

SIR Corp.

Consolidated Financial Statements
August 31, 2008 and August 26, 2007

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November 20, 2008

Auditors' Report

To the Shareholders of SIR Corp.

We have audited the consolidated balance sheets of **SIR Corp.** as at August 31, 2008 and August 26, 2007 and the consolidated statements of operations and comprehensive loss, deficit and cash flows for the 53-week and 52-week periods then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2008 and August 26, 2007 and the results of its operations and its cash flows for the 53-week and 52-week periods then ended in accordance with Canadian generally accepted accounting principles.

(signed) PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

Hamilton, Ontario

SIR Corp.

Consolidated Balance Sheets

(in thousands of dollars)

	August 31, 2008	August 26, 2007
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	1,483	3,377
Accounts receivable	3,773	3,100
Inventories	2,806	2,233
Prepays, deposits and other assets	584	773
Current portion of loans, advances and notes receivable (note 6)	180	-
	<hr/>	<hr/>
	8,826	9,483
Loans, advances and notes receivable (note 6)	707	772
Property and equipment (notes 7 and 14)	53,015	41,854
Goodwill (note 8)	5,625	5,736
Intangible and other assets (note 9)	3,780	7,978
	<hr/>	<hr/>
	71,953	65,823
	<hr/>	<hr/>

SIR Corp.

Consolidated Balance Sheets ...continued

(in thousands of dollars)

	August 31, 2008 \$	August 26, 2007 \$
Liabilities		
Current liabilities		
Bank indebtedness (note 10)	905	308
Accounts payable and accrued liabilities	16,679	16,238
Construction accounts payable and accrued liabilities	2,274	1,319
Current portion of long-term debt (note 10)	1,733	1,759
Current portion of other long-term liabilities (note 12)	1,499	1,067
Amounts due to SIR Royalty Income Fund – net (note 11(c))	1,524	1,260
	<u>24,614</u>	<u>21,951</u>
Long-term debt (note 10)	8,777	350
Loan payable to SIR Royalty Income Fund (note 11(a))	35,531	40,000
Non-controlling interest in SIR Royalty Limited Partnership (note 11(b))	11,167	11,167
Other long-term liabilities (note 12)	10,110	8,085
Future income taxes (note 17)	9	-
	<u>90,208</u>	<u>81,553</u>
Non-controlling interest in other subsidiary companies	<u>32</u>	<u>58</u>
Shareholders' Deficiency		
Capital stock (note 13)	17,605	17,627
Accumulated other comprehensive income (note 3)	(202)	(202)
Deficit	<u>(35,690)</u>	<u>(33,213)</u>
	<u>(18,287)</u>	<u>(15,788)</u>
	<u>71,953</u>	<u>65,823</u>
Contingencies and commitments (note 15)		

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

Approved by the Board of Directors

(signed) Grey Sisson

Director

(signed) Peter Fowler

Director

SIR Corp.

Consolidated Statements of Operations and Comprehensive Loss

(in thousands of dollars)

	53-week period ended August 31, 2008 \$	52-week period ended August 26, 2007 \$
Corporate restaurant operations (note 1)		
Food and beverage revenue (note 19)	188,365	167,213
Cost of corporate restaurant operations		
Food and beverage	57,695	52,779
Labour	60,376	52,493
Direct costs of restaurant operations (note 14)	44,275	40,424
Amortization of restaurant assets	8,343	7,303
	170,689	152,999
Earnings from corporate restaurant operations	17,676	14,214
Corporate costs (note 14)	(11,301)	(10,540)
Other amortization	(297)	(282)
	(11,598)	(10,822)
Earnings before the following items	6,078	3,392
Interest expense – net (note 10)	(377)	(162)
Interest on loan payable to SIR Royalty Income Fund (note 11(a))	(3,049)	(2,992)
Non-controlling interest in SIR Royalty Limited Partnership (note 11(b))	(5,078)	(4,499)
Unrealized foreign exchange gain (loss)	(16)	91
Goodwill impairment (notes 5 and 8)	(277)	-
Provision for impairment of long-lived assets (notes 7 and 9)	(225)	-
Recovery of (provision for) impairment of loans receivable (note 6)	350	(100)
Other income (expense) (note 18)	141	(155)
Loss before income taxes and non-controlling interest in other subsidiary companies	(2,453)	(4,425)
Provision for income taxes (note 17)	(15)	(11)
Loss before non-controlling interest in other subsidiary companies	(2,468)	(4,436)
Non-controlling interest in other subsidiary companies	27	54
Net loss from continuing operations for the period	(2,441)	(4,382)
Net earnings from discontinued operation for the period (note 4)	-	71
Net loss and comprehensive loss for the period	(2,441)	(4,311)

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

SIR Corp.

Consolidated Statements of Deficit

(in thousands of dollars)

	53-week period ended August 31, 2008 \$	52-week period ended August 26, 2007 \$
Deficit – Beginning of period	(33,213)	(28,884)
Net loss for the period	(2,441)	(4,311)
Purchase of capital stock for cancellation (note 13)	(36)	(18)
Deficit – End of period	<u>(35,690)</u>	<u>(33,213)</u>

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

SIR Corp.

Consolidated Statements of Cash Flows

(in thousands of dollars)

	53-week period ended August 31, 2008 \$	52-week period ended August 26, 2007 \$
Cash provided by (used in)		
Operating activities		
Net loss from continuing operations for the period	(2,441)	(4,382)
Items not affecting cash		
Amortization	8,640	7,585
Non-controlling interest in other subsidiary companies	(27)	(54)
Future income taxes (note 17)	9	6
Provision for (recovery of) impairment of loans receivable (note 6)	(350)	100
Goodwill impairment (notes 5 and 8)	277	-
Provision for impairment of long-lived assets (notes 7 and 9)	225	-
Non-cash interest expense	41	144
Amortization of leasehold inducements	(813)	(632)
Unrealized foreign exchange loss (gain)	16	(91)
Other items (note 16)	169	380
Leasehold and other inducements received	2,059	2,424
Net change in working capital items (note 16)	861	2,102
	<hr/>	<hr/>
Net cash from continuing operations	8,666	7,582
Net cash from discontinued operation (note 4)	-	82
	<hr/>	<hr/>
	8,666	7,664
Investing activities		
Decrease in due from shareholders (note 14)	-	712
Purchase of property and equipment	(17,806)	(10,723)
Proceeds from sale of property and equipment	109	19
Acquisition of non-controlling interest (note 5)	(190)	-
Decrease (increase) in loans, advances and notes receivable	180	(304)
Restaurant pre-opening costs (note 9)	(2,049)	(827)
	<hr/>	<hr/>
Net cash used in continuing investing activities	(19,756)	(11,123)
Financing activities		
Increase in bank indebtedness (note 10)	597	308
Payments to shareholders	-	(23)
Payments to non-controlling interest in other subsidiary companies	-	(206)
Proceeds from non-controlling interest in other subsidiary companies	-	111
Proceeds from issuance of long-term debt	9,040	-
Principal repayment of long-term debt	(383)	(667)
Financing fees	-	(857)
Repurchase of capital stock (note 13)	(58)	(41)
	<hr/>	<hr/>
Net cash from (used in) continuing financing activities	9,196	(1,375)
Effect of foreign exchange rates on cash	-	(1)
	<hr/>	<hr/>
Decrease in cash and cash equivalents during the period	(1,894)	(4,835)
Cash and cash equivalents – Beginning of period	3,377	8,212
Cash and cash equivalents – End of period	<hr/> 1,483	<hr/> 3,377
Supplemental information (note 16)		

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

SIR Corp.

Notes to Consolidated Financial Statements

1 Nature of operations and fiscal year

Nature of operations

SIR Corp. (the “Company”) is a private company amalgamated under the Business Corporations Act of Ontario. As at August 31, 2008, the Company operates a total of 43 (2007 – 40) Concept and Signature restaurants in Canada (in Ontario, Quebec, Alberta and Nova Scotia) (the “SIR Restaurants”). The Concept restaurants are Jack Astor’s Bar and Grill® (“Jack Astor’s®”), Canyon Creek Chop House® (“Canyon Creek®”) and Alice Fazooli’s®, and the Signature restaurants are *reds*®, Far Niente®, FOUR™/Petit Four™ and the Loose Moose Tap & Grill®. The Company also owns Jack Astor’s (Cary & Las Colinas) Limited that operates one Jack Astor’s restaurant in the United States. During fiscal 2008, the Company closed the existing Jack Astor’s restaurant in Burlington, Ontario and opened the new Jack Astor’s restaurant located in Burlington, Ontario. The Company also closed the Brasserie Frisco and opened three new Jack Astor’s restaurants and one new Canyon Creek restaurant, during fiscal 2008. Subsequent to August 31, 2008, the Company opened two Jack Astor’s restaurants.

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”) (note 11) 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 11).

Fiscal year

The Company’s fiscal year is made up of 52 or 53 week periods ending on the last Sunday in August. The fiscal quarters for the Company consist of accounting periods of 12, 12, 12 and 16 or 17 weeks, respectively. The fiscal years for 2008 and 2007 consisted of 53 and 52 weeks, respectively.

SIR Corp.

Notes to Consolidated Financial Statements

2 Summary of significant accounting policies

Basis of presentation

These consolidated financial statements include the accounts of the Company and its wholly-owned, majority-owned and other subsidiaries where the Company is exposed to the majority of the expected losses or returns. All intercompany accounts and transactions have been eliminated. The Company owns 100% of its subsidiaries with the exception of Jack Astor's Don Mills Limited (50%) and the Partnership (note 11).

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and disclosures applicable to private companies. When public company disclosure provides additional meaningful information, management has incorporated such disclosure in these consolidated financial statements.

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.

A summary of the significant accounting policies followed in the preparation of these consolidated financial statements is as follows:

Use of estimates

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

Revenue recognition

Revenue from restaurant operations is recognized when services are rendered.

The Company recognizes gift certificate revenue as gift certificates are redeemed. Gift certificates that are not redeemed within two years of the issuance date are recognized as other income in the consolidated statements of operations.

Cash and cash equivalents

Cash and cash equivalents are defined as cash and short-term investments with original maturities of three months or less.

SIR Corp.

Notes to Consolidated Financial Statements

Inventories

Inventories, which consist of food, beverage and merchandise, are valued at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method.

Property and equipment

Property and equipment are recorded at cost, less accumulated amortization. Amortization is calculated as follows:

Buildings	20 years straight-line
Corporate furniture, fixtures and equipment	5 years straight-line
Computer equipment and software	5 years straight-line
Restaurant furniture, fixtures and equipment	10 years straight-line
Leasehold improvements	Over the lease term on a straight-line basis to a maximum of 10 years

Intangible and other assets

Intangible lease assets, arising on business combinations, comprise the present value of the amount by which market lease rates exceeded the contractual lease rates on the date of acquisition and are being amortized over the remaining life of the respective leases (note 9).

Pre-opening costs, which comprise expenses incurred to bring restaurants to the operational stage, are deferred and amortized on a straight-line basis over five years commencing with the date of the opening of each location.

Impairment of long-lived assets

An impairment charge is recognized for long-lived assets, including intangible assets with definite lives, when an event or change in circumstances causes an asset's carrying value to exceed the total undiscounted cash flows expected from its use and eventual disposition. The impairment loss is calculated as the difference between the fair value of the asset and its carrying value.

Leases of equipment

Leases of equipment on terms that transfer substantially all of the benefits and risks of ownership to the Company are accounted for as capital leases. All other leases of equipment are accounted for as operating leases. Operating lease payments are expensed on a straight-line basis over the term of the lease.

Goodwill

Goodwill represents the excess of the cost of investments in subsidiaries and businesses acquired over the fair value of the net assets acquired. Goodwill is not amortized. The Company performs an impairment review of goodwill at least annually or whenever events or changes in circumstances indicate that the carrying amounts may be impaired. The need for any writedown of goodwill due to an impairment in its value is based on the assessment of the fair value of the individual business units and the related goodwill.

SIR Corp.

Notes to Consolidated Financial Statements

Loans, advances and notes receivable

Other long-term investments are recorded at cost and are written down to their estimated realizable amount when there is evidence of an impairment. Loans, advances and notes receivable are reviewed for impairment on an individual basis and are reduced to the estimated recoverable amount measured by expected future cash flows. When the amounts and timing of future cash flows cannot be estimated with reasonable reliability, the loans, advances and notes receivable are measured at the fair value of the underlying security net of expected costs of realization. The accrual of interest is suspended if collection becomes doubtful.

Supplier rebates

Supplier rebates are payments received under supplier agreements, which are recognized as a reduction of the cost of purchases over the term of the supplier agreements.

Leasehold inducements

Leasehold inducements represent payments received from landlords at the time of construction and are deferred and amortized over the term of the lease.

Financial instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, advances, loans and notes receivable, bank indebtedness, accounts payable and accrued liabilities, construction accounts payable and accrued liabilities, long-term debt, amounts due to SIR Royalty Income Fund and loan payable to SIR Royalty Income Fund. The fair values of these instruments approximate their carrying amounts due to their short-term maturity or, in the case of the advances, loans and notes receivable, the fair values of these items do not differ significantly from their carrying values. The fair value of the long-term debt is estimated to be \$11,356,000. The fair value of the loan payable to SIR Royalty Income Fund could only be determined through the valuation of the debt. As a result, the determination of the fair value is not practicable within the constraints of timeliness and cost.

The Company's financial instruments exposed to credit risk include cash and cash equivalents, accounts receivable and advances, loans and notes receivable. The Company places its cash and cash equivalents with institutions of high creditworthiness. The Company's accounts receivable primarily comprise amounts due from major credit card companies and therefore management believes that its accounts receivable credit risk exposure is limited. The Company monitors the collectability of its advances, loans and notes receivable and establishes provisions when collection of the amounts becomes doubtful (see note 6). The Company is exposed to interest rate risk arising from fluctuations in interest rates. The Company is exposed to exchange rate risk in respect of transactions and certain guarantees denominated in U.S. dollars.

SIR Corp.

Notes to Consolidated Financial Statements

Future income taxes

Future income taxes are provided on the asset and liability method whereby future income tax assets are recognized for deductible temporary differences and operating loss carry-forwards, and future income tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the amounts of assets and liabilities recorded for income tax and financial reporting purposes. Future income tax assets are recognized only to the extent that management determines that it is more likely than not that the future income tax assets will be realized. Future income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment or substantive enactment.

Stock-based compensation and other stock-based payments

Effective September 1, 2003, the Company adopted the provisions of Handbook Section 3870, Stock-Based Compensation and Other Stock-Based Payments (“Handbook Section 3870”), of the CICA for awards to non-employees and employee awards modified after September 1, 2003. For all other awards, the Company implemented the recommendations of Handbook Section 3870 in fiscal 2006. Compensation expense is recognized based on the fair value method of accounting for stock options granted under the Company’s stock option plan, for options issued after September 1, 2003. Any consideration paid by employees or directors on exercising stock options is credited to capital stock.

Foreign currency translation

Until August 29, 2004, the operations of the Company’s foreign subsidiary were considered to be self-sustaining and were therefore translated into Canadian dollars using the current rate method. Under the current rate method, assets and liabilities are translated using year-end exchange rates while revenues and expenses are translated at the average rates during the period. Exchange gains and losses on translation are recorded in accumulated other comprehensive income.

Effective August 30, 2004, the operations of the foreign subsidiary are considered integrated with those of the Company. As a result of the subsidiary’s continuing losses from operations, the Company has been financing the subsidiary’s operations and therefore the Company’s exposure to risk of fluctuations in foreign exchange has changed. Monetary items are now translated into Canadian dollars at the exchange rate in effect at the balance sheet date, non-monetary items are translated at historical exchange rates and results of operations are translated at the average exchange rate for the period. Exchange gains and losses on the translation of the integrated foreign subsidiary are included in the net loss for the period.

The exchange gains and losses accumulated in the currency translation adjustment account will be realized when there is a reduction in the Company’s net investment in the operations that gave rise to the exchange gains and losses.

SIR Corp.

Notes to Consolidated Financial Statements

Asset retirement obligations

Handbook Section 3110, Asset Retirement Obligations, of the CICA establishes standards for the recognition, measurement and disclosure of liabilities for asset retirement obligations and the associated asset retirement cost. The standard applies to legal obligations associated with the retirement of tangible long-lived assets. The standard applies to obligations for both lessors and lessees in connection with leased assets. The Company has adopted the provisions of this standard with respect to estimated lease-end remediation costs.

Long-term debt and loan payable to SIR Royalty Income Fund

Deferred financing fees represent transaction costs paid to obtain financing and are netted against the related debt. The deferred financing fees are amortized over the term of the related debt using the effective interest rate method.

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 advances, loans 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 SIR Royalty Income Fund, 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 long-term debt and the SIR Loan 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 loan. Effective August 27, 2007, deferred financing fees are recognized as an offset to the carrying value of the long-term debt and the SIR Loan and amortized using the effective interest rate method.

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Notes to Consolidated Financial Statements

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 accumulated other comprehensive income in shareholders' deficiency on the consolidated balance sheets.

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 financial statements.

Financial instruments

The Accounting Standards Board has recently announced that the adoption of Section 1530 – Comprehensive Income, Section 1651 – Foreign Currency Translation, Section 3051 – Investments, Section 3251 – Equity, Section 3855 – Financial Instruments – Recognition and Measurement, Section 3862 – Financial Instruments – Disclosures, Section 3863 – Financial Instruments – Presentation and Section 3865 – Hedges, are not required for non-publicly accountable enterprises. The Company is evaluating whether it will adopt these standards for their fiscal 2009 consolidated financial statements.

SIR Corp.

Notes to 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, if adopted, 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 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, if adopted, 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 financial statements.

International Financial Reporting Standards

The CICA plans to converge Canadian GAAP with International Financial Reporting Standards (IFRS) over a transition period expected to end in 2011. Management is evaluating whether or not the Company is required to adopt IFRS and has not yet determined the impact.

Goodwill and intangible assets – Handbook Section 3064

Handbook Section 3064 replaces Handbook Section 3062 – Goodwill and intangible assets and Handbook Section 3450 – Research and development costs and establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The provisions relating to the definition and initial recognition of intangible assets, including internally generated intangible assets, are equivalent to the corresponding provision of IFRS IAS 38, Intangible assets. This standard is effective for the Company for the interim and annual consolidated financial statements beginning on August 31, 2009. Management has determined that the capitalization for restaurant pre-opening cost will no longer be permitted. However, management has not yet quantified the impact of this change (see note 9). Management has not yet determined the impact of the adoption of this change related to its goodwill and other intangible assets in its consolidated financial statements.

Inventories – Handbook Section 3031

Handbook Section 3031 replaces Handbook Section 3030 – Inventories and provides more guidance on the measurement and disclosure requirements for inventories. The new standard allows the reversal of previous writedowns to net realizable value when there is a subsequent increase in the value of inventories. The standard is effective for the Company for the interim and annual consolidated financial statements beginning on September 1, 2008. Management has not yet determined the impact of the adoption of this change related to its inventories in its consolidated financial statements.

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Notes to Consolidated Financial Statements

4 Discontinued operation

On February 10, 2006, the Company sold substantially all of the assets of Jack Astor's Las Colinas, LLC, a subsidiary of Jack Astor's (Cary & Las Colinas) Limited. Since that time, the results of Jack Astor's Las Colinas, LLC have been reported as a discontinued operation.

There are no net earnings or loss from discontinued operations during 2008. During 2007, the net earnings from discontinued operations of \$71,000 is comprised of a recovery of expenses of \$30,000 and an unrealized foreign exchange gain of \$41,000.

5 Acquisition of non-controlling interest

Effective December 17, 2007, the Company acquired the non-controlling interest's share 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.

SIR Corp.

Notes to Consolidated Financial Statements

6 Loans, advances and notes receivable

	August 31, 2008 \$	August 26, 2007 \$
	(in thousands of dollars)	
Loans and advances to U.S. S.I.R. L.L.C. and subsidiaries (a)	887	757
Notes receivable	-	15
	<hr/>	<hr/>
Current portion	887	772
	180	-
	<hr/>	<hr/>
	707	772
	<hr/>	<hr/>

(a) Loans and advances to U.S. S.I.R. L.L.C. and subsidiaries

	August 31, 2008 \$	August 26, 2007 \$
	(in thousands of dollars)	
Loan receivable from U.S. S.I.R. L.L.C., with interest at 10%, interest only repayable annually, due August 31, 2003	1,180	1,180
Advances to and receivables from U.S. S.I.R. L.L.C., non- interest bearing, due on demand	4,904	5,124
Advances to and receivables from subsidiaries of U.S. S.I.R. L.L.C., non-interest bearing, due on demand	398	398
	<hr/>	<hr/>
Provision for impairment	6,482	6,702
	(5,595)	(5,945)
	<hr/>	<hr/>
Current portion	887	757
	180	-
	<hr/>	<hr/>
	707	757
	<hr/>	<hr/>

Loans, advances and notes receivable are reviewed for impairment on an individual basis. The assessment of impairment is based on the ability of the payor to make the required payments when due. Interest income is not recorded when a loan becomes impaired.

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Notes to Consolidated Financial Statements

Prior to 2008, advances were made to U.S. S.I.R. L.L.C. and its subsidiaries to facilitate ongoing operations and the closure of certain restaurant operations. The Company has determined that these advances are impaired based on estimated future cash flows of the remaining U.S. operations. Accordingly, the loan and advances receivable are written down to their net realizable value of \$887,000 (August 26, 2007 - \$757,000).

A continuity of the loans and advances to U.S. S.I.R. L.L.C. and subsidiaries, in thousands of dollars, is as follows:

	Loans and advances to U.S. S.I.R. L.L.C. and subsidiaries \$
Balance – August 27, 2006	580
Net advances and receivables	277
Provision for impairment	<u>(100)</u>
Balance – August 26, 2007	757
Payment received	(180)
Foreign exchange	(40)
Recovery of impairment	<u>350</u>
Balance – August 31, 2008	<u>887</u>

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Notes to Consolidated Financial Statements

7 Property and equipment

	August 31, 2008		
	\$		
	Cost	Accumulated amortization	Net
	(in thousands of dollars)		
Corporate			
Furniture, fixtures and equipment	522	389	133
Leasehold improvements	237	191	46
Computer equipment and software	1,977	1,617	360
Restaurants			
Land	1,238	-	1,238
Buildings	1,713	646	1,067
Furniture, fixtures and equipment	33,602	13,777	19,825
Leasehold improvements	50,918	20,572	30,346
	90,207	37,192	53,015
			August 26, 2007
			\$
	Cost	Accumulated amortization	Net
	(in thousands of dollars)		
Corporate			
Furniture, fixtures and equipment	382	371	11
Leasehold improvements	226	167	59
Computer equipment and software	1,824	1,499	325
Restaurants			
Land	1,213	-	1,213
Buildings	1,712	559	1,153
Furniture, fixtures and equipment	28,098	11,744	16,354
Leasehold improvements	39,250	16,511	22,739
	72,705	30,851	41,854

Amortization of property and equipment charged to the consolidated statements of operations for the 53-week period ended August 31, 2008 was \$7,823,000 (52-week period ended August 26, 2007 - \$6,984,000).

Property and equipment includes \$2,672,000 (August 26, 2007 - \$1,964,000) of costs for restaurants under development which are not being amortized as at August 31, 2008.

Property and equipment includes computer equipment held under capital leases with a cost of \$1,105,000 (2007 - \$459,000) and net book value of \$895,000 (2007 - \$452,000).

SIR Corp.

Notes to Consolidated Financial Statements

As a result of a decline in sales and earnings from certain restaurants, the Company conducted an impairment analysis of these restaurants' long-lived assets. The analysis indicated that the estimated future cash flow for one restaurant, in the Canyon Creek operating segment was not sufficient to recover the carrying value of the restaurant's long-lived assets (property and equipment and pre-opening costs) and, accordingly, an impairment loss of \$98,000 was recorded to write down leasehold improvements to their fair values. The fair values were determined using a depreciated replacement cost methodology.

8 Goodwill

	\$ (in thousands of dollars)
Balance – August 27, 2006 and August 26, 2007	5,736
Goodwill arising upon acquisition of non-controlling interest (note 5)	166
Provision for impairment	<u>(277)</u>
Balance – August 31, 2008	<u>5,625</u>

The Company recognized an impairment of goodwill of \$277,000 (2007 - \$Nil) relating to two restaurants in the following segments:

	\$ (in thousands of dollars)
Jack Astor's (Canada)	111
Jack Astor's (United States)	<u>166</u>
	<u>277</u>

The impairments are a result of declining sales and earnings of these restaurants.

SIR Corp.

Notes to Consolidated Financial Statements

9 Intangible and other assets

	August 31, 2008		
	\$		
	Cost	Accumulated amortization	Net
	(in thousands of dollars)		
Restaurant pre-opening costs	4,590	1,382	3,208
Intangible lease assets	1,278	706	572
	5,868	2,088	3,780
	August 26, 2007		
	\$		
	Cost	Accumulated amortization	Net
	(in thousands of dollars)		
Restaurant pre-opening costs	4,984	3,051	1,933
Intangible lease assets	1,779	1,072	707
Deferred financing fees	5,689	351	5,338
	12,452	4,474	7,978

Restaurant pre-opening costs include \$166,000 (2007 - \$100,000) of costs which are not being amortized at August 31, 2008 because the pre-operating period has not been completed.

The Company recognized an impairment of restaurant pre-opening costs of \$127,000 in one restaurant in the Canyon Creek operating segment. The impairment is a result of an analysis indicating that the estimated future cash flow for this restaurant was not sufficient to recover the carrying value of the restaurant's long-lived assets (property and equipment and pre-opening costs). As a result, the carrying value has been written down to its estimated fair value of nil.

Due to a change in accounting policy (see note 3) effective August 27, 2007, deferred financing fees are recognized as an offset to the carrying value of the long-term debt and SIR Loan (see notes 10 and 11(a)).

SIR Corp.

Notes to Consolidated Financial Statements

A summary of the allocation of the amortization of intangible and other assets charged to the consolidated statements of operations:

	August 31, 2008	August 26, 2007
	\$	\$
	(in thousands of dollars)	
Amortization expense	817	601
Interest expense	-	128
	<hr/>	<hr/>
	817	729
	<hr/>	<hr/>

10 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 August 31, 2008 is \$1,090,000 and \$3,960,000, respectively (August 26, 2007 - \$ 1,677,000 and \$13,000,000). As at August 31, 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. The Company amortizes this cost over the expected life of the long-term debt using the effective interest rate method. Amortization of deferred financing fees of \$4,000 (2007 - \$7,000) has been charged to interest expense in the consolidated statements of operations.

SIR Corp.

Notes to Consolidated Financial Statements

A summary of the composition of long-term debt is as follows:

	August 31, 2008	August 26, 2007
	\$	\$
	(in thousands of dollars)	
Construction line	8,194	-
Loan payable (US\$1,362,000; 2007 – US\$1,483,000), bearing interest at 9.01%, due February 1, 2016, repayable in monthly blended instalments of principal and interest of \$22,000 (US\$21,000) (a)	1,447	1,585
Loan payable (US\$Nil; 2007 – US\$31,000), bearing interest at 8.3%, due February 1, 2008, repayable in monthly blended instalments of principal and interest of \$6,000 (US\$5,000)	-	33
Loans payable to landlords, non-interest bearing, repayable in monthly instalments, maturing between May 31, 2009 and June 22, 2010	45	79
Capital lease obligation, bearing interest between 9.8% and 10.8%, repayable in monthly instalments, maturing between June 15, 2010 and February 1, 2011	824	412
	<hr/>	<hr/>
	10,510	2,109
Current portion	(1,733)	(1,759)
	<hr/>	<hr/>
	8,777	350
	<hr/>	<hr/>

- (a) This loan was entered into by Jack Astors Cary, LLC, a subsidiary of Jack Astor's (Cary & Las Colinas) Limited, in fiscal 2001 and is guaranteed by the Company. This loan 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 secured by the assets of Jack Astor's (Cary & Las Colinas) Limited and a pledge of the shares in Jack Astor's (Cary & Las Colinas) Limited.

SIR Corp.

Notes to Consolidated Financial Statements

The principal amount of loans payable, in thousands of dollars, is repayable as follows:

	\$
2009	428
2010	472
2011	407
2012	213
2013	203
Thereafter	<u>593</u>
	<u>2,316</u>

Repayments relating to the construction facility are not included in the above table. The Company intends to convert the construction facility to a five year term loan in accordance with the terms of the credit facility. The Company will be required to repay the principal amount (determined at the date of conversion to a term loan) in sixty equal monthly instalments following the conversion. Accordingly, the amount and timing of the payments under the construction facility are not known.

A summary of the effective interest rate on long-term debt and interest expense, in thousands of dollars, is as follows:

	August 31, 2008	August 26, 2007
	\$	\$
Weighted average interest rate on long-term debt	5.8%	10.0%
Interest expense relating to long-term debt	390	185
Interest expense on capital lease obligation	61	11

SIR Corp.

Notes to Consolidated Financial Statements

11 SIR Royalty Income Fund

(a) Loan payable to SIR Royalty Income Fund (SIR Loan)

The \$40,000,000 SIR Loan bears interest at 7.5% per annum and is due October 12, 2044. On August 9, 2007, the Fund entered into an agreement to subordinate and postpone its claims against the Company in favour of the bank. The Partnership and the Fund have not guaranteed this credit facility (note 10).

The bank debt is “permitted indebtedness” within the meaning of the agreements between the Fund, the Partnership and the Company, and as a result the Fund and the Partnership have, as contemplated in the existing agreements, subordinated and postponed their claims against the Company to the claims of the bank. This subordination, which includes a subordination of the Partnership’s rights under the License and Royalty Agreement between the Partnership and the Company whereby the Partnership licenses to the Company the right to use the trademarks and related intellectual property in return for royalty payments based on revenues, has been effected pursuant to the terms of an Interlender Agreement.

Under the Interlender Agreement, absent a default or event of default under the Credit Agreement, ordinary payments to the Partnership and the Fund can continue and the Partnership can exercise any and all of its rights to preserve the trademarks and related intellectual property governed by the License and Royalty Agreement. However, if a default or an event of default were to occur, then payments to the Fund and the Partnership could cease and the related rights of the Fund and the Partnership could be subject to a “standstill” obligation for a period of up to 120 days (which may be extended if the bank is pursuing remedies). The Interlender Agreement also contains various other typical covenants of the Fund and the Partnership.

Interest expense charged to the consolidated statements of operations for the 53-week period ended August 31, 2008 was \$3,049,000 (52-week period ended August 26, 2007 - \$2,992,000).

The Company has the right to require the Fund to, indirectly, purchase its 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 finance fees and netted these against the SIR Loan. The Company amortizes this cost over the term of the SIR Loan using the effective interest method. Amortization of deferred financing fees of \$19,000 (2007 - \$121,000) has been charged to interest expense in the consolidated statement of earnings.

SIR Corp.

Notes to Consolidated Financial Statements

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

	53-week period ended August 31, 2008 \$	52-week period ended August 26, 2007 \$
	(in thousands of dollars)	
Initial investment by the Fund	11,167	11,167
Non-controlling interest in earnings of the Partnership	5,078	4,499
Distributions declared on the Partnership units held by the non-controlling interest	(5,078)	(4,499)
	<hr/>	<hr/>
Non-controlling interest in the Partnership	11,167	11,167
	<hr/>	<hr/>
Pooled revenue *	175,147	158,138
	<hr/>	<hr/>
Partnership royalty income *	10,539	9,549
Other income	63	54
Partnership expenses	(107)	(129)
	<hr/>	<hr/>
Net earnings of the Partnership	10,495	9,474
The Company's interest in the earnings of the Partnership	(5,417)	(4,975)
	<hr/>	<hr/>
Non-controlling interest in the earnings of the Partnership	5,078	4,499

*Includes revenue from the SIR Restaurants subject to the License and Royalty Agreement. The Partnership owns the SIR Rights formerly owned or licensed by the Company or its subsidiaries and used in connection with the operation of the majority of the Company's restaurants in Canada. Partnership royalty income is 6% of Pooled Revenue in accordance with the License and Royalty Agreement, plus a Make-Whole Payment for the closed restaurants, from the date of closure to December 31 of the year closed.

On October 12, 2004, the Partnership issued Ordinary LP and GP Units to the Fund for cash 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 initial 595,185 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. In 2004, the Partnership 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").

SIR Corp.

Notes to Consolidated Financial Statements

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 Payment in respect of a closed restaurant following the date on which the number of restaurants in the Royalty pool is equal to or greater than 68 or following October 12, 2019, whichever occurs first. On January 1 of each year (the "Adjustment Date"), the restaurants subject to the License and Royalty Agreement are adjusted for new SIR Restaurants opened for at least 60 days preceding such Adjustment Date. At each Adjustment Date, 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 the formula defined in the Partnership Agreement. Additional Class B GP Units may be converted to Class A GP Units in respect of these new SIR Restaurants if actual revenues of the new SIR Restaurants 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 (January 1, 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 new restaurants on January 1, 2008 (January 1, 2007 – three), as well as the Second Incremental Adjustment for the three new SIR restaurants added to the Royalty Pooled Restaurants on January 1, 2007 (January 1, 2006 – two), 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.

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 (January 1, 2007 - \$231,000) was declared and paid in January 2008.

SIR Corp.

Notes to Consolidated Financial Statements

(c) Amounts due to SIR Royalty Income Fund

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

	August 31, 2008	August 26, 2007
	\$	\$
	(in thousands of dollars)	
Advances receivable	(1,573)	(1,047)
Interest payable on SIR Loan (note 11(a))	283	483
Partnership distributions payable (note 11(b))	2,814	1,824
	<hr/>	<hr/>
Payable to SIR Royalty Income Fund and its subsidiaries – net	1,524	1,260

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

During the 53-week period ended August 31, 2008, distributions of \$5,078,000 (52-week period ended August 26, 2007 - \$4,499,000) 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.

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 53-week period ended August 31, 2008, the Partnership provided these services to the Fund and the Trust for consideration of \$24,000 (52-week period ended August 26, 2007 - \$24,000), which was the amount of consideration agreed to by the related parties.

SIR Corp.

Notes to Consolidated Financial Statements

12 Other long-term liabilities

	August 31, 2008	August 26, 2007
	\$	\$
	(in thousands of dollars)	
Supplier rebates	542	300
Leasehold inducements and straight-line rent liability	6,331	5,061
Accrued management bonus (a)	4,402	3,477
Asset retirement obligation (b)	334	314
	<hr/>	<hr/>
	11,609	9,152
Current portion	(1,499)	(1,067)
	<hr/>	<hr/>
	10,110	8,085
	<hr/>	<hr/>

- (a) The Company has a management bonus program that provides restaurant managers and area directors with the opportunity to earn a bonus based on the cash flow of the restaurant(s). The percentage of cash flow earned depends on the manager's and area director's years of service and ranges from 0% to 10%. The managers and area directors also have the opportunity to earn a bonus upon leaving the organization if he/she has at least five years of service. This bonus is based on the value of the restaurant(s) at that time, using cash flows over a three-year period and a percentage that ranges from 2% to 10%. Upon leaving the plan, the participant's bonus is paid in three instalments over a two-year period.
- (b) The Company has recorded an asset retirement obligation in respect of the estimated lease-end remediation costs. The asset retirement obligation was estimated based on a discounted cash flow analysis using the following key assumptions:

	August 31, 2008	August 26, 2007
	\$	\$
Total undiscounted estimated cash flows, in thousands of dollars	\$622	\$607
Expected timing of repayments	0.6 years to 13.8 years	1.3 years to 14.6 years
Discount rate	7.5%	7.5%

SIR Corp.

Notes to Consolidated Financial Statements

13 Capital stock

Capital stock

Authorized
Unlimited number of common shares

Issued and outstanding

	<u>August 31, 2008</u>		<u>August 26, 2007</u>	
	<u>Number of shares</u> (in thousands)	<u>\$</u>	<u>Number of shares</u> (in thousands)	<u>\$</u>
Common shares				
Balance – Beginning of period	15,775	17,627	15,775	17,649
Issued on exercise of stock options	20	-	20	-
Repurchased	(20)	(22)	(20)	(22)
Balance – End of period	<u>15,775</u>	<u>17,605</u>	<u>15,775</u>	<u>17,627</u>

During 2008, 20,000 (2007 – 20,000) stock options were exercised for no consideration. The Company immediately repurchased 20,000 (2007 – 20,000) shares of the Company for total cash consideration of \$58,000 (2007 - \$41,000). Of this amount, \$22,000 (2007 - \$22,000) was charged to capital stock and \$36,000 (2007 - \$18,000) was charged to deficit.

Stock option plan

A summary of the status of the Company's stock option plan as at August 31, 2008 and August 26, 2007 and changes during the periods is presented below:

	Number of options outstanding	Weighted average exercise price per share \$
Balance – August 27, 2006	2,221,450	0.03
Exercised during 2007	(20,000)	-
Balance – August 26, 2007	2,201,450	0.03
Exercised during 2008	(20,000)	-
Balance – August 31, 2008	<u>2,181,450</u>	<u>0.03</u>

SIR Corp.

Notes to Consolidated Financial Statements

As at August 31, 2008, the outstanding and exercisable options to purchase common shares are as follows:

Option price range	Options outstanding			Options exercisable	
	Number outstanding	Weighted average remaining life (years)	Weighted average exercise price \$	Number exercisable	Weighted average exercise price \$
\$Nil (a)	34,000	-	Nil	34,000	Nil
\$0.01 (b)	2,112,450	12.5	0.01	2,112,450	0.01
\$1.00 (U.S.) (c)	<u>35,000</u>	-	1.00 (U.S.)	<u>35,000</u>	1.00 (U.S.)
	<u>2,181,450</u>			<u>2,181,450</u>	

As at August 26, 2007, the outstanding and exercisable options to purchase common shares are as follows:

Option price range	Options outstanding			Options exercisable	
	Number outstanding	Weighted average remaining life (years)	Weighted average exercise price \$	Number exercisable	Weighted average exercise price \$
\$Nil (a)	54,000	-	Nil	54,000	Nil
\$0.01 (b)	2,112,450	13.5	0.01	2,112,450	0.01
\$1.00 (U.S.) (c)	<u>35,000</u>	-	1.00 (U.S.)	<u>35,000</u>	1.00 (U.S.)
	<u>2,201,450</u>			<u>2,201,450</u>	

- (a) These options have all vested. Upon death, permanent disability or resignation of employment with the Company, the Company retains the right to purchase the employee's remaining interest at a negotiated price which shall be paid over three years. These options do not expire.
- (b) The options vested at the date of grant and expire on the twentieth anniversary after the date of grant.
- (c) The options vest at the fourth anniversary after the date of grant. In the event of death, disability or resignation or replacement as a director, the Company retains the right to purchase the optionee's remaining interest at a negotiated price which shall be paid over three years. These options do not expire.

SIR Corp.

Notes to Consolidated Financial Statements

14 Related party transactions

In addition to the transactions disclosed elsewhere in these consolidated financial statements, the Company entered into the following related party transactions:

	August 31, 2008 \$	August 26, 2007 \$
	(in thousands of dollars)	
Corporate costs		
Paid operational services provided by two shareholders (2007 – three) of the Company	496	835
Paid rent for its head office premises to certain shareholders of the Company (directly or indirectly)	160	205
Paid consulting fees indirectly to one of the Company's directors	-	8
Paid consulting fees to one shareholder of the Company	24	48
Direct costs of restaurant operations		
Paid consulting fees indirectly to one of the Company's directors	135	148
Property and equipment		
Paid design fees provided by one shareholder of the Company	488	48

The above 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.

The Company has a lease commitment related to its head office premises that expires on December 31, 2010. The head office premise was owned by certain shareholders of the Company. However, on July 4, 2008, this leased premise was sold and therefore rental payments ceased to be a related party transaction effective that date.

During 2005, the Company advanced \$1,959,000 to four shareholders of the Company to facilitate the exercise of stock options held by these shareholders with other shareholders of the Company. The loans bore interest at prime plus 1%, with principal and interest due February 16, 2007. As at August 26, 2007, all loan amounts were repaid. This transaction has not had any impact on the outstanding common stock or options of the Company.

Interest income related to the loans receivable for the 53-week period ended August 31, 2008 was \$Nil (52-week period ended August 26, 2007 - \$22,000). Interest received during the 53-week period ended August 31, 2008 was \$Nil (52-week period ended August 26, 2007 - \$81,000).

SIR Corp.

Notes to Consolidated Financial Statements

15 Contingencies and commitments

In the normal course of business the Company is threatened from time to time with, or named as a defendant in, legal proceedings, including those relating to wrongful dismissal or personal injury. Many claims are covered by the Company's insurance policies and none of the current claims are expected to have a material adverse effect on the Company.

The Company and its subsidiaries have entered into operating leases relating to its head office and retail locations with minimum annual payments (excluding occupancy cost and percentage rent) as follows:

	August 31, 2008
	\$
	(in thousands of dollars)
2009	10,519
2010	10,249
2011	9,305
2012	9,788
2013	9,653
Thereafter	<u>47,347</u>
	<u>96,861</u>

As at August 31, 2008, the Company has five commitments to lease properties and it has completed the construction of two restaurants subsequent to year end and plans to build three new restaurants. The Company is committed to fulfilling its purchase obligations for the two completed restaurants and expects to spend an additional \$2.3 million to complete these restaurants. At the current date, the Company has not entered into any construction contracts for the three remaining restaurants to be built, but expects to in the future. Final costs of construction are subject to uncertainties as to their amounts and timing. Such things as finalization of design and final construction quotes could change the total cost of these projects.

SIR Corp.

Notes to Consolidated Financial Statements

16 Supplemental cash flow information

The net change in working capital items is as follows:

	August 31, 2008	August 26, 2007
	\$	\$
	(in thousands of dollars)	
Accounts receivable and other receivables	(386)	698
Inventories	(573)	(153)
Prepays, deposits and other assets	189	(143)
Accounts payable and accrued liabilities	442	1,424
Due to related parties	264	175
Accrued management bonus	925	101
	<hr/>	<hr/>
	861	2,102
	<hr/>	<hr/>

Other non-cash items consist of the following:

	August 31, 2008	August 26, 2007
	\$	\$
	(in thousands of dollars)	
Loss on disposal of property and equipment	167	391
Straight-line rent expense	251	153
Supplier rebates	(260)	(112)
Other	11	(52)
	<hr/>	<hr/>
	169	380
	<hr/>	<hr/>

Supplemental information in respect of the consolidated statements of cash flows has been provided as follows:

	August 31, 2008	August 26, 2007
	\$	\$
	(in thousands of dollars)	
Interest paid	<hr/>	<hr/>
	3,591	3,134
Rent paid	<hr/>	<hr/>
	9,300	8,599
Income taxes paid	<hr/>	<hr/>
	7	134
Purchases of property and equipment under capital leases	<hr/>	<hr/>
	605	459
Receivable for leasehold inducement	<hr/>	<hr/>
	773	499

SIR Corp.

Notes to Consolidated Financial Statements

17 Income taxes

The components of the provision for income taxes are as follows:

	August 31, 2008	August 26, 2007
	\$	\$
	(in thousands of dollars)	
Current	6	5
Future	9	6
	<hr/>	<hr/>
	15	11
	<hr/>	<hr/>

A reconciliation of the Company's effective tax rate to the combined federal and provincial income tax rate is provided as follows:

	August 31, 2008	August 26, 2007
	\$	\$
	(in thousands of dollars)	
Loss before income taxes, loss from equity accounted investment and non-controlling interest in other subsidiary companies	<hr/>	<hr/>
	(2,453)	(4,425)
Income tax recovery at Canadian statutory rate of 34.4% (August 26, 2007 – 34.0%)	(843)	(1,505)
Increased (decreased) by the effect of		
Non-controlling interest in SIR Royalty Limited Partnership	1,745	1,530
Non-deductible expenses	118	33
Deductible expenses	(1,433)	(1,067)
Differences in effective tax rates	46	(55)
Change in valuation allowance	75	1,026
Change in future tax rates	310	-
Non-taxable foreign exchange	(5)	30
Other	2	19
	<hr/>	<hr/>
	15	11
	<hr/>	<hr/>

SIR Corp.

Notes to Consolidated Financial Statements

Future income tax assets (liabilities) are summarized as follows:

	August 31, 2008	August 26, 2007
	\$	\$
	(in thousands of dollars)	
Property and equipment	(1,758)	(2,896)
Intangible and other assets	(2,306)	(1,713)
Loss carry-forwards	8,586	9,022
Accrued management bonus	1,278	1,114
Leasehold inducements	1,824	1,638
Asset retirement obligation	97	101
	<hr/>	<hr/>
	7,721	7,266
Valuation allowance	(7,730)	(7,266)
	<hr/>	<hr/>
	(9)	-
	<hr/>	<hr/>

As at August 31, 2008, the Company and its subsidiaries have available non-capital losses of \$23,367,000 (August 26, 2007 - \$22,835,000) for income tax purposes, which expire as follows:

	August 31, 2008	
	\$	
	(in thousands of dollars)	
2009	1,273	
2010	1,456	
2011	1,768	
2015	8,780	
2016	2,762	
2017	1,497	
2018	3,330	
2024	1,109	
2025	328	
2026	687	
2027	377	
	<hr/>	
	23,367	
	<hr/>	

In aggregate, the Company has recognized \$865,000 (August 26, 2007 - \$1,756,000) of the benefit of the non-capital losses and \$Nil (2007 - \$Nil) of capital losses. The benefits of non-capital losses have been recognized to the extent that these can be offset by other future income tax liabilities.

SIR Corp.

Notes to Consolidated Financial Statements

18 Other income (expense)

The composition of other income (expense) is as follows:

	August 31, 2008	August 26, 2007
	\$	\$
	(in thousands of dollars)	
Loss on disposal of property and equipment	(167)	(391)
Gift certificates	215	115
Other	93	121
	<u>141</u>	<u>(155)</u>

19 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 significant accounting policies. 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:

	August 31, 2008	August 26, 2007
	\$	\$
	(in thousands of dollars)	
Food and beverage revenue		
Canada		
Jack Astor's	117,493	99,959
Alice Fazooli's	20,784	19,424
Canyon Creek Chop House	29,233	26,509
Signature	18,072	18,924
	<u>185,582</u>	<u>164,816</u>
United States		
Jack Astor's	2,783	2,397
	<u>188,365</u>	<u>167,213</u>

20 Comparative figures

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