



## **SIR CORP.**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

#### **SECOND QUARTER FISCAL 2007**

#### **UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**12 AND 24-WEEK PERIODS ENDED  
FEBRUARY 11, 2007 AND FEBRUARY 12, 2006**

*The unaudited interim consolidated financial statements of SIR Corp. for the 12 and 24-week periods ended February 11, 2007 and February 12, 2006 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 results have not been reviewed by SIR Corp.'s external auditors.*

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**FOR 12 AND 24-WEEK PERIODS ENDED FEBRUARY 11, 2007 AND FEBRUARY 12, 2006**

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FOR THE 12 AND 24-WEEK PERIODS ENDED FEBRUARY 11, 2007 AND FEBRUARY 12, 2006

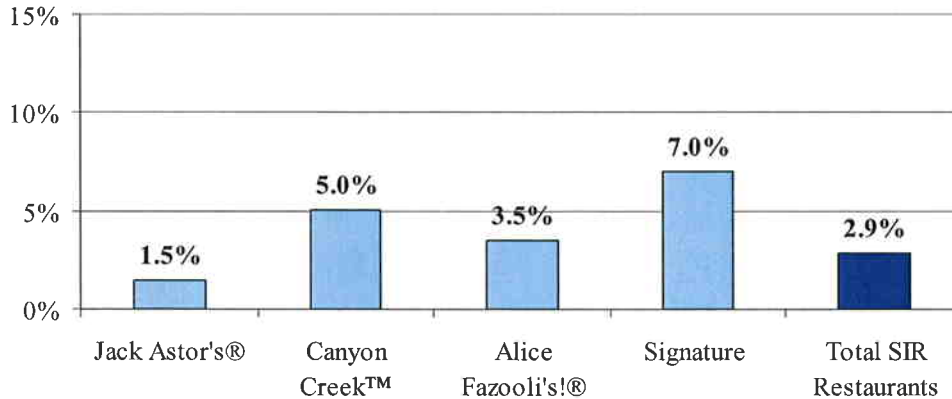
**Executive Summary**

SIR Corp.'s ("SIR") second quarter of fiscal 2007 ("Q2") was from November 20, 2006 to February 11, 2007 inclusive. During Q2, SIR continued with its growth strategy and continued to experience total and same store sales growth<sup>(1)</sup> ("SSSG"). Same store sales<sup>(1)</sup> ("SSS") and same store sales growth<sup>(1)</sup> are non-GAAP measures. Please refer to the reconciliation of consolidated revenue to same store sales<sup>(1)</sup> on page 8 and to the definition of same stores sales<sup>(1)</sup> in the Revenue section on page 9.

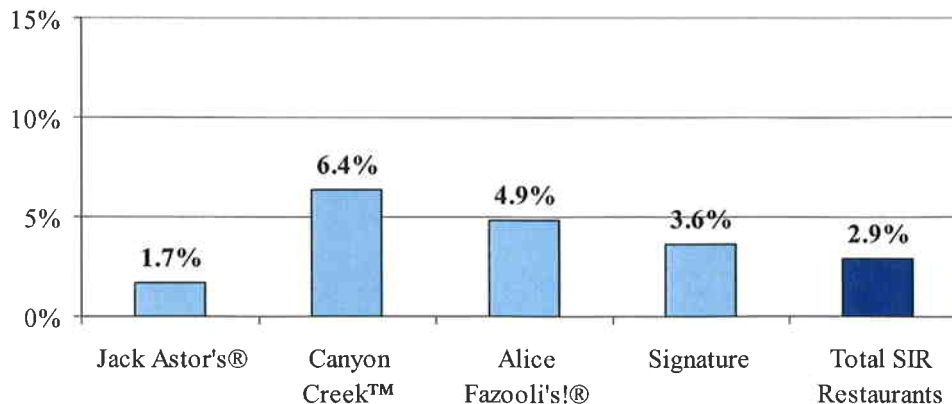
Highlights for SIR's second quarter include:

- **Growth in both consolidated revenue and same store sales<sup>(1)</sup> (unaudited):**
  - Corporate restaurant operations' food and beverage revenue from corporate restaurant operations for the second quarter was \$38.4 million. This represents a \$2.6 million or 7.2% increase over the prior year for the quarter.
  - SSSG<sup>(1)</sup> for restaurants in the Royalty pool was 2.9% for both the 12 and 24-week periods ended February 11, 2007, compared to the corresponding period a year ago.

**Same Store Sales Growth<sup>(1)</sup> for the 12-week period ended February 11, 2007 vs same period in prior year**



**Same Store Sales Growth<sup>(1)</sup> for the 24-week period ended February 11, 2007 vs same period in prior year**



<sup>(1)</sup> 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.

- SSSG<sup>(1)</sup> for the Concept Restaurants (Jack Astor's®, Canyon Creek™ and Alice Fazooli's!®), which generate approximately 87% of YTD Pooled Revenue, was 2.3% and 2.8% for the 12 and 24-week periods ended February 11, 2007, respectively, versus the corresponding periods in the prior year.
  - SSSG<sup>(1)</sup> for Jack Astor's®, SIR's flagship Concept Restaurant brand that generates approximately 62% of YTD Pooled Revenue, was 1.5% and 1.7% for the 12 and 24-week periods ended February 11, 2007 respectively, versus the corresponding periods in the prior year.
  - Canyon Creek™ continues to perform well, with SSSG<sup>(1)</sup> of 5.0% and 6.4% for the 12 and 24-week periods ended February 11, 2007, respectively, versus the corresponding periods in the prior year.
  - For the 12 and 24-week periods ended February 11, 2007, SSSG<sup>(1)</sup> of Alice Fazooli's!® was 3.5% and 4.9% respectively, versus the corresponding periods in the prior year.
  - SSSG<sup>(1)</sup> of the downtown Toronto Signature Restaurants, which represent approximately 13% of YTD Pooled Revenue, was 7.0% and 3.6% for the 12 and 24-week periods ended February 11, 2007, respectively, versus the corresponding periods in the prior year.
- **Investment in existing restaurants**
    - To date, all but one existing Jack Astor's® restaurant originally in the Royalty pool has undergone the successful evolution process. The Jack Astor's® restaurants experienced strong SSSG<sup>(1)</sup>, averaging over 10% in the first year following the year of evolution. Now that the program is near completion and most of the evolved restaurants have been evolved for more than one year, the velocity of Jack Astor's® SSSG<sup>(1)</sup> driven by the evolutions is reduced.
    - The fifth of five Alice Fazooli's!® restaurants was renovated in October 2006. Average revenue increases in the first full year after each renovation have 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 and reds® experienced strong SSSG<sup>(1)</sup> in the second quarter.
    - Continued Jack Astor's® advertising program 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 was 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 three additional sites for Jack Astor's® restaurants. One site opened subsequent to Q2 on March 26, 2007, in Hamilton, Ontario, the second site is expected to open later in fiscal 2007 in Dartmouth, Nova Scotia and the third location, at the corner of Dundas and Yonge Streets in Toronto, Ontario, is expected to open in fiscal 2008.
  - **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<sup>(1)</sup> and effective January 1, 2007, is no longer part of the Royalty pool.
  - **Loss from Continuing Operations**
    - The loss from continuing operations for Q2 of \$0.8 million was \$0.3 million favourable to the same period in the prior year.
    - The YTD loss from continuing operations is \$3.0 million in both the current and prior period.

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<sup>(1)</sup> See footnote (1) on page 3

- **EBITDA<sup>(2)</sup>**
  - EBITDA<sup>(2)</sup> is a non-GAAP measure. Please refer to the reconciliation of loss from continuing operations to EBITDA<sup>(2)</sup> on page 7 of this document.
  - EBITDA<sup>(2)</sup> for the second quarter of \$2.6 million was \$0.1 million favourable to the prior year.
  - YTD EBITDA<sup>(2)</sup> of \$4.1 million was \$0.04 million favourable 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 unaudited consolidated financial statements. This restaurant is not part of the Royalty pool and therefore, its closure has no effect on Pooled Revenue (see Discontinued Operation).
- **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® (in addition to the four evolutions completed in fiscal 2004), the renovations of 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. Subsequent to Q2, SIR opened a new Jack Astor's® in Hamilton, Ontario on March 26, 2007. SIR is expected to open another Jack Astor's® location before the end of fiscal 2007. A third Jack Astor's® site has been secured with an expected opening in fiscal 2008. 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 plan that proposes changes to the manner in which distributions from certain publicly listed flow-through entities ("FTE's") including income funds are taxed. However, existing Income Trusts would not be subject to this proposed taxation of distributions until the 2011 taxation year so long as the Fund meets the requirements for "normal growth". On December 21, 2006, the Federal Department of Finance issued draft legislation on the proposed taxation legislation for public comment. On March 27, 2007, the Minister of Finance issued a Notice of Ways and Means Motion to implement the draft legislation. The Trustees of the Fund and senior management of SIR will continue to monitor this development.

## Overview

SIR is a private company amalgamated under the Business Corporations Act of Ontario. As at February 11, 2007, 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®. As at February 11, 2007, 38 SIR Restaurants were included in the SIR Royalty Pooled Restaurants. The three new Canyon Creek™ restaurants which opened during calendar year 2006: one in Scarborough, Ontario, one in Vaughan, Ontario, and one located at the Fallsview Casino Resort in Niagara Falls, Ontario, were just added to the Royalty Pooled Restaurants on January 1, 2007. 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. Subsequent to February 11, 2007, SIR started operating a new Jack Astor's® restaurant located in Hamilton, Ontario. 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. This restaurant ceased to be part of the Royalty Pooled Restaurants on January 1, 2007. 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).

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<sup>(2)</sup> 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 notes 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.

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