



SIR CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FIRST QUARTER FISCAL 2007

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**12-WEEK PERIODS ENDED
NOVEMBER 19, 2006 AND NOVEMBER 20, 2005**

The unaudited interim consolidated financial statements of SIR Corp. for the 12-week periods ended November 19, 2006 and November 20, 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 first quarter results have not been reviewed by SIR Corp.'s external auditors.

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FOR 12-WEEK PERIOD ENDED NOVEMBER 19, 2006

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FOR THE 12-WEEK PERIOD ENDED NOVEMBER 19, 2006

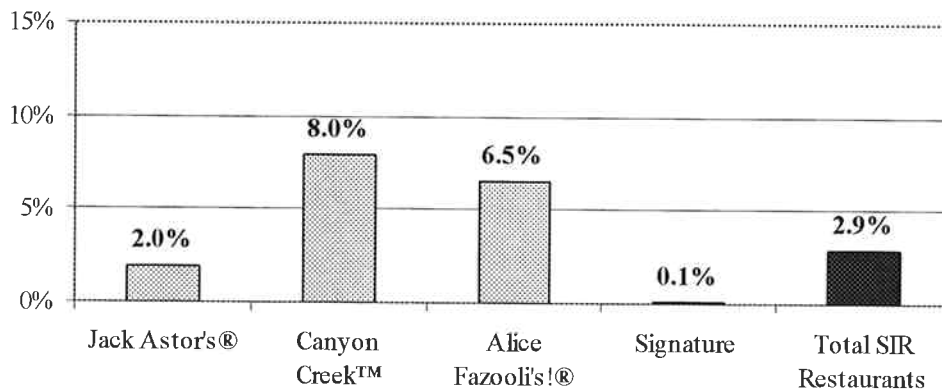
Executive Summary

SIR Corp.'s ("SIR") first quarter of fiscal 2007 ("Q1") was from August 28, 2006 to November 19, 2006 inclusive. During Q1, SIR continued with its growth strategy and continued to experience total and same stores sales growth⁽¹⁾ ("SSSG"). Same stores sales⁽¹⁾ ("SSS") and same store sales growth⁽¹⁾ are non-GAAP measures. Please refer to the reconciliation of consolidated revenue to same store sales on page 8 and to the definition of same stores sales in the Revenue section on page 9.

Highlights for SIR's first quarter include:

- **Growth in both consolidated revenue and same store sales⁽¹⁾ (unaudited):**
 - Corporate restaurant operations' food and beverage revenue from corporate restaurant operations for the quarter was \$36.4 million. This represents a \$2.3 million or 6.8% increase over the prior year for the quarter.
 - SSSG⁽¹⁾ for restaurants in the Royalty pool was 2.9% for the 12-week period ended November 19, 2006, compared to the corresponding period a year ago.

Same Store Sales Growth⁽¹⁾ for the 12-week period ended November 19, 2006 vs same period in prior year



- SSSG⁽¹⁾ for the Concept Restaurants (Jack Astor's®, Canyon Creek™ and Alice Fazooli's!®), which generate approximately 87% of YTD Pooled Revenue, was 3.3% for the 12-week period ended November 19, 2006, versus the corresponding period in the prior year.
- SSSG⁽¹⁾ for Jack Astor's®, SIR's flagship Concept Restaurant brand that generates approximately 64% of YTD Pooled Revenue, was 2.0% for the 12-week period ended November 19, 2006, versus the corresponding period in the prior year.
- Canyon Creek™ continues to perform well, with SSSG⁽¹⁾ of 8.0% for the 12-week period ended November 19, 2006, versus the corresponding period in the prior year.
- For the 12-week period ended November 19, 2006, SSSG⁽¹⁾ of Alice Fazooli's!® was 6.5%, versus the corresponding period in the prior year.
- SSSG⁽¹⁾ of the downtown Toronto Signature Restaurants, which represent approximately 13% of YTD Pooled Revenue, was essentially flat for the 12-week period ended November 19, 2006, versus the corresponding period in the prior year.

⁽¹⁾ Same store sales includes revenue from all SIR restaurants except for Canyon Creek™ in Scarborough, Canyon Creek™ in Vaughan and the Canyon Creek™ located at the Fallsview Casino Resort in Niagara Falls, Ontario because they were not open for the entire comparable period in fiscal 2006 (USA restaurants are not part of SIR restaurants). SSS also excludes revenue for the Jack Astor's® in Don Mills because it was closed during fiscal 2006. Same store sales growth is the percentage increase in SSS over the prior comparable period.

- **Investment in existing restaurants**
 - To date, all but one existing Jack Astor's® restaurant originally in the Royalty pool has undergone the evolution process. Average revenue increases in these evolved Jack Astor's® restaurants have been in excess of 10% in the year of evolution and average in excess of 4% over and above their first-year increases for restaurants now in their second year following evolution. The velocity of the Jack Astor's SSSG⁽¹⁾ slowed somewhat in Q4 of fiscal 2006 and Q1 of fiscal 2007 as 47% of the evolved locations are now in their second year following the evolution and another 21% are in their third year following the evolution.
 - The fifth of five Alice Fazooli's!® restaurants was renovated in October 2006. Average revenue increases in the first full year after each renovation has been in excess of 10%.
 - A major renovation of reds® was completed in Q1 of fiscal 2007. Management is pleased with the results of the renovations at reds®.
 - Continued Jack Astor's® advertising programs with a leading marketing firm.
- **Investment in new restaurants**
 - A new Canyon Creek™ restaurant opened at the Fallsview Casino Resort in Niagara Falls, Ontario during Q1, on August 28, 2006. Two other Canyon Creek™ restaurants opened during the latter half of fiscal 2006. Each of these three restaurants is expected to be added to the Royalty Pooled Restaurants effective January 1, 2007.
 - A new Jack Astor's® in Whitby, Ontario opened during Q1 of fiscal 2006, 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.
 - SIR has secured two additional sites for Jack Astor's® restaurants which are planned to open in fiscal 2007.
- **Closed restaurant**
 - During Q4 of fiscal 2006, the Jack Astor's® in Don Mills, Ontario was closed. This location has been demolished by the landlord and is to be redeveloped into a major "lifestyle mall". It is expected that this project will be completed in the second half of 2008 and a new Jack Astor's® would open in this location at that time. Revenue from this restaurant has been excluded from SSS⁽¹⁾.
- **Loss from Continuing Operations**
 - The loss from continuing operations for Q1 of \$2.2 million was \$0.3 million unfavourable to the same period in the prior year.
- **EBITDA⁽²⁾**
 - EBITDA⁽²⁾ is a non-GAAP measure. Please refer to the reconciliation of loss from continuing operations to EBITDA⁽²⁾ on page 7 of this document.
 - EBITDA⁽²⁾ for the first quarter of \$1.6 million was \$0.1 million unfavourable to the prior year.
- **Discontinued Operation**
 - During the second quarter of fiscal 2006, 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's results have been reclassified as a discontinued operation for Q1 of fiscal 2006. This restaurant is not part of the Royalty pool and therefore, its closure has no effect on Pooled Revenue (see Discontinued Operation).

⁽¹⁾ See footnote (1) on page 3

⁽²⁾ References to EBITDA are to SIR's net loss from continuing operations before non-controlling interest in other subsidiary companies, provision for (recovery of) income taxes, other expense (income), provisions for impairment of investments and loans receivable, long-lived assets and goodwill, interest expense-net, unrealized foreign exchange (gain) loss, interest on loan payable to SIR Royalty Income Fund, non-controlling interest in SIR Royalty Limited Partnership, other amortization and amortization of restaurant assets. Management believes that, in addition to net earnings or loss, EBITDA is a useful supplemental measure in evaluating SIR's performance. EBITDA is 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 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 may differ from the methods used by other issuers. Therefore, SIR's EBITDA may not be comparable to similar measures presented by other issuers.

- **Outlook**

- Following the successful launch of the SIR Royalty Income Fund (the "Fund"), in fiscal 2005, SIR began a sales building initiative by investing in new and existing restaurants. It began in fiscal 2005 with 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 fiscal 2006 with the opening of a Jack Astor's® in Whitby, Ontario, the opening of two new Canyon Creek™ locations in Scarborough and Vaughan, Ontario, six more Jack Astor's® evolutions, an Alice Fazooli's!® renovation and a major renovation of Far Niente®. The Jack Astor's® evolution program started in 2004 and now only 1 of the Jack Astor's® currently operating remains to be evolved. The Jack Astor's® location in the U.S. was evolved in Q4 of fiscal 2006. During Q1 of fiscal 2007, the fifth of the five Alice Fazooli's® locations and reds® was renovated. In addition, a new Canyon Creek™ opened in Q1, on August 28, 2006, in a prime location at the Fallsview Casino Resort in Niagara Falls, Ontario. 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.
- On October 31, 2006, the Federal Department of Finance announced a "Tax Fairness Plan" that proposes changes to the manner in which distributions from publicly listed flow-through entities ("FTE's") including income funds are taxed. The Trustees of the Fund and senior management of SIR will continue to monitor this development.

Overview

SIR is a private company amalgamated under the Business Corporations Act of Ontario. As at November 19, 2006, SIR operates 38 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®. For the 12-week period ended November 19, 2006, 36 SIR Restaurants were 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 added to the Royalty Pooled Restaurants on January 1, 2006. Three new Canyon Creek™ restaurants have been opened, during calendar year 2006: one in Scarborough, Ontario, one in Vaughan, Ontario, and one at a location located at the Fallsview Casino Resort in Niagara Falls, Ontario. These three Canyon Creek™ locations are expected to be added to the Royalty Pooled Restaurants in January 2007. SIR owns 100% of all its Canadian restaurants, except for Jack Astor's® Don Mills Limited (50%). SIR closed the Jack Astor's® location in Don Mills, Ontario during fiscal 2006, on May 27, 2006. 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 were sold on February 10, 2006 (see Discontinued Operation).

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.

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-week period ended November 19, 2006 and November 20, 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 consolidated financial statements of SIR, including the notes thereto, for the 12-week period ended November 19, 2006.

Selected Consolidated Financial Information

Statements of Operations	12-Week	12-Week
	Period Ended	Period Ended
	November 19, 2006	November 20, 2005**
	(in thousands of dollars)	
	(unaudited)	(unaudited)
Corporate restaurant operations:		
Food and beverage revenue	36,413	34,083
Cost of corporate restaurant operations	33,868	31,447
Earnings from corporate restaurant operations	2,545	2,636
Loss from continuing operations	(2,204)	(1,922)
Net loss for the period	(2,243)	(2,032)

Balance Sheet	November 19,	August 27,
	2006	2006
	(in thousands of dollars)	
	(unaudited)	
Total assets	64,215	67,241
Total long-term liabilities	57,974	57,724

** Prior period balances reflect the reclassification of the discontinued operation (see Discontinued Operation).