SIR CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS

SECOND QUARTER FISCAL 2006

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

12-WEEK AND 24-WEEK PERIODS ENDED
FEBRUARY 12, 2006 AND FEBRUARY 13, 2005

The unaudited interim consolidated financial statements of SIR Corp. for the 12-week and 24-week periods ended February 12, 2006 and February 13, 2005 have been prepared by Management. The accounting policies are consistent with those used in the audited year-end consolidated financial statements, except as otherwise noted. The second quarter and year to date results have not been reviewed by SIR Corp.'s external auditors.

SIR CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE 12-WEEK AND 24-WEEK PERIODS ENDED FEBRUARY 12, 2006 AND FEBRUARY 13, 2005

TABLE OF CONTENTS

FOR THE 12 AND 24-WEEK PERIODS ENDED FEBRUARY 12, 2006 AND FEBRUARY 13, 2005

Executive Summary

SIR Corp.'s ("SIR") second quarter of fiscal 2006 ("Q2") was from November 21, 2005 to February 12, 2006 inclusive. SIR's year-to-date ("YTD") Q2 fiscal 2006 was from August 29, 2005 to February 12, 2006. During Q2 and YTD fiscal 2006, SIR experienced significant increases in both total and same store sales and continued with its strategy of re-investing in its existing and new restaurants to drive anticipated future increases in sales and earnings.

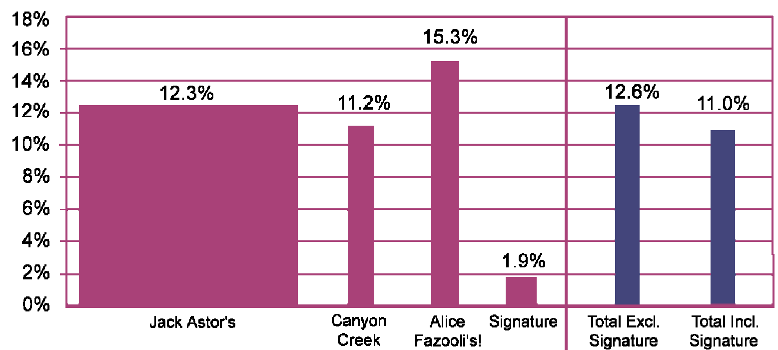
Highlights for SIR's second quarter and year-to-date of fiscal 2006 include:

- *Growth in both consolidated revenue and same store sales (unaudited):*

  - Corporate restaurant operations' food and beverage revenue from corporate restaurant operations for the quarter was $35.8 million and $69.9 million YTD. This represents a $5.8 million or 19.4% increase over the prior year for the quarter and $10.8 million or 18.2% increase over the prior year for the YTD.

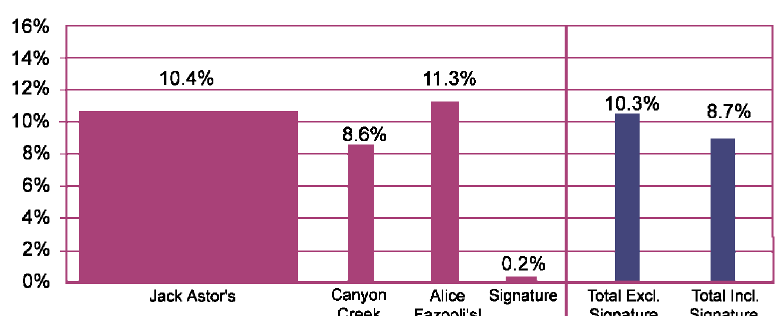
  - Same store sales growth ("SSSG") for restaurants in the Royalty pool was 11.0% and 8.7% for the 12 and 24-week periods ended February 12, 2006, respectively, compared to the corresponding periods a year ago.

Same Store Sales Growth and % of Pooled Revenue for the 12-week period ended February 12, 2006 vs comparable period in prior year



	Jack Astor's	Canyon Creek	Alice Fazooli's!	Signature
% of Pooled Revenue:	59%	13%	14%	14%
# of Restaurants:	21	4	5	4

Same Store Sales Growth and % of Pooled Revenue for the 24-week period ended February 12, 2006 vs comparable period in prior year



	Jack Astor's	Canyon Creek	Alice Fazooli's!	Signature
% of Pooled Revenue:	60%	12%	14%	14%
# of Restaurants:	21	4	5	4

  - SSSG for the Concept Restaurants (Jack Astor's®, Canyon Creek™ and Alice Fazooli's!®), which generate approximately 86% of Pooled Revenue, was 12.6% and 10.3% for the 12 and 24-week periods ended February 12, 2006, respectively, versus the corresponding periods in the prior year.

  - SSSG for Jack Astor's®, SIR's flagship Concept Restaurant brand that generates approximately 60% of Pooled Revenue, was 12.3% and 10.4% for the 12 and 24-week periods ended February 12, 2006, respectively, versus the corresponding periods in the prior year. During the 12-week period ended February 12, 2006, two Jack Astor's® were closed, for an average of approximately four days each, to undergo the evolution process. Four such evolutions have been completed YTD.

  - Canyon Creek™ continues to perform well, with SSSG of 11.2% and 8.6% for the 12 and 24-week periods ended February 12, 2006, respectively, versus the corresponding periods in the prior year.

  - For the 12 and 24-week periods ended February 12, 2006, SSSG of Alice Fazooli's!® was 15.3% and 11.3%, respectively, versus the corresponding periods in the prior year. This is driven by renovations during fiscal 2005 at three of the five locations, which are delivering revenue increases after their evolutions in excess of 10% versus the prior year. SIR completed the evolution of a fourth Alice Fazooli's!® location subsequent to February 12, 2006.

  - SSSG of the downtown Toronto Signature Restaurants, which represent approximately 14% of Pooled Revenue, was 1.9% and 0.2% for the 12 and 24-week periods ended February 12, 2006, respectively, versus the corresponding periods in the prior year. The favourable impact of the return of the National Hockey League ("NHL") in October 2005, on certain of the Signature Restaurants, was partially offset by the impact of the approximate three-week shutdown of Far Niente® in the first quarter, for major renovations. The renovation at Far Niente® is expected to result in increased guest counts and SSSG going forward.

- ***Investment in existing restaurants:***

  - During the second quarter of fiscal 2006, evolutions were completed at two Jack Astor's® restaurants. This is in addition to the two evolutions that were completed in the first quarter. The total number of evolved Jack Astor's® locations is now 17 of a total of the 21 locations that are currently part of the Royalty Pooled Restaurants. The first four evolutions were completed in the last half of fiscal 2004 and nine more were completed in fiscal 2005. Average revenue increases in the first full year after each evolution have been in excess of 10%, and those restaurants now in their second year have averaged a further 4% increase over and above their first-year increase.

  - Renovations were completed at three of the five Alice Fazooli's!® restaurants in fiscal 2005, with average sales increases in excess of 10% continuing in the first and second quarter of fiscal 2006. Subsequent to February 12, 2006, the renovation of one additional Alice Fazooli's!® location was completed.

  - A major renovation of Far Niente® was completed on November 7, 2005. The restaurant was closed for approximately three weeks in the first quarter. This investment is expected to result in increased guest counts and same store sales growth going forward.

  - Continued Jack Astor's® advertising program with a leading marketing firm.

- ***Investment in new restaurants:***

  - A new Jack Astor's® restaurant was opened in Whitby, Ontario on August 31, 2005. This restaurant, along with the Jack Astor's® that opened on February 2, 2005 in downtown Toronto, became part of the Royalty Pooled Restaurants effective January 1, 2006.

  - The first of three new Canyon Creek™ locations, expected to open in 2006, opened on March 6, 2006. This new Canyon Creek™ is located on Progress Avenue, across from the Scarborough Town Centre.

- **Adjusted EBITDA***
  - Adjusted EBITDA* as a percentage of total food and beverage revenue increased from 4.8% in the first quarter to 6.9% in the second quarter.
  - Adjusted EBITDA* for Q2 of $2.5 million was $1.4 million favourable to prior year**.** YTD Adjusted EBITDA* of $4.1 million was $1.2 million favourable to prior year.

  Loss from Continuing Operations
  - The loss from continuing operations for Q2 of $1.1 million was $2.8 million favourable to the same period in the prior year.
  - The YTD loss from continuing operations of $3.0 million is $4.3 million favourable to prior year.

- ***Discontinued Operation***
  - During the second quarter, substantially all of the assets of one of the US restaurant operations were sold. As a result, the restaurant's balances and transactions have been shown as a discontinued operation in the financial statements. This restaurant is not part of the Royalty pool and therefore, its closure has no effect on Pooled Revenue. (See Discontinued Operation Section)

- ***Outlook***
  - Fiscal 2005 was an extraordinary year in that SIR completed the successful launch of the SIR Royalty Income Fund (the "Fund"), the sales building evolutions of nine Jack Astor's® and three Alice Fazooli's!®, and the opening of a Jack Astor's® on the corner of University Avenue and Front Street in downtown Toronto. This was followed in the first two quarters of fiscal 2006 with the opening of a Jack Astor's® in Whitby, Ontario, four more Jack Astor's® evolutions, and a major renovation of Far Niente®. The Jack Astor's® and Alice Fazooli's!® evolutions are expected to continue in 2006. As well, in addition to the new Canyon Creek™ restaurant that opened in Scarborough, Ontario, in March 2006, two new ones are expected to open in 2006, and both in prime locations. All of this work is being done to set in place a foundation for anticipated sales growth and improved earnings for SIR. Management is committed to maximizing the performance of all of its restaurants.

Overview

SIR is a private company amalgamated under the Business Corporations Act of Ontario. As at February 12, 2006**,** SIR operates 36 Concept and Signature Restaurants in Canada (in Ontario, Quebec, Alberta and Nova Scotia). The Concept Restaurants are Jack Astor's® Bar and Grill, Canyon Creek Chop House® and Alice Fazooli's!®. The Signature Restaurants are *reds*®, Far Niente®/Soul of the Vine®, Brasserie Frisco™, and the Armadillo Steak House®/the Loose Moose Tap & Grill®. Subsequent to February 12, 2006, a new Canyon Creek Chop House® in Scarborough opened. Currently, 36 SIR Restaurants are included in the SIR Royalty Pooled Restaurants. The two new Jack Astor's® which opened during calendar 2005 (downtown Toronto in February and one in Whitby, Ontario in late August) were just added to the Royalty Pooled Restaurants on January 1, 2006. SIR owns 100% of all its Canadian restaurants, except for Jack Astor's® Don Mills Limited (50%). SIR also has an investment in one Jack Astor's® restaurant in the USA which is not included in the Royalty Pooled Restaurants. Substantially all the assets of SIR's other U.S. restaurant was sold on February 10, 2006. (See Discontinued Operation Section)

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* *References to EBITDA are to SIR's net loss from continuing operations before non-controlling interest, income taxes, other expense, provision for impairment of accounts and notes receivable, interest, unrealized foreign exchange (gain) loss, interest on loan payable to SIR Royalty Income Fund, non-controlling interest in SIR Royalty Limited Partnership, loss from equity investment, other amortization and amortization of restaurant assets. References to Adjusted EBITDA are to SIR's EBITDA plus contract cancellation expense that is a significant unusual item and not expected to recur. Management believes that, in addition to net earnings or loss, EBITDA and Adjusted EBITDA are useful supplemental measures in evaluating SIR's performance. EBITDA and Adjusted EBITDA are not a financial measure recognized by Canadian generally accepted accounting principles ("GAAP") and does not have a standardized meaning prescribed by GAAP. Management cautions investors that EBITDA 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.*

On October 1, 2004, the Fund filed a final prospectus for a public Offering of Units of the Fund and the Offering closed on October 12, 2004. The net proceeds of the Offering of $51,166,670 were used by the Fund to acquire the SIR Loan and indirectly, through the SIR Holdings Trust (the "Trust"), the SIR Rights owned or licensed by SIR or its subsidiaries and used in connection with the operation of SIR's restaurants in Canada. The Partnership granted SIR a 99-year license to use the SIR Rights in most of Canada in consideration for a Royalty, payable by SIR to the Partnership, equal to 6% of the revenue of the restaurants included in the Royalty Pooled Restaurants. The Partnership also issued its own securities to SIR in return for the SIR Rights acquired. In accordance with Variable Interest Entities, Accounting Guideline-15 ("AcG-15"), SIR has consolidated the Partnership effective October 12, 2004.

Also, as a result of implementing requirements under AcG-15, SIR now consolidates certain other investments that it previously accounted for as equity accounted investments (see Changes in Accounting Policies including Initial Adoption).

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

Seasonality

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

Selected Consolidated Historical Financial Information

The following tables set out selected financial information of SIR for the 12 and 24-week periods ended February 12, 2006 and February 13, 2005. The financial statements of SIR are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are presented in Canadian dollars. This information should be read in conjunction with the unaudited interim consolidated financial statements of SIR, including the notes thereto.

Selected Consolidated Financial Information

Statement of Operations	12-Week Period Ended February 12, 2006	12-Week Period Ended February 13, 2005 **	24-Week Period Ended February 12, 2006	24-Week Period Ended February 13, 2005 **
	(in thousands of dollars) (unaudited)			
Corporate restaurant operations:				
Food and beverage revenue	35,774	29,957	69,857	59,087
Cost of corporate restaurant operations	32,212	27,312	63,658	53,669
Earnings from corporate restaurant operations	**3,562**	**2,645**	**6,199**	**5,418**
Loss from continuing operations	**(1,098)**	**(3,866)**	**(3,020)**	**(7,338)**
Net loss for the period	**(1,222)**	**(3,990)**	**(3,253)**	**(7,263)**

Balance Sheet	February 12, 2006	August 28, 2005
	(in thousands of dollars) (unaudited)	
Total assets	61,896	66,485
Total long-term liabilities	55,728	55,648

*** Prior period balances reflect the retroactive application of AcG-15 (see Changes in Accounting Policies including Initial Adoption) and the reclassification of a discontinued operation (see Discontinued Operation).*

Reconciliation of Net Loss for the period to EBITDA* and Adjusted EBITDA* (Unaudited)	12-Week Period Ended February 12, 2006	12-Week Period Ended February 13, 2005 **	24-Week Period Ended February 12, 2006	24-Week Period Ended February 13, 2005 **
	(in thousands of dollars)			
Loss from continuing operations for the period	(1,098)	(3,866)	(3,020)	(7,338)
Add (deduct):				
Non-controlling interest in other subsidiary companies	15	(51)	23	28
Provision for income taxes	158	174	163	1,829
Other expense	12	34	162	45
Provision for impairment of accounts and notes receivable	11	557	135	557
Unrealized foreign exchange (gain) loss	(75)	107	(81)	(178)
Interest expense - net [(1)]	92	117	182	1,836
Interest on loan payable to SIR Royalty Income Fund	690	686	1,381	1,023
Non-controlling interest in SIR Royalty Limited Partnership	1,073	960	2,055	1,315
Loss from equity accounted investments	-	16	-	16
Other amortization	87	95	149	188
Amortization of restaurants assets	1,495	1,350	2,940	2,628
EBITDA*	**2,460**	**179**	**4,089**	**1,949**
Contract cancellation expense	-	900	-	900
Adjusted EBITDA*	**2,460**	**1,079**	**4,089**	**2,849**
Income from Class A Units of the Partnership [(2)] (Not included in EBITDA* above)	248	169	383	254
6% Royalty obligations under License and Royalty Agreement [(3)]	2,025	1,749	3,843	2,602
6% Royalty on proforma Pooled Revenue – see footnote [(4)] on page 8				3,459

**References to EBITDA are to SIR's net loss from continuing operations before non-controlling interest, income taxes, other expense, provision for impairment of accounts and notes receivable, interest, unrealized foreign exchange (gain) loss, interest on loan payable to SIR Royalty Income Fund, non-controlling interest in SIR Royalty Limited Partnership, loss from equity investments, other amortization and amortization of restaurant assets. References to Adjusted EBITDA are to SIR's EBITDA plus contract cancellation expense that is a significant unusual item and not expected to recur. Management believes that, in addition to net earnings or loss, EBITDA and Adjusted EBITDA are useful supplemental measures in evaluating SIR's performance. EBITDA and Adjusted EBITDA are not a financial measure recognized by Canadian generally accepted accounting principles ("GAAP") and does not have a standardized meaning prescribed by GAAP. Management cautions investors that EBITDA 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.*

*** Prior period balances reflect the retroactive application of AcG-15 (see Changes in Accounting Policies including Initial Adoption) and the reclassification of a discontinued operation (see Discontinued Operation).*

Results of Operations

As a result of implementing the requirements under AcG-15, SIR now consolidates certain investments that it previously accounted for as equity accounted investments. Details of this change are explained under Changes in Accounting Policies including Initial Adoption. Although SIR implemented this change effective August 29, 2004, SIR was not required to implement the change for its interim reporting periods during fiscal 2005 because SIR is a private company. Therefore SIR has now reflected the retroactive application of this change in accounting policy for the 12 and 24-week periods ended February 13, 2005.

[(1)] Interest expense - net includes amortization of the deferred financing costs arising from SIR's share of the October 2004 SIR Royalty Income Fund initial public offering, interest on the Jack Astor's (Cary & Las Colinas) Limited loans (excluding discontinued operation), and interest on SIR's redeemable Class A special shares. In fiscal 2005, interest expense – net also included the write-off of deferred financing fees from the previous bank financing and interest on bank and shareholder loans prior to October 12, 2004.

[(2)] Income from the initial 595,185 Class A GP Units is subordinated to the distributions to the Fund Units (refer to the SIR Royalty Income Fund section of this document).

[(3)] See the SIR Royalty Income Fund section of this document for the Royalty calculation. Royalty obligations commenced on October 12, 2004, the date of closing of the Fund's public offering. On January 1, 2006, two restaurants were added to the Royalty pool. Revenues from these two restaurants have been included in Pooled Revenue for the period from January 1, 2006 to February 12, 2006.

Reconciliation of Revenue from Consolidated Financial Statements to Pooled Revenue	12-Week Period Ended February 12, 2006[3]	12-Week Period Ended February 13, 2005 **[3]	24-Week Period Ended February 12, 2006[3]	24-Week Period Ended February 13, 2005 **[4]
	(in thousands of dollars) (unaudited)			
Revenue reported in consolidated financial statements	35,774	29,957	69,857	59,088
Less: Revenue from corporate restaurant operations excluded from the Royalty pool	2,024	802	5,800	1,443
Revenue for restaurants in the Royalty pool	33,750	29,155	64,057	57,645 [4]

*** Prior period balances reflect the retroactive application of AcG-15 (see Changes in Accounting Policies including Initial Adoption) and the reclassification of a discontinued operation (see Discontinued Operation).*

Same Store Sales	12-Week Period Ended February 12, 2006	12-Week Period Ended February 13, 2005	% Fav. / (Unfav.)	24-Week Period Ended February 12, 2006	24-Week Period Ended February 13, 2005	% Fav. / (Unfav.)
	(in thousands of dollars) (unaudited)					
Jack Astor's®	19,309	17,189	12.3%	37,873	34,317	10.4%
Alice Fazooli's!®	4,535	3,934	15.3%	8,466	7,604	11.3%
Canyon Creek ™	4,106	3,694	11.2%	7,662	7,055	8.6%
Signature Restaurants	4,427	4,344	1.9%	8,683	8,669	0.2%
Same store sales	**32,377**	**29,161**	**11.0%**	**62,684**	**57,645**	**8.7%**

Note: same store sales do not equal the segmented revenue information reported in note 9 of the interim consolidated financial statements due to adjustments made to exclude revenue from restaurants which are not included in the Royalty pool, and to exclude revenue from restaurants not open for the full period in both years.

Revenue

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

i) Revenue (per the SIR Consolidated Statement of Operations) – this is the total consolidated revenue of all restaurants for the period. The restaurants include the 36 SIR restaurants and the revenue from the continuing USA Jack Astor's®. For the 12 and 24-week periods ended February 12, 2006 this revenue was $35.8 million and $69.9 million, respectively.

ii) Same Store Sales ("SSS") – this is a sub-set of i) above used for tracking comparable year-over-year sales. For Q2 fiscal 2006 and 2005, SSS includes all SIR restaurants except for Jack Astor's® on Front Street and Jack Astor's® in Whitby because they were not open for the entire comparable period in fiscal 2005. (USA restaurants are not part of SIR restaurants.) For 12 and 24-week periods ended February 12, 2006, this revenue was $32.4 million and $62.7 million, respectively.

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(3) *see previous page*

(4) *The SIR Royalty Income Fund public offering closed on October 12, 2004. Therefore, revenue of Royalty Pooled Restaurants, earned prior to October 12, 2004, is not eligible for calculating Royalties payable to the SIR Royalty Limited Partnership. However, for comparison purposes, it is included in the 24-week period ended February 13, 2005 as Proforma Pooled Revenue.*

iii) Pooled Revenue - this is the revenue subject to the License and Royalty Agreement – this includes the 34 restaurants included in the pool as of October 12, 2004 plus the two new Jack Astor's® restaurants for the period from January 1, 2006 to February 12, 2006. For the 12 and 24-week periods ended February 12, 2006, this revenue is $33.8 million and $64.1 million, respectively. The applicable Royalty payable to the Partnership on the Pooled Revenue for these periods was $2.0 million and $3.8 million, respectively.

iv) Proforma Pooled Revenue – includes the Pooled Revenue noted above, plus the revenue for the period prior to October 12, 2004 for the 34 restaurants initially in the pool. Proforma revenue is applicable for the 24-week period ended February 13, 2005 only and was $57.6 million.

Same Store Sales

SSSG was 11.0% and 8.7% for the 12 and 24-week periods ended February 12, 2006 respectively, versus the comparable period in the prior year. The Signature Restaurants, which are located in downtown Toronto, benefited from the return of the NHL in October 2005. Signature Restaurant revenue in the first quarter was impacted by the approximate three-week shutdown of Far Niente® for renovations. Excluding the Signature Restaurants, SSSG for the Concept Restaurants only (Jack Astor's®, Canyon Creek™ and Alice Fazooli's!®), which generate approximately 86% of Pooled Revenue, was 12.6% and 10.3% for the 12 and 24-week periods ended February 12, 2006, receptively, versus the corresponding period in the prior year.

SSSG for Jack Astor's®, SIR's flagship Concept Restaurant brand which generates approximately 60% of Pooled Revenue, was 12.3% and 10.4% for the 12 and 24-week periods ended February 12, 2006, respectively, as compared to the corresponding period a year ago. During the period from August 29, 2005 to February 12, 2006, four Jack Astor's® were closed for four to six days each to undergo the evolution process (two in Q1 and two in Q2). The evolution program started in 2004 and is intended to continue throughout 2006. The total number of evolved Jack Astor's® locations is now 17 of a total of the 21 locations that are currently part of the Royalty Pooled Restaurants. Average revenue increases in evolved Jack Astor's® restaurants are in excess of 10% in the year of evolution and an average of 4% over and above their first-year increases for restaurants now in their second year following evolution.

Canyon Creek™ continues to perform well, with SSSG of 11.2% and 8.6% for the 12 and 24-week periods ended February 12, 2006, respectively, versus the corresponding periods in the prior year.

Alice Fazooli's!® SSSG was 15.3% and 11.3% for the 12 and 24-week periods ended February 12, 2006, respectively, versus the corresponding periods in the prior year. This is driven by renovations during fiscal 2005 at three of the five locations, which are delivering revenue increases after their evolutions in excess of 10% versus the prior year. SIR completed the evolution of a fourth Alice Fazooli's!® location, subsequent to February 12, 2006.

SSSG of the downtown Toronto Signature Restaurants, which represent approximately 14% of Pooled Revenue, was 1.9% and 0.2% for the 12 and 24-week periods ended February 12, 2006, respectively, versus the corresponding periods in the prior year. The favourable impact of the return of the NHL, in October 2005 on certain of the Signature Restaurants, was partially offset by the impact of the approximate three-week shutdown of Far Niente® in Q1 for major renovations. The renovation at Far Niente® is expected to result in increased guest counts and SSSG going forward.

Cost of Corporate Restaurant Operations

As a percentage of revenue, costs of corporate restaurant operations decreased to 90.1% for the 12-week period ended February 12, 2006 from 91.2% for the 12-week period ended February 13, 2005. The improved percentage is a result of increased revenues, partly driven by increased marketing initiatives relative to the prior year. The small increase to 91.1% for the 24-week period ended February 12, 2006 from 90.8% for the 24-week period ended February 13, 2005, is due to an increase in direct cost of restaurant operations, including increased utilities and spending on marketing. The closure of Far Niente® for three weeks also affected this percentage of revenue in the first quarter of fiscal 2006.

Corporate costs

Corporate costs decreased by $0.3 million for the 12-week period ended February 12, 2006 compared to the 12-week period ended February 13, 2005 and decreased $0.1 million for the 24-week period ended February 12, 2006 compared to the 24-week period ended February 13, 2005. The decreases are a result of decreased salaries, including lower termination costs, for the quarter compared to the prior year and higher professional fees incurred in the first two quarters of fiscal 2005 relating to the launch of the SIR Royalty Income Fund. These factors were slightly offset by increased general and administration costs.

Contract cancellation cost

On January 16, 2005, SIR agreed to pay $0.9 million to terminate the management fee agreements with two companies controlled by shareholders of SIR. As a result, SIR is no longer obligated to pay a management fee equal to 4% of the net sales of Alice Fazoolis!® (Adelaide Street location) and Brasserie Frisco™ to these related parties.

Interest expense

Interest expense decreased $1.7 million for the 24-week period ended February 12, 2006 compared to the 24-week period ended February 13, 2005. SIR used proceeds received from the issuance of the Partnership Units and the SIR Loan to repay shareholder loans and Canadian term bank debt in full, in the first quarter of fiscal 2005, resulting in decreased interest expense. In addition, all unamortized deferred financing fees ($1.4 million) relating to the former bank debt were included in interest expense in the first quarter of fiscal 2005. Interest expense did not change significantly for the 12-week period ended February 12, 2006 compared to the 12-week period ended February 13, 2005.

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 12, 2006, respectively. The interest was $0.7 million and $1.0 million for the 12 and 24-week periods ended February 13, 2005, respectively. The year to date interest expense is lower in fiscal 2005 because the SIR Loan was issued part way through the first quarter of that year.

The Fund's share of the income of the Partnership for the 12 and 24-week periods ended February 12, 2006 of $1.1 million and $2.1 million, respectively, has been recorded as non-controlling interest in the unaudited Consolidated Statement of Operations. It is higher than the same period in fiscal 2005 due to the timing of the completion of the initial public offering and due to increased earnings in the Partnership in fiscal 2006 (see SIR Royalty Income Fund section).

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

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

During the 12 and 24-week periods ended February 12, 2006, SIR's investment in JACL was reduced when the operations of Jack Astor's Las Colinas, LLC, a subsidiary of JACL were closed and substantially all of its assets were sold. An unrealized foreign exchange gain, related to the operations of this entity, of $0.1 million and $0.1 million, for the 12 and 24-week periods ended February 12, 2006, respectively, is included in net loss from discontinued operation in the unaudited Consolidated Statement of Operations. (See Discontinued Operation)

The unrealized foreign exchange gain, for the continuing operations of JACL, is $0.1 million and $0.1 million for the 12 and 24-week periods ended February 12, 2006, respectively. The unrealized foreign exchange gain (loss) was ($0.1 million) and $0.2 million for the 12 and 24-week periods ended February 13, 2005.

Provision for impairment of accounts and notes receivable

During the 24-week period ended February 12, 2006, SIR advanced $0.2 million to U.S. S.I.R. L.L.C. and its subsidiaries to facilitate repayment of debt related to certain closed U.S. restaurant operations. The advance is non-interest bearing, non-secured and due on demand. SIR does not expect to receive payment of this advance within the next year and accordingly, it has been discounted to reflect its net recoverable amount of $0.1 million. The discount amount of $0.1 million is included in the provision for impairment of accounts and notes receivable in the unaudited Consolidated Statement of Operations. The provision for impairment was higher for the 24-week period ended February 13, 2005, because substantially more funds ($0.6 million) were provided to U.S. S.I.R. L.L.C. during that period. 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.

Provision for income taxes

A provision for income taxes of $0.2 million was recorded in the 24-week period ended February 12, 2006 as compared to a provision for income taxes of $1.8 million during the 24-week period ended February 13, 2005. During the first quarter of fiscal 2005, SIR realized a taxable gain on the disposition of the SIR Rights. The taxable gain has been offset by capital and non-capital loss carryforwards recognized in prior years.

EBITDA* and adjusted EBITDA*

EBITDA* increased by $2.3 million and $2.1 million for the 12 and 24-week periods ended February 12, 2006 as compared to the 12 and 24-week periods ended February 13, 2005, respectively. Adjusted EBITDA* increased by $1.4 million and $1.2 million for the 12 and 24-week periods ended February 12, 2006 as compared to the 12 and 24-week periods ended February 13, 2005, respectively (see Selected Consolidated Historical Financial Information - Reconciliation of Net Loss for the period to EBITDA* and Adjusted EBITDA*).

SIR Royalty Income Fund

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

(a) *SIR Loan*

The SIR Loan bears interest at 7.5% per annum, is due October 12, 2044 and is collateralized by a general security agreement covering substantially all of the assets of SIR. Interest expense of $0.7 million and $1.4 million, was charged to the unaudited Consolidated Statement of Operations for the 12 and 24-week periods ended February 12, 2006, respectively ($0.7 million and $1.0 million for the 12 and 24-week periods ended February 13, 2005, 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. The costs have been deferred and are being amortized over 40 years, the term of the SIR Loan. These costs are recorded in other assets in the consolidated financial statements. Amortization of $0.03 million and $0.06 million has been recorded as interest expense in the unaudited Consolidated Statement of Operations for the 12 and 24-week periods ended February 12, 2006, respectively ($0.03 million and $0.04 million for the 12 and 24-week periods ended February 13, 2005).

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

	12-week period ended		24-week period ended	
	February 12, 2006	February 13, 2005	February 12, 2006	February 13, 2005
	(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	1,073	960	2,055	1,315
Distributions declared on the Partnership's Units held by the Fund	(1,073)	(960)	(2,055)	(1,315)
Non-controlling interest in the Partnership	11,167	11,167	11,167	11,167
Pooled Revenue [(5)]	33,750	29,155	64,057	43,371
Partnership Royalty income (6% of Pooled Revenue)	2,025	1,749	3,843	2,602
Other income	6	6	14	8
Partnership expenses	(20)	59	(39)	(19)
Net earnings of the Partnership	2,011	1,814	3,818	2,591
SIR's interest in the earnings of the Partnership	(938)	(854)	(1,763)	(1,276)
Non-controlling interest in the earnings of the Partnership	1,073	960	2,055	1,315

[(5)] Includes revenue from the SIR Restaurants subject to the License and Royalty Agreement and excludes revenue for JACL. The Jack Astor's® on Front Street and the Jack Astor's® in Whitby were included only for the period from January 1, 2006 (the date they became part of the Royalty pool) to February 12, 2006. For the 24-week period ended February 13, 2005, revenue was included from October 12, 2004 (the date the Fund public offering closed) to February 13, 2005. 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.

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 subject to the subordination provisions, the Class A GP Units are exchangeable into Units of the Fund. Distributions to SIR, as holder of the initial 595,185 Class A GP Units of the Partnership, representing the initial retained interest in the Partnership, through the exchange feature, as at the closing date of the Offering, are subordinated to distributions by the Partnership to the Trust on the Ordinary LP Units and the Class A LP Units (if any). The subordination of distributions on these Class A GP Units ends on the date that both of the following conditions have been satisfied:

(a) Revenue of the SIR Restaurants subject to the License and Royalty Agreement has not been less than $127.4 million for each of two consecutive years commencing with SIR's fiscal year ending August 28, 2005, and

(b) Average monthly cash distributions of $0.10 per Fund Unit have been paid by the Fund and average quarterly cash distributions of at least $0.30 have been paid by the Partnership to the Class A GP Unitholders, in each case for the immediately preceding 12 month period.

Subordination is expected to extend until at least August 26, 2007.

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

Under the terms of the License and Royalty Agreement, SIR may be required to pay a make-whole payment in respect of the reduction in revenue for restaurants closed during a reporting period. SIR is not required to pay any make-whole payments in respect of a closed restaurant following the date on which the number of restaurants in the Royalty pool is equal to or greater than 68 or following October 12, 2019, whichever occurs first. On January 1 of each year (the "Adjustment Date"), following December 31, 2005, the restaurants subject to the License and Royalty Agreement are adjusted for new SIR Restaurants opened for at least 60 days proceeding 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 conversion formula defined in the License and Royalty Agreement. On January 1, 2006, two new SIR Restaurants were added to SIR's Royalty Pooled Restaurants in accordance with the License and Royalty Agreement. In exchange for the additional royalty stream from these new net restaurants, 438,820 Class B GP units were converted to 438,820 Class A GP units based on a formula defined in the Partnership agreement. As a result of this exchange, SIR's interest in the Partnership increased to 16.2% effective January 1, 2006.

(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

Cash provided by continuing operations increased by $1.8 million for the 12-week period ended February 12, 2006 as compared to the 12-week period ended February 13, 2005. The increase is attributable to a decrease in the loss from continuing operations of $2.8 million, offset by a decrease in working capital of $0.4 million. Cash provided by continuing operations increased by $0.4 million for the 24-week period ended February 12, 2006 as compared to the 24-week period ended February 13, 2005. The increase is attributable to a decrease in loss from continuing operations of $4.3 million offset by a decrease in items not affecting cash and a decrease in net change in working capital items. Items not affecting cash include a decrease in non-cash interest of $1.4 million mainly resulting from the write-off of deferred financing fees related to previous bank financing in the prior period, a decrease in the provision for future income taxes of $1.6 million and a decrease in provision for impairment of accounts and loan receivable of $0.4 million. These decreases are partially offset by an increase in amortization of $0.3 million.

Cash used in investing activities from continuing operations for the 12-week period ended February 12, 2006 and February 13, 2005 was $3.5 million and $4.5 million respectively. Cash used in investing activities from continuing operations for the 24-week periods ended February 12, 2006 and February 13, 2005 was $7.1 million and $5.7 million, respectively. Purchases of property, plant and equipment amounted to $3.4 million and $3.5 million for the 12-week periods ended February 12, 2006 and February 13, 2005, respectively and $6.8 million and $4.5 million for the 24-week periods ended February 12, 2006 and February 13, 2005, respectively. Fiscal 2006 purchases are a result of the evolutions of four Jack Astor's® locations, two in the second quarter, and the continuing construction costs of the three new Canyon Creek™ locations. Fiscal 2005 purchases of property, plant and equipment and preopening costs result from two Jack Astor's® evolution (one in the second quarter) and the costs of constructing the Jack Astor's® Front Street location. SIR also advanced $0.6 million to U.S. S.I.R. L.L.C. and its subsidiaries during the 12-week period ended February 13, 2005. The advance is non-interest bearing, non-secured and due on demand.

Proceeds from sale of discontinued operation for the 12 and 24-week periods ended February 12, 2006 of $2.5 million relates to the proceeds of disposition of assets of Jack Astor's Las Colinas, LLC (a subsidiary of JACL). The cash proceeds on this disposition were used to repay the related bank loan of $2.5 million, shown as principal repayment of long-term debt of discontinued operation.

Net cash provided by continuing financing activities for the 24-week period ended February 13, 2005 of $22.3 million relates mainly to the proceeds from the SIR Loan of $40.0 million and the proceeds from the issuance of Partnership Units of $11.2 million. This is partially offset by repayments of bank debt of $16.2 million, repayments of amounts due to shareholders of $7.8 million and the payment of financing fees of $4.8 million.

The SIR Loan is held by the Fund, 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 SIR. Under the Exchange Agreement between SIR, the Partnership and the Fund, SIR has the right to require the Fund to, indirectly, purchase the 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.

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

Management believes that there are sufficient cash resources retained in SIR from the direct and indirect proceeds received from the issuance of the Partnership Units and the SIR Loan to fund its working capital requirements and estimated construction costs for the three new Canyon Creek™ restaurants at this time. SIR has a bank purchasing card facility with a credit limit of $350,000 and does not have bank lines of credit.

Certain bank loans were entered into by Jack Astor's Cary, LLC and Jack Astor's Las Colinas, LLC (subsidiaries of JACL) in fiscal year 2001 and are guaranteed by SIR. These investments were previously accounted for as equity accounted investments and disclosed accordingly. As a result of the adoption of AcG-15, these loans are now consolidated. However, substantially all of the assets of Jack Astor's Las Colinas, LLC were sold during the second quarter of fiscal 2006 and the proceeds were used to pay off the related bank debt of $2.5 million (U.S. $2.1 million). The remaining loans of $2.1 million (U.S. $1.8 million) are currently non-compliant with respect to certain financial and non-financial covenants. As a result, these loans are presented as a current liability on SIR's interim unaudited consolidated financial statements. All payments due on the loans have been made to date and the borrowers have not received any notices of default. The loans are secured by the assets of JACL and a pledge of the shares of JACL by SIR.

Contractual Obligations

Management believes that there have been no substantial changes in the nature of contractual obligations since the year ended August 28, 2005. The reader will find this information in the annual MD&A for the year ended August 28, 2005.

SIR and its subsidiaries have entered into operating leases relating to its head office and restaurant locations with minimum annual payments. At this time, SIR has also entered into two commitments to lease properties and is currently constructing restaurants on these properties. Final costs of construction are subject to uncertainties as to their amount and timing. At this time, the net use of cash for these construction projects is estimated to be approximately $4.0 million. Approximately $1.3 million is already included in property, plant and equipment and preopening costs as at February 12, 2006.

Off-Balance Sheet Arrangements

SIR does not have any off-balance sheet arrangements.

Transactions with Related Parties

SIR has entered into related party transactions with shareholders or companies controlled by shareholders 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 amounts of $0.1 million for the 12-week period ended February 12, 2006 (February 13, 2005 - $0.2 million) and $0.2 million for the 24-week period ended February 12, 2006 (February 13, 2005 - $0.3 million).
- Management fees equal to 4% of net sales of Alice Fazooli's!® (Adelaide Street location) and Brasserie Frisco™ to companies controlled by shareholders of SIR, in the amount of $0.05 million and $0.10 million for the 12 and 24-week periods ended February 13, 2005, respectively. These fees are recorded as direct costs of restaurant operations in fiscal 2005. On January 16, 2005, SIR entered into an agreement to cancel these management fees and paid $0.9 million to the related parties.
- SIR leases its head office space directly or indirectly from certain shareholders of SIR. SIR paid $0.05 million for the 12-week period ended February 12, 2006 (February 13, 2005 - $0.05 million) and $0.09 million for the 24-week period ended February 12, 2006 (February 13, 2005 - $0.10 million). SIR signed a lease agreement which expires (unless renewed or extended) on December 31, 2006.

During the third quarter of fiscal 2005, SIR advanced $2.0 million to four shareholders of SIR to facilitate the exercise of stock options held by these shareholders with other shareholders of SIR. The loans bear interest at prime plus 1%, with principal and interest due February 16, 2007. SIR can demand payment with 90 days written notice, after February 16, 2006. The loans are secured by 1,010,248 common shares of SIR. This transaction has not had any impact on the outstanding common stock or options of SIR. During the 12 and 24-week periods ended February 12, 2006, interest income of $0.03 million and $0.05 million was accrued on these loans, respectively.

Transactions with the SIR Royalty Income Fund

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

	February 12, 2006	August 28, 2005
	(in thousands of dollars) (unaudited)	
Advances receivable	(590)	(367)
Interest payable on SIR Loan	381	500
Partnership distributions payable	1,114	773
Payable to the Fund and its subsidiaries – net	905	906

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

During the 12 and 24-week periods ended February 12, 2006, distributions of $1.1 million and $2.1 million, respectively ($1.0 million and $1.3 million, respectively for the 12 and 24-week periods ended February 13, 2005) were declared to the Fund through the Partnership. The Fund, indirectly through the Trust, is entitled to receive a pro rata share of all residual distributions.

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. For the 12 and 24-week periods ended February 12, 2006, the Partnership provided these services to the Fund and the Trust for consideration of $0.004 million and $0.01 million, respectively, ($0.006 million and $0.007 million for the 12 and 24-week periods ended February 13, 2005) which was the amount of consideration agreed to by the related parties.

Interest expense on the SIR Loan totaled $0.7 million and $1.4 million for the 12 and 24-week periods ended February 12, 2006 ($0.7 million and $1.0 million for the 12 and 24-week periods ended February 13, 2005). The SIR Loan bears interest at 7.5% per annum.

Discontinued Operation

On February 10, 2006, SIR sold substantially all the assets of one of its USA restaurant operations, Jack Astor's Las Colinas, LLC, a subsidiary of JACL for cash consideration of $2.5 million (U.S. $2.2 million). The proceeds from the sale of the assets were used to repay the associated U.S. bank debt of $2.5 million (U.S. $2.1 million).

A foreign exchange gain of $0.1 million previously deferred in the currency translation adjustment has been realized and is included in the loss from discontinued operation in the unaudited Consolidated Statement of Operations. (The current method was used to translate the operations prior to August 29, 2004, resulting in the currency translation adjustment account.)

The summarized statement of operations for the discontinued operation is as follows:

	12-week period ended		**24-week period ended**	
	February 12, 2006	**February 13, 2005**	**February 12, 2006**	**February 13, 2005**
	(in thousands of dollars) (Unaudited)			
Food and beverage revenue	481	643	1,035	1,321
Cost of revenue	698	634	1,311	1,278
Amortization of restaurant assets	18	74	54	148
	(235)	(65)	(330)	(105)
Unrealized foreign exchange gain (loss)	112	(127)	97	220
Currency translation adjustment	108	-	108	-
Loss on disposal of assets	(109)	-	(109)	-
Non-controlling interest in other subsidiary companies	-	67	-	(40)
Income (loss) from discontinued operations	(124)	(125)	(234)	75

The summarized balance sheet for the discontinued operation is as follows:

	February 12, 2006	August 28, 2005
	(in thousands of dollars) (Unaudited)	
Current assets		
Cash and cash equivalents	45	71
Accounts receivable	68	101
Inventories	-	25
Prepaids, deposits and other assets	45	29
	158	226
Property, plant and equipment	-	2,700
Current liabilities		
Accounts payable and accrued liabilities	786	957
Current portion of long-term debt	-	2,652
	786	3,609
Net liabilities of discontinued operation	(628)	(683)

Critical Accounting Estimates

Management believes that there have been no substantial changes in the nature of critical accounting estimates since the year ended August 28, 2005. The reader will find this information in the annual MD&A for the year ended August 28, 2005.

Changes in Accounting Policies including Initial Adoption

Variable Interest Entities, Accounting Guideline -15

Effective August 30, 2004, SIR adopted AcG-15 of the CICA, which requires the consolidation of VIEs by the primary beneficiary. A VIE is an entity where (a) its equity investment at risk is insufficient to permit the entity to finance its activities without additional subordinated support from others and/or where certain essential characteristics of a controlling financial interest are not met, and (b) it does not meet specified exemption criteria. The primary beneficiary is the enterprise that will absorb or receive the majority of the VIE's expected losses, expected residual returns, or both. The guideline is applicable to annual and interim periods beginning on or after November 1, 2004. As SIR is a private company, it did not adopt the standard when reporting its interim periods in 2005. Management has determined that two entities that it previously accounted for as equity investments (Jack Astor's® Don Mills Limited and JACL) and the Partnership are VIE's under AcG-15. Therefore, SIR has adjusted its results from operations for the interim period ended February 13, 2005, as previously reported, to reflect this change in accounting policy.

The effect of applying this change in accounting policy on the unaudited Consolidated Statement of Operations for the 12-week period ended February 13, 2005 is as follows:

Statement of Operations	Balance as previously reported	Adjustment*	Balance as restated
	(in thousands of dollars) (unaudited)		
Food and beverage revenue	28,629	1,328	29,957
Cost of corporate restaurant operations	26,038	1,274	27,312
Earnings from corporate restaurant operations	2,591	54	2,645
Corporate Costs	(2,976)	59	(2,917)
Management fee income	34	(34)	-
Interest expense – net	(1,468)	1,351	(117)
Interest on loan payable to the SIR Royalty Income Fund	-	(686)	(686)
Non-controlling interest in the SIR Royalty Limited Partnership	-	(960)	(960)
Unrealized foreign exchange loss	-	(107)	(107)
Income from Partnership distribution	168	(168)	-
Provision for impairment of accounts and notes receivable	(287)	(270)	(557)
Other income (expense)	(40)	6	(34)
Provision for (recovery of) income taxes	176	(2)	174
Loss from equity accounted investments	(83)	67	(16)
Non-controlling interest in other subsidiary companies	-	51	51
Loss from continuing operations	(3,231)	(635)	(3,866)
Net loss from discontinued operation	-	(125)	(125)
Net loss for the period	(3,231)	(760)	(3,991)

The effect of applying this change in accounting policy on the unaudited Consolidated Statement of Operations for the 24-week period ended February 13, 2005 is as follows:

Statement of Operations	Balance as previously reported	Adjustment*	Balance as restated
	(in thousands of dollars) (unaudited)		
Food and beverage revenue	56,442	2,646	59,088
Cost of corporate restaurant operations	51,118	2,551	53,669
Earnings from corporate restaurant operations	5,323	95	5,418
Corporate Costs	(5,179)	(19)	(5,198)
Management fee income	67	(67)	-
Interest expense – net	(3,813)	1,977	(1,836)
Interest on loan payable to the SIR Royalty Income Fund	-	(1,023)	(1,023)
Non-controlling interest in the SIR Royalty Limited Partnership	-	(1,315)	(1,315)
Unrealized foreign exchange gain	-	178	178
Income from Partnership distribution	254	(254)	-
Provision for impairment of accounts and notes receivable	(287)	(270)	(557)
Other income (expense)	(53)	8	(45)
Provision for (recovery of) income taxes	1,831	(2)	1,829
Loss from equity accounted investments	(144)	129	(15)
Non-controlling interest in other subsidiary companies	-	(28)	(28)
Loss from continuing operations	(6,751)	(587)	(7,338)
Net loss from discontinued operation	-	75	75
Net loss for the period	(6,751)	(512)	(7,263)

* Includes the reclassification of results of operations of Jack Astor's Las Colinas, LLC to discontinued operation (see Discontinued Operation section)

Recently Issued Accounting Pronouncements

CICA Handbook Section 3855, Recognition and Measurement, prescribes when a financial asset, financial liability, or non-financial derivative is to be recognized on the balance sheet, and at what amount – in certain instances using fair value and in others using cost-based measures. It also specifies how financial instrument gains and losses are to be presented. Section 3855 applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. Earlier adoption is permitted only as of the beginning of a fiscal year ending on or after December 31, 2004. SIR plans to adopt this standard for its 2008 fiscal year. Transitional provisions for this Section are complex and vary based on the type of financial instrument under consideration. SIR is currently evaluating the standard and the effect cannot be reasonably determined at this time.

CICA Handbook Section 1530, Comprehensive Income, introduces a new requirement to temporarily present certain gains and losses outside net income. Section 1530 applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. Earlier adoption is permitted only as of the beginning of a fiscal year ending on or after December 31, 2004. SIR plans to adopt this standard for its 2008 fiscal year. Financial statements of prior periods are required to be restated for certain comprehensive income items. In addition, an enterprise is encouraged, but not required, to present reclassification adjustments in comparative financial statements provided for earlier periods. SIR is currently evaluating this standard and the effect cannot be reasonably determined at this time.

CICA Handbook Section 3865, Hedges, establishes standards for when and how hedge accounting may be applied. Hedge accounting is optional. This Section applies for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. Retroactive application is not permitted. Earlier adoption is permitted only as of the beginning of a fiscal year that ends on or after December 31, 2004. SIR plans to adopt this standard for its 2008 fiscal year. SIR has no arrangements for hedging, and the adoption of this standard is not expected to have any impact on SIR at this time.

Financial Instruments and Other Instruments

Management believes that there have been no substantial changes in the nature of financial instruments and other instruments since the year ended August 28, 2005. The reader will find this information in the annual MD&A for the year ended August 28, 2005.

Risks and Uncertainties

The performance of SIR is dependent on many factors. The restaurant industry generally, and in particular, the casual and fine dining segment of this industry, is intensely competitive with respect to price, service, location, food quality and qualified staff. Recently, competition has increased in the mid-price, full-service, casual and fine dining sectors in which many of the SIR Restaurants operate. In addition, factors such as inflation, increased food, labour and benefits costs, taxes, government regulations (including those governing alcoholic beverages), weather, seasonality, public safety issues and the availability and quality of food, services and products sold in the restaurants affect the restaurant industry in general and therefore SIR. Please refer to the Fund's prospectus dated October 1, 2004 and its March 31, 2005 Annual Information Form for further discussion on risks and uncertainties related to SIR.

Outlook

Fiscal 2005 was an extraordinary year in that SIR completed the successful launch of the Fund and significantly invested in new and existing restaurants. This momentum continued into the first two quarters of fiscal 2006 with four more Jack Astor's® evolutions and the opening of another new Jack Astor's® restaurant.

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

As part of that expansion plan, SIR has opened two new Jack Astor's® since the Fund's Initial Public Offering (one on the corner of Front Street and University Avenue in downtown Toronto in early February 2005, and one in Whitby, Ontario at the end of August 2005). Both locations became part of SIR's Royalty Pooled Restaurants, effective January 1, 2006. SIR plans to continue to seek high quality new sites for Jack Astor's®.

In addition, SIR has secured three new prime sites in southern Ontario for Canyon Creek™ restaurants. The new locations are in Scarborough, Ontario, Vaughan, Ontario, and the Fallsview Casino Resort, in Niagara Falls, Ontario. The Scarborough location opened on March 6, 2006. The Vaughan and Niagara Falls locations are also expected to open in fiscal 2006.

As part of the focus on growing existing restaurant revenues, SIR continues to evolve the Jack Astor's® concept, which accounts for approximately 60% of pooled revenue. Jack Astor's® recorded strong SSSG of 12.3% and 10.4% for the 12 and 24-week periods ended February 12, 2006, respectively, versus the corresponding periods in the prior year. To date, 17 of the 21 Jack Astor's® restaurants in the Royalty pool have been evolved. These evolutions, supported by strong media campaigns, delivered improved SSSG and SIR intends to continue these programs in fiscal 2006.

Renovations were completed at three Alice Fazooli's!® restaurants in fiscal 2005, with average sales increases in excess of 10% continuing in Q1 and Q2 of fiscal 2006. SSSG of Alice Fazooli's!® was 15.3% and 11.3% for the 12 and 24-week periods ended February 12, 2006, respectively, versus the corresponding periods in the prior year. Subsequent to February 12, 2006 the renovation of one additional Alice Fazooli's!® location was completed.

Canyon Creek™ continues to perform well, with SSSG of 11.2% and 8.6% for the 12 and 24-week periods ended February 12, 2006, respectively, versus the corresponding periods in the prior year.

SIR completed a major renovation at Far Niente® during Q1 of fiscal 2006. Guest response to the changes in décor and menu has been favourable and sales have responded accordingly. This investment is expected to result in increased guest counts and SSSG going forward. Due to the three-week closure to do the renovation, both revenue and earnings were affected during the Q1. SSSG of the downtown Toronto Signature Restaurants, was 1.9% and 0.2% for the 12 and 24-week periods ended February 12, 2006, respectively, versus the corresponding periods in the prior year.

During the first quarter of fiscal 2006, the U.S. operating losses of JACL consumed cash flow of $0.3 million. A further $0.4 million was consumed during the second quarter of fiscal 2006. A substantial part of this was to facilitate the sale of substantially all the assets of Jack Astor's Las Colinas, LLC and the closing of its operations. (See Discontinued Operation)

During fiscal 2006, SIR expects to make significant investments in both existing and new restaurants, to set in place a foundation for anticipated sales growth and improved earnings. Management is committed to maximizing the performance of all of its restaurants.

Forward Looking Information

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

In formulating the forward-looking statements contained herein, management has assumed that business and economic conditions affecting SIR's restaurants will continue substantially in the ordinary course, including without limitation with respect to industry conditions, general levels of economic activity (including in downtown Toronto), regulations (including those regarding employees, food safety, tobacco and alcohol), weather, taxes, foreign exchange rates and interest rates, that there will be no pandemics or other outbreaks of disease or safety issues affecting humans or animals or food products, and that there will be no unplanned material changes in its facilities, equipment, customer and employee relations, or credit arrangements. In particular, in estimating the revenues for the two new Jack Astor's® restaurants, management has assumed that they will operate consistent with their recent past practice and other evolved Jack Astor's® restaurants. See also "Risk Factors" in the SIR Royalty Income Fund prospectus dated October 1, 2004 and its March 31, 2005 Annual Information Form.