      | 52                   | 175                  | 45                   |
| Accrued management bonus                          | (4)                       | 623                  | 265                  | 679                  |
|   | <u>575</u>                | <u>1,487</u>         | <u>272</u>           | <u>1,068</u>         |

## 10. Comparative figures

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