



SIR CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE 12-WEEK AND 24-WEEK PERIODS ENDED FEBRUARY 11, 2018

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FOR THE 12-WEEK AND 24-WEEK PERIODS ENDED FEBRUARY 11, 2018

Executive Summary

SIR Corp.'s ("SIR's") second quarter of Fiscal 2018 was from November 20, 2017 to February 11, 2018 inclusive. Highlights for SIR's 12-week and 24-week periods ended February 11, 2018 ("Q2 2018" and "YTD 2018", respectively) include:

Consolidated revenue and Same Store Sales⁽¹⁾ ("SSS"):

- Food and beverage revenue from corporate restaurant operations for Q2 2018 was \$66.2 million. This represents an increase of 6.1%, or \$3.8 million, compared to the second quarter of fiscal 2017 ("Q2 2017"). Food and beverage revenue from corporate restaurant operations for YTD 2018 was \$134.6 million, up 6.9% from \$125.9 million for the 24-week period ended February 12, 2017 ("YTD 2017").
- SIR reported Same Store Sales Growth ("SSSG")⁽¹⁾ of 2.3% for Q2 2018 and 3.6% for YTD 2018.
- SIR's flagship Concept Restaurant brand, Jack Astor's®, which generated approximately 72% of Pooled Revenue in Q2 2018, had SSSG⁽¹⁾ of 3.2% and 4.3% for Q2 2018 and YTD 2018, respectively. Canyon Creek® had Same Store Sales ("SSS")⁽¹⁾ percentage decline of 1.1% for Q2 2018 and SSSG⁽¹⁾ of 0.3% for YTD 2018, respectively. Scaddabush Italian Kitchen & Bar® ("Scaddabush") had SSSG⁽¹⁾ of 6.3% and 9.4% for Q2 2018 and YTD 2018, respectively. The downtown Toronto Signature Restaurants had SSS⁽¹⁾ percentage declines of 5.7% and 4.0% for Q2 2018 and YTD 2018, respectively.

Investment in new and existing restaurants and recent closed restaurants

- As part of SIR's focus on strengthening its flagship Jack Astor's brand and driving SSSG⁽¹⁾, SIR continued with its renovation program during Q2 2018 by completing renovations at the Jack Astor's locations at the entertainment complex at 10 Dundas East in downtown Toronto and the Jack Astor's location in south London, Ontario. These locations were closed for nine days and 12 days, respectively.
- During Q2 2018, on December 11, 2017, SIR opened a new Reds® restaurant at the Square One shopping centre in Mississauga, Ontario.
- During Q2 2018, on November 28, 2017, SIR opened a new Scaddabush restaurant near the Sherway Gardens shopping centre, at the location of the Canyon Creek restaurant that was permanently closed during Q1 2018, effective October 15, 2017.
- During Q1 2018, SIR completed renovations at two Jack Astor's restaurants. The locations in Dartmouth, Nova Scotia and on Richmond Row in London, Ontario were closed for nine days and six days, respectively.
- On January 1, 2018, the Scaddabush restaurants on Front Street in downtown Toronto (opened November 3, 2016), Oakville (opened April 5, 2017), and Vaughan, Ontario (opened July 5, 2017) were added to Royalty Pooled Restaurants.
- During fiscal 2017, SIR permanently closed its last two Alice Fazooli's restaurants (in Oakville and Vaughan, Ontario) and opened two new Scaddabush restaurants at these locations. These closures, along with the previous conversions of two Alice Fazooli's restaurants into Scaddabush restaurants (Mississauga and Richmond Hill, Ontario), completed SIR's program to evolve the Alice Fazooli's concept brand into its newest concept brand, Scaddabush. SIR has also opened three new Scaddabush restaurants: one at the intersection of Yonge Street and Gerrard Street in downtown Toronto; one in Scarborough, Ontario; and one on Front Street in downtown Toronto. The Scaddabush in Scarborough was added to Royalty Pooled Restaurants on January 1, 2017.
- SIR elected, per its option under the License and Royalty Agreement, to treat the closed Alice Fazooli's restaurants in Oakville and Vaughan, and the closed Canyon Creek restaurant in Etobicoke, as New Closed Restaurants and to

(1) *Same store sales ("SSS") and same store sales growth ("SSSG") are non-GAAP financial measures and do not have standardized meanings prescribed by International Financial Reporting Standards ("IFRS"). However, SIR believes that SSS and SSSG are useful measures and provide investors with an indication of the change in year-over-year sales. SIR's method of calculating SSS and SSSG may differ from those of other issuers and, accordingly, SSS and SSSG may not be comparable to measures used by other issuers. SSSG is the percentage increase in SSS over the prior comparable period. SSS includes revenue from all SIR Restaurants except for those locations that were not open for the entire comparable periods in fiscal 2018 and fiscal 2017. The seasonal Abbey's Bakehouse and Abbey's Bakehouse retail outlet are not SIR Restaurants. When a SIR Restaurant is closed, the revenue for the closed restaurant is excluded from the calculation of SSS and SSSG for both the quarter in which the restaurant is closed and the current year-to-date. Please refer to the reconciliation of consolidated revenue to SSS on page 9 and to the definition of SSS in the Revenue section on page 11.*

treat the new Scaddabush restaurants in Oakville, Vaughan, and Etobicoke as New Additional Restaurants. SIR paid a Make-Whole Payment for these restaurants from the effective dates of closure to December 31, 2017 in the amount of \$0.3 million. The Alice Fazooli's restaurants in Oakville and Vaughan, and the Canyon Creek restaurant in Etobicoke, ceased to be part of Royalty Pooled Restaurants on January 1, 2018.

- During Q1 2017, effective October 15, 2016, Far Niente®/FOUR®/Petit Four® located in downtown Toronto was permanently closed. SIR paid a Make-Whole Payment to the Fund, via the Partnership, for this location from the date of closure until December 31, 2017. Far Niente/FOUR/Petit Four ceased to be part of Royalty Pooled Restaurants on January 1, 2017.

Net Earnings (Loss) and Comprehensive Income (Loss) and Adjusted Net Earnings (Loss)⁽²⁾

- Net income and comprehensive income was \$8.0 million and \$3.6 million for Q2 2018 and YTD 2018, respectively, compared to net loss and comprehensive loss of \$9.9 million and \$11.1 million for Q2 2017 and YTD 2017, respectively.
- Adjusted Net Loss⁽²⁾ was \$0.4 million in Q2 2018, compared to Adjusted Net Earnings⁽²⁾ of \$0.2 million in Q2 2017. Adjusted Net Earnings⁽²⁾ were \$0.7 million in YTD 2018, compared to Adjusted Net Loss⁽²⁾ of \$0.3 million in YTD 2017.

EBITDA⁽³⁾ and Adjusted EBITDA⁽³⁾

- EBITDA⁽³⁾ was \$3.2 million in Q2 2018, compared to \$3.7 million in Q2 2017, and Adjusted EBITDA⁽³⁾ was \$3.7 million in Q2 2018, compared to \$3.8 million in Q2 2017.
- EBITDA⁽³⁾ was \$7.8 million for YTD 2018, compared to \$6.6 million for YTD 2017, and Adjusted EBITDA⁽³⁾ was \$8.9 million for YTD 2018, compared to \$7.5 million for YTD 2017.

(2) *Adjusted Net Earnings (Loss) is calculated by removing the change in amortized cost of the Ordinary LP Units and Class A LP Units of the Partnership from the net earnings (loss) for the period. Adjusted Net Earnings (Loss) is a non-GAAP financial measure and does not have a standardized meaning prescribed by IFRS. Management believes that in addition to net earnings (loss), Adjusted Net Earnings (Loss) is a useful supplemental measure to evaluate SIR's performance. Changes in the amortized cost of the Ordinary LP Units and Class A LP Units of the Partnership is a non-cash transaction and varies with changes in the market price of the Fund units. The exclusion of the change in amortized cost of the Ordinary LP Units and Class A LP Units of the Partnership eliminates this non-cash impact. Management cautions investors that Adjusted Net Earnings (Loss) should not replace net earnings or loss or cash flows from operating, investing and financing activities (as determined in accordance with IFRS), as an indicator of SIR's performance. SIR's method of calculating Adjusted Net Earnings (Loss) may differ from the methods used by other issuers. Please refer to the reconciliations of net earnings (loss) for the period to Adjusted Net Earnings (Loss) on page 7 of this document.*

(3) *References to EBITDA are to the net earnings (loss) for the period before provision for (recovery of) income taxes, interest expense, interest on loan payable to SIR Royalty Income Fund, depreciation and amortization, and change in amortized cost of Ordinary LP Units and Class A LP Units of the Partnership.*

References to Adjusted EBITDA are to SIR's EBITDA plus or minus interest (income) and other expense (income) – net, goodwill impairment, impairment of non-financial assets, loss on disposal of property and equipment, and pre-opening costs. Pre-opening costs are added back to EBITDA because Management views these costs as investments in new restaurants and not as on-going costs of operations. The opening costs associated with the new Scaddabush restaurants in Oakville and Vaughan, Ontario are included in pre-opening costs as SIR elected to treat these restaurants as New Additional Restaurants under the License and Royalty Agreement.

Management believes that, in addition to net earnings or loss, EBITDA and Adjusted EBITDA are useful supplemental measures in evaluating SIR's performance, as these are useful estimates of the core business' contribution to cash flow from operations and approximate the funds generated by SIR which are available to meet its financing obligations and capital expenditure requirements. Management interprets trends in EBITDA and Adjusted EBITDA as indicators of relative operating performance. EBITDA and Adjusted EBITDA are non-GAAP financial measures and do not have standardized meanings prescribed by IFRS. Management cautions investors that EBITDA and Adjusted EBITDA should not replace net earnings or loss or cash flows from operating, investing and financing activities (as determined in accordance with IFRS), as an indicator of SIR's performance. SIR's method of calculating EBITDA and Adjusted EBITDA may differ from the methods used by other issuers. Therefore, SIR's EBITDA and Adjusted EBITDA may not be comparable to similar measures presented by other issuers. Please refer to the reconciliation of net earnings (loss) and comprehensive income (loss) for the period to EBITDA and Adjusted EBITDA on page 8 of this document.

Outlook

- The Scaddabush restaurant in Etobicoke that opened on November 28, 2017 and the Reds restaurant in Mississauga that opened on December 11, 2017 will be added to Royalty Pooled Restaurants on January 1, 2019.
- Subsequent to Q2 2018, SIR completed partial renovations at the Jack Astor's location in Kingston, Ontario.
- As at March 22, 2017, the date of this MD&A, SIR has one commitment to lease a property in the Mimico neighbourhood of Etobicoke, Ontario upon which it plans to build one new Scaddabush restaurant. There can be no assurance that this restaurant will be opened or will become part of Royalty Pooled Restaurants.
- SIR continues to focus on sustaining and growing existing restaurant sales and profits while effectively managing costs. SIR carefully monitors economic conditions, competitive actions, and consumer confidence, and considers new restaurant developments and renovations to existing restaurants where appropriate. Based on its assessment of these conditions, the timing of new restaurant construction and renovations, as well as related opening schedules, will be reviewed regularly by SIR and adjusted as necessary.

Overview

SIR is a private company amalgamated under the Business Corporations Act of Ontario. As at February 11, 2018, SIR owned 61 Concept and Signature Restaurants in Canada (in Ontario, Quebec, Alberta, Nova Scotia, and Newfoundland). The Concept Restaurants include Jack Astor's, Canyon Creek and Scaddabush. The Signature group of restaurants located in downtown Toronto include Reds Wine Tavern, Reds Midtown Tavern, Reds Square One, and the Loose Moose®. SIR also owns a Duke's Refresher® & Bar in downtown Toronto and one seasonal restaurant, Abbey's Bakehouse®, in addition to one seasonal Abbey's Bakehouse retail outlet, which are not part of Royalty Pooled Restaurants. SIR owns 100% of all its Canadian restaurants. As at February 11, 2018, 57 SIR Restaurants were included in Royalty Pooled Restaurants.

On January 1, 2018, three restaurants were added to Royalty Pooled Restaurants: the Scaddabush restaurants on Front Street in downtown Toronto (opened November 3, 2016), in Oakville (opened April 5, 2017) and Vaughan (opened July 5, 2017). Three restaurants - the closed Alice Fazooli's restaurants in Oakville and Vaughan, Ontario and the closed Canyon Creek restaurant in Etobicoke, Ontario - were removed from Royalty Pooled Restaurants on January 1, 2018.

The new Scaddabush restaurant in Etobicoke, Ontario, and the new Reds restaurant in the Square One shopping centre in Mississauga, will be added to Royalty Pooled Restaurants on January 1, 2019.

Effective March 19, 2017, SIR closed the Alice Fazooli's restaurant in Oakville, Ontario and opened a new Scaddabush restaurant at this location on April 5, 2017. Effective June 18, 2017, SIR closed the Alice Fazooli's restaurant in Vaughan, Ontario and opened a new Scaddabush restaurant at this location on July 5, 2017. Under terms of the License and Royalty Agreement between SIR and the Partnership, SIR indirectly paid the Fund, via the Partnership, a "Make-Whole Payment", subject to certain terms, equal to \$0.2 million which is the amount of the Royalty that otherwise would have been paid to the Partnership by SIR from the dates of closure until December 31, 2017. On January 1, 2018, SIR converted the same number of Class A GP units that it received for these restaurants when they were added to the Royalty Pooled restaurants at the time of the Fund's initial public offering in October 2004, into Class B GP units. This had the net effect of increasing the Fund's share of the Partnership's earnings.

Effective October 15, 2017, SIR closed the Canyon Creek restaurant in Etobicoke, Ontario and opened a new Scaddabush restaurant at this location on November 28, 2017. Under terms of the License and Royalty Agreement between SIR and the Partnership, SIR indirectly paid the Fund, via the Partnership, a "Make-Whole Payment", subject to certain terms, equal to \$0.07 million which is the amount of the Royalty that otherwise would have been paid to the Partnership by SIR from the date of closure until December 31, 2017. On January 1, 2018, SIR converted the same number of Class A GP units that it received for this restaurant when it was added to Royalty Pooled restaurants at the time of the Fund's initial public offering in October 2004, into Class B GP units. This had the net effect of increasing the Fund's share of the Partnership's earnings. Canyon Creek in Etobicoke ceased to be a part of Royalty Pooled Restaurants on January 1, 2018.

SIR expects the impact to Royalty Pool Revenue in 2018 and beyond, resulting from the closure of the two Alice Fazooli's restaurants and one Canyon Creek restaurant, to be offset by the anticipated positive contributions from the addition of new Scaddabush restaurants to the Royalty Pool going forward, and from continued investments by SIR to drive future same store sales growth.

SIR believes that Duke's Refresher has multi-unit growth potential and has advised the Fund that Duke's Refresher should be considered as a potential New Concept Restaurant brand. As such, the earliest that any Duke's Refresher would be added to the Royalty pool would be the Adjustment Date following the earlier of: (i) the date that four Duke's Refresher restaurants are open for business at the same time, and (ii) 90 days following the end of the fiscal year in which revenues from all Duke's Refresher restaurants in Canada first exceed \$12.0 million (the "Trigger Event"). As neither of these events

are expected to occur in calendar year 2018, Duke's Refresher is not expected to be added to the Royalty Pool on January 1, 2019. The Duke's Refresher brand is currently being managed and developed by SIR's Signature group. Accordingly, the current Duke's Refresher location in downtown Toronto is classified as a Signature restaurant for reporting purposes.

On October 1, 2004, the Fund filed a final prospectus for a public offering of Units of the Fund (the "Offering") and the Offering closed on October 12, 2004. The net proceeds of the Offering of \$51.2 million 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. In 2004, 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 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 52 or 53-week periods ending on the last Sunday in August. Fiscal quarters of SIR consist of accounting periods of 12, 12, 12 and 16 (or 17) weeks, respectively. The fiscal years for 2018 and 2017 both consist of 52 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 and 24-week periods ended February 11, 2018 and February 12, 2017, respectively. The unaudited interim consolidated financial statements of SIR are prepared in accordance with IFRS and are presented in Canadian dollars. This information should be read in conjunction with the annual audited consolidated financial statements of SIR, including the notes thereto.

| <i>Statements of Operations and Comprehensive Income (Loss)</i> | 12-Week Period Ended February 11, 2018 | 12-Week Period Ended February 12, 2017 | 24-Week Period Ended February 11, 2018 | 24-Week Period Ended February 12, 2017 |
|--|---|---|---|---|
| | (in thousands of dollars) (unaudited) | | | |
| Corporate restaurant operations: | | | | |
| Food and beverage revenue | 66,180 | 62,364 | 134,558 | 125,923 |
| Cost of corporate restaurant operations | 61,925 | 57,619 | 124,384 | 117,461 |
| Earnings from corporate restaurant operations | 4,255 | 4,745 | 10,174 | 8,462 |
| Net earnings (loss) and comprehensive income (loss) | 8,007 | (9,905) | 3,648 | (11,115) |
| Adjusted Net Earnings (Loss)⁽²⁾ | (431) | 225 | 712 | (333) |

Statement of Financial Position

| | February 11, 2018 | August 27, 2017 |
|-------------------------------|--|-----------------|
| | (in thousands of dollars) (unaudited) | |
| Total assets | 80,026 | 73,818 |
| Total non-current liabilities | 180,901 | 166,036 |

Adjusted Net Earnings (Loss)⁽²⁾, EBITDA⁽³⁾ and Adjusted EBITDA⁽³⁾

Adjusted Net Earnings (Loss)⁽²⁾, EBITDA⁽³⁾ and Adjusted EBITDA⁽³⁾ are financial measures that do not have standardized meanings prescribed by IFRS. They are used by SIR to supplement its reporting of net earnings (loss) and net cash flow. Adjusted Net Earnings (Loss)⁽²⁾ consist of net earnings (loss) excluding the change in amortized cost of Ordinary LP Units and Class A LP Units of the Partnership. EBITDA⁽³⁾ and Adjusted EBITDA⁽³⁾ consist of net earnings (loss) excluding certain non-cash expenses and other expenses that SIR considers not to be of an operating nature. SIR believes that Adjusted Net Earnings (Loss)⁽²⁾, EBITDA⁽³⁾ and Adjusted EBITDA⁽³⁾ are useful estimates of the core business' contribution to cash flow from operations and uses these measures as a supplemental measure of SIR's performance. Similarly, SIR believes that certain investors may also find these non-GAAP financial measures to be useful measures for their independent evaluation of SIR's performance.

The following table reconciles net earnings (loss) and comprehensive income (loss) for the period to Adjusted Net Earnings (Loss)⁽²⁾:

| | 12-Week Period Ended February 11, 2018 | 12-Week Period Ended February 12, 2017 | 24-Week Period Ended February 11, 2018 | 24-Week Period Ended February 12, 2017 |
|---|---|---|---|---|
| | (in thousands of dollars) (unaudited) | | | |
| Net earnings (loss) for the period | 8,007 | (9,905) | 3,648 | (11,115) |
| Change in amortized cost of Ordinary LP Units and Class A LP Units of the Partnership | (8,438) | 10,130 | (2,936) | 10,782 |
| Adjusted Net Earnings (Loss)⁽²⁾ | (431) | 225 | 712 | (333) |

The following table reconciles net loss and comprehensive loss for the period to EBITDA⁽³⁾ and Adjusted EBITDA⁽³⁾:

| | 12-Week Period Ended February 11, 2018 | 12-Week Period Ended February 12, 2017 | 24-Week Period Ended February 11, 2018 | 24-Week Period Ended February 12, 2017 |
|--|---|---|---|---|
| | (in thousands of dollars) (unaudited) | | | |
| Net income (loss) and comprehensive income (loss) for the period | 8,007 | (9,905) | 3,648 | (11,115) |
| Add (deduct): | | | | |
| Provision for income taxes | - | 43 | - | 67 |
| Interest expense | 311 | 249 | 607 | 454 |
| Interest on loan payable to SIR Royalty Income Fund | 700 | 700 | 1,393 | 1,392 |
| Depreciation and amortization | 2,641 | 2,529 | 5,099 | 5,029 |
| Change in amortized cost of Ordinary LP Units and Class A LP Units of the Partnership | (8,438) | 10,130 | (2,936) | 10,782 |
| EBITDA⁽³⁾ | 3,221 | 3,746 | 7,811 | 6,609 |
| Interest (income) and other expense (income) – net | (32) | 140 | (64) | 152 |
| Loss on disposal of property and equipment | 28 | 27 | 90 | 96 |
| Pre-opening costs | 495 | (83) | 1,088 | 639 |
| Adjusted EBITDA⁽³⁾ | 3,712 | 3,830 | 8,925 | 7,496 |
| Income from Class A & B GP Units of the Partnership ⁽⁴⁾ (Not included in EBITDA ⁽³⁾ and Adjusted EBITDA ⁽³⁾ above) | 643 | 678 | 1,371 | 1,405 |
| 6% Royalty obligations under License and Royalty Agreement ⁽⁵⁾ | 3,688 | 3,629 | 7,575 | 7,370 |

(4) Includes the special conversion distribution paid to Class B GP Unitholders or the special conversion refund to Class A GP Unitholders declared in December of each year, if any.

(5) See the SIR Royalty Income Fund section of this document for the Royalty calculation. Pooled Revenue includes revenue from all restaurants included in Royalty Pooled Restaurants. On January 1st of each year, New Additional Restaurants are added and New Closed Restaurants are removed from Royalty Pooled Restaurants. Royalty obligations equal 6% of Pooled Revenue plus any Make-Whole Payments.

Results of Operations

| Reconciliation of Revenue from Consolidated Financial Statements to Pooled Revenue | 12-Week Period Ended February 11, 2018 | 12-Week Period Ended February 12, 2017 | 24-Week Period Ended February 11, 2018 | 24-Week Period Ended February 12, 2017 |
|---|---|---|---|---|
| | (in thousands of dollars) (unaudited) | | | |
| Revenue reported in consolidated financial statements | 66,180 | 62,364 | 134,558 | 125,923 |
| Less: Revenue from corporate restaurant operations excluded from the Royalty pool | (4,712) | (2,544) | (9,422) | (4,379) |
| Revenue for Restaurants in Royalty pool (Pooled Revenue) | 61,468 | 59,820 | 125,136 | 121,544 |

| Reconciliation of Revenue from Consolidated Financial Statements to Same Store Sales⁽¹⁾ | 12-Week Period Ended February 11, 2018 | 12-Week Period Ended February 12, 2017 | 24-Week Period Ended February 11, 2018 | 24-Week Period Ended February 12, 2017 |
|---|---|---|---|---|
| | (in thousands of dollars) (unaudited) | | | |
| Revenue reported in consolidated financial statements | 66,180 | 62,364 | 134,558 | 125,923 |
| Less: Revenue from corporate restaurant operations excluded from Same Store Sales ⁽¹⁾ | (5,783) | (3,317) | (10,222) | (5,953) |
| Same Store Sales⁽¹⁾ | 60,397 | 59,047 | 124,336 | 119,970 |

| Same Store Sales⁽¹⁾ by Segment | 12-Week Period Ended February 11, 2018 | 12-Week Period Ended February 12, 2017 | % Fav./ (Unfav.) | 24-Week Period Ended February 11, 2018 | 24-Week Period Ended February 12, 2017 | % Fav./ (Unfav.) |
|--|---|---|---------------------|---|---|---------------------|
| | (in thousands of dollars) (unaudited) | | | | | |
| Jack Astor's | 44,537 | 43,150 | 3.2% | 92,615 | 88,795 | 4.3% |
| Canyon Creek | 5,733 | 5,796 | (1.1%) | 11,115 | 11,078 | 0.3% |
| Scaddabush | 5,347 | 5,030 | 6.3% | 10,739 | 9,815 | 9.4% |
| Signature Restaurants | 4,780 | 5,071 | (5.7%) | 9,867 | 10,282 | (4.0%) |
| Same Store Sales⁽¹⁾ | 60,397 | 59,047 | 2.3% | 124,336 | 119,970 | 3.6% |

Summary of Quarterly Results

| Statement of Operations | 2 nd Quarter | 1 st Quarter | 4 th Quarter | 3 rd Quarter | 2 nd Quarter | 1 st Quarter | 4 th Quarter | 3 rd Quarter |
|--|---|---|---|---------------------------------------|---|---|---|---------------------------------------|
| | Ended February 11, 2018 (12 weeks) | Ended November 19, 2017 (12 weeks) | Ended August 27, 2017 (16 weeks) | Ended May 7, 2017 (12 weeks) | Ended February 12, 2017 (12 weeks) | Ended November 20, 2016 (12 weeks) | Ended August 28, 2016 (16 weeks) | Ended May 8, 2016 (12 weeks) |
| | (in thousands of dollars) (unaudited) | | | | | | | |
| Corporate Restaurant Operations | | | | | | | | |
| Food and beverage revenue | 66,180 | 68,378 | 99,834 | 67,536 | 62,364 | 63,559 | 92,043 | 64,438 |
| Cost of corporate restaurant operations | 61,925 | 62,459 | 91,197 | 61,737 | 57,619 | 59,842 | 85,441 | 58,171 |
| Earnings from corporate restaurant operations | 4,255 | 5,919 | 8,637 | 5,799 | 4,745 | 3,717 | 6,602 | 6,267 |
| Net earnings (loss) and comprehensive income (loss) | 8,007 | (4,359) | 4,666 | (6,912) | (9,905) | (1,210) | (15,572) | (13,442) |
| Adjusted Net Earnings (Loss)⁽²⁾ | (431) | 1,143 | 2,815 | 1,366 | 225 | (558) | 517 | 1,772 |

The following table reconciles net earnings (loss) and comprehensive income (loss) for the quarters to Adjusted Net Earnings (Loss)⁽²⁾:

| | 2 nd Quarter | 1 st Quarter | 4 th Quarter | 3 rd Quarter | 2 nd Quarter | 1 st Quarter | 4 th Quarter | 3 rd Quarter |
|---|---|---|---|---------------------------------------|---|---|---|---------------------------------------|
| | Ended February 11, 2018 (12 weeks) | Ended November 19, 2017 (12 weeks) | Ended August 27, 2017 (16 weeks) | Ended May 7, 2017 (12 weeks) | Ended February 12, 2017 (12 weeks) | Ended November 20, 2016 (12 weeks) | Ended August 28, 2016 (16 weeks) | Ended May 8, 2016 (12 weeks) |
| Net earnings (loss) and comprehensive income (loss) | 8,007 | (4,359) | 4,666 | (6,912) | (9,905) | (1,210) | (15,572) | (13,442) |
| Change in amortized cost of the Ordinary LP Units and Class A LP Units of the Partnership | (8,438) | 5,502 | (1,851) | 8,278 | 10,130 | 652 | 16,089 | 15,214 |
| Adjusted Net Earnings (Loss)⁽²⁾ | (431) | 1,143 | 2,815 | 1,366 | 225 | (558) | 517 | 1,772 |

Selected Unaudited Consolidated Statement of Cash Flows Information:

| | 2 nd Quarter | 1 st Quarter | 4 th Quarter | 3 rd Quarter | 2 nd Quarter | 1 st Quarter | 4 th Quarter | 3 rd Quarter |
|--|---|---|---|---------------------------------------|---|---|---|---------------------------------------|
| | Ended February 11, 2018 (12 weeks) | Ended November 19, 2017 (12 weeks) | Ended August 27, 2017 (16 weeks) | Ended May 7, 2017 (12 weeks) | Ended February 12, 2017 (12 weeks) | Ended November 20, 2016 (12 weeks) | Ended August 28, 2016 (16 weeks) | Ended May 8, 2016 (12 weeks) |
| | (in thousands of dollars) (unaudited) | | | | | | | |
| Cash provided by (used in) operations | (501) | (434) | 10,672 | 4,334 | (1,404) | (1,478) | 8,313 | 3,110 |
| Cash used in investing activities | (5,528) | (3,814) | (5,194) | (2,709) | (2,660) | (3,245) | (3,611) | (2,092) |
| Cash provided by (used in) financing activities | 4,837 | 3,939 | (3,528) | (1,928) | 3,151 | 4,651 | (3,725) | (1,463) |
| Increase (decrease) in cash and cash equivalents during the period | (1,192) | (309) | 1,950 | (303) | (913) | (72) | 977 | (445) |
| Cash and cash equivalents – Beginning of period | 4,241 | 4,550 | 2,600 | 2,903 | 3,816 | 3,888 | 2,911 | 3,356 |
| Cash and cash equivalents – End of period | 3,049 | 4,241 | 4,550 | 2,600 | 2,903 | 3,816 | 3,888 | 2,911 |

Revenue

There are a number of references to different revenue groupings used in the consolidated financial statements, the notes to the consolidated financial statements and the MD&A. The following definitions are provided for greater clarification of these groupings:

- i. Revenue (per the SIR consolidated statements of operations and comprehensive loss) – this is the total consolidated revenue of all restaurants for the period. The restaurants include all SIR Restaurants, along with the Abbey's Bakehouse and Abbey's Bakehouse retail outlet. For the 12-week and 24-week periods ended February 11, 2018, revenue was \$66.2 and \$134.6 million, respectively.
- ii. Same Store Sales⁽¹⁾ ("SSS") – this is a sub-set of (i) above used for tracking comparable year-over-year sales. For Q2 2018 and Q2 2017, SSS⁽¹⁾ includes all SIR Restaurants, except for those restaurants that were not open for the entire comparable period in fiscal 2018 and fiscal 2017. The Abbey's Bakehouse and Abbey's Bakehouse retail outlet are not SIR Restaurants. The SSS⁽¹⁾ performance for Canyon Creek does not include the location in Etobicoke, Ontario, as its sales are excluded from the calculation of SSS⁽¹⁾ similar to any permanently closed location. The SSS⁽¹⁾ performance for Scaddabush includes four Scaddabush restaurants (Mississauga, Richmond Hill, Scarborough, Ontario and Yonge and Gerrard in downtown Toronto). The new Scaddabush locations on Front Street in downtown Toronto, and in Oakville and Vaughan are also excluded from the calculation of SSS⁽¹⁾ for the 12-week and 24-week periods ended February 11, 2018, since they were not open for the entire comparable periods in 2018 and 2017. For the 12-week and 24-week periods ended February 11, 2018, SSS⁽¹⁾ were \$60.4 million and \$124.3 million, respectively.
- iii. Pooled Revenue – this is the revenue subject to the License and Royalty Agreement – this includes revenue from all Royalty Pooled Restaurants. The Royalty Pooled Restaurants are adjusted on January 1st of each year for New Additional Restaurants and New Closed Restaurants. As at February 11, 2018, there were 57 Royalty Pooled Restaurants. For the 12-week and 24-week periods ended February 11, 2018, Pooled Revenue was \$61.5 million and \$125.1 million, respectively. The applicable Royalty payable to the Partnership on the Pooled Revenue for these periods was \$3.7 million and \$7.6 million, respectively. The Royalty payable for the 24-week period ended February 11, 2018 includes the recognition of one Make-Whole Payment of \$0.07 million with respect to the closed Canyon Creek location in Etobicoke, Ontario from its date of closure to December 31, 2017.

Same Store Sales⁽¹⁾

SIR reported SSSG⁽¹⁾ of 2.3% and 3.6% for the 12-week and 24-week periods ended February 11, 2018.

Jack Astor's, SIR's flagship Concept Restaurant brand, which contributed approximately 72% of Q2 2018 Pooled Revenue, generated SSSG⁽¹⁾ of 3.2% and 4.3% for Q2 2018 and YTD 2018, respectively. SSSG⁽¹⁾ continues to be favourably impacted by improved sales performance at certain locations that were renovated within the last two fiscal years, including increases in beverage sales at these locations. This is partially due to enhanced beverage programs implemented with the renovation program, including the rollout of a new craft beer program during Q1 2018. SIR completed renovations at two Jack Astor's locations in Q2 2018 (in London, Ontario and at the 10 Dundas East entertainment complex in downtown Toronto) which resulted in the closure of those restaurants for a combined total of 21 days during the quarter, compared to the closure of two Jack Astor's locations for renovations in Q2 2017 for a combined total of 17 days. In addition to the aforementioned factors that impacted SSSG⁽¹⁾ in Q2 2018, YTD 2018 SSSG⁽¹⁾ was impacted by the closure of two Jack Astor's locations for renovations (Dartmouth, Nova Scotia and London, Ontario), for a combined total of 15 days, compared to four Jack Astor's renovation completed in YTD 2017 that resulted in the closure of these restaurants for a combined total of 20 days.

Canyon Creek had a SSS⁽¹⁾ percentage decline of 1.1% for Q2 2018 and generated SSSG⁽¹⁾ of 0.3% for YTD 2018. The sales from the Canyon Creek location in Etobicoke, which was permanently closed in Q1 2018, have been excluded from the calculation of SSSG⁽¹⁾ for Q2 2018 and YTD 2018. A new Scaddabush restaurant was opened at this location on November 28, 2017.

Scaddabush SSSG⁽¹⁾ performance for Q2 2018 includes four Scaddabush locations (Richmond Hill, Mississauga, Scarborough, Ontario and Yonge and Gerrard in downtown Toronto). Scaddabush generated SSSG⁽¹⁾ of 6.3% and 9.4% for Q2 2018 and YTD 2018, respectively, reflecting the continued strong performance of the Scaddabush brand. During the quarter, a new Scaddabush restaurant was opened in Etobicoke, Ontario near the Sherway Gardens shopping centre. The new Scaddabush restaurants on Front Street in downtown Toronto and in Oakville, Vaughan, and Etobicoke, Ontario are excluded from the calculation of Q2 2018 and YTD 2018 SSSG⁽¹⁾ as they were not in operation for the entire comparable periods a year ago.

The downtown Toronto Signature Restaurants had a SSSG⁽¹⁾ percentage declines of 5.7% and 4.0% for Q2 2018 and YTD 2018, respectively. Duke's Refresher & Bar continues to demonstrate improved sales performance. The Q2 2018 and YTD 2018 SSS⁽¹⁾ performance for the Signature Restaurants does not include Far Niente/FOUR/Petit Four, as this location

was closed effective October 15, 2016, or the new Reds restaurant at the Square One shopping centre in Mississauga, Ontario, which opened during Q2 2018 on December 11, 2017.

Cost of Corporate Restaurant Operations

Costs of corporate restaurant operations as a percentage of revenue were 93.6% and 92.4% for Q2 2018 and YTD 2018, respectively, compared to 92.4% and 93.3% for Q2 2017 and YTD 2017, respectively. Costs as a percentage of revenue for Q2 2018 included higher pre-opening costs, labour, and operating costs compared to Q2 2017, as two new restaurants were opened in Q2 2018. Higher costs as a percentage of revenue for Q2 2018 compared to Q2 2017 also reflect the impact of the minimum wage increase in Ontario that was effective January 1, 2018. Lower costs as a percentage of revenue for YTD 2018 are primarily attributable to decreased food and repairs and maintenance costs as a percentage of revenue, partially offset by higher pre-opening costs in YTD 2018 compared to YTD 2017. Two new restaurants were under construction during Q1 2018 (both opened in Q2 2018) compared to one new restaurant that was under construction and opened in Q1 2017. Pre-opening costs are typical for new restaurant openings. Four renovations were completed in YTD 2018, compared to six in YTD 2017, resulting in a decrease in repairs and maintenance costs as a percentage of revenue in YTD 2018 compared to YTD 2017.

Corporate Costs

Corporate costs were \$3.7 million and \$7.5 million for Q2 2018 and YTD 2018, compared to \$3.4 million and \$6.7 million for Q2 2017 and YTD 2017. The increase is primarily the result of higher compensation costs, general and administration costs, and professional fees.

Interest Expense

Interest expense for Q2 2018 and YTD 2018 was \$0.3 million and \$0.6 million, respectively, compared to \$0.2 million and \$0.5 million for Q2 2017 and YTD 2017. The increase in interest expense is due to higher debt outstanding during Q2 2018 and YTD 2018 compared to the corresponding periods a year ago.

SIR Loan, Fund's Interest in the Partnership & Change in Amortized Cost of Ordinary LP and Class A LP Units

On October 12, 2004, the Fund completed its initial public offering and used the proceeds to acquire the SIR Loan and invest in the Ordinary LP Units of the Partnership. The Fund has also acquired Class A LP Units upon SIR's conversion of its Class A GP Units into Fund units (see the Liquidity and Capital Resources section). In accordance with IFRS, SIR has consolidated the Partnership. The Ordinary LP Units and Class A LP Units of the Partnership, which are held by the Fund, require SIR to pay distributions to the Fund when declared by the board of directors of SIR GP Inc. SIR GP Inc. is controlled by the Fund and, accordingly, SIR is unable to control the declaration of these distributions. As a result, the Ordinary LP Units and Class A LP Units of the Partnership have been classified as a financial liability in the consolidated statements of financial position. The Ordinary LP Units and Class A LP Units were initially recorded at fair value and subsequently at amortized cost, which requires updating the carrying amount of the financial liability to reflect actual and revised estimates in cash flows. The changes in the estimated cash flows are derived from changes in the value of the underlying Fund units adjusted for taxes and the SIR Loan.

Changes in amortized cost are recognized in the consolidated statements of operations and comprehensive income (loss). The change in the amortized cost is a non-cash transaction and accordingly, has no impact on cash flows. For Q2 2018, the change in amortized cost is income of \$8.4 million and is due to a decrease in the underlying Fund unit price compared to the end of Q1 2018. For YTD 2018, the change in amortized cost is income of \$2.9 million and is due to a decrease in the underlying Fund unit price compared to the end of Q4 2017. The change in amortized costs was an expense of \$10.1 million and \$10.8 million for Q2 2017 and YTD 2017, respectively.

Interest on the SIR Loan totaled \$0.7 million and \$1.4 million for Q2 2018 and YTD 2018, respectively, and \$0.7 million and \$1.4 million for Q2 2017 and YTD 2017, respectively.

EBITDA⁽³⁾ and Adjusted EBITDA⁽³⁾

EBITDA⁽³⁾ was \$3.2 million and \$7.8 million for Q2 2018 and YTD 2018, respectively, compared to \$3.7 million and \$6.6 million for Q2 2017 and YTD 2017, respectively. Adjusted EBITDA⁽³⁾ was \$3.7 million and \$8.9 million for Q2 2018 and YTD 2018, compared to \$3.8 million and \$7.5 million for Q2 2017 and YTD 2017, respectively. (See Selected Consolidated Historical Financial Information – Reconciliation of net earnings (loss) and comprehensive income (loss) for the period to EBITDA⁽³⁾ and Adjusted EBITDA⁽³⁾).

SIR Royalty Income Fund

The following is a summary of the accounting implications of the SIR Loan and the Fund's interest in the Partnership:

(a) *SIR Loan*

The \$40.0 million SIR Loan is payable to the Fund, bears interest at 7.5% per annum, and is due October 12, 2044. On July 6, 2015, SIR, the Fund and the Partnership entered into an Interlender Agreement to subordinate and postpone their claims against SIR in favour of the lender. The Fund and the Partnership have not guaranteed the current credit facility (see Liquidity and Capital Resources section).

The debt is "permitted indebtedness" within the meaning of the agreements between the Fund, the Partnership and SIR, and as a result the Fund and the Partnership have, as contemplated in the existing agreements, subordinated and postponed their claims against SIR to the claims of the lender. This subordination, which includes a subordination of the Partnership's rights under the License and Royalty Agreement between the Partnership and SIR whereby the Partnership licenses to SIR 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 the Intercreditor Agreement.

Under the Intercreditor Agreement, absent a default or event of default under the Credit Agreement, ordinary payments to the Fund and the Partnership 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, the Fund and the Partnership agree not to take actions on their security until the lender has been repaid in full. However, payments by SIR, to the Fund and the Partnership, will be permitted for such amounts as are required to fund their monthly operating expenses, up to an annual limit. In addition, the Fund, the Partnership and SIR will have the right, acting cooperatively, to reduce payments of Royalties and/or interest on the SIR Loan by up to 50% without triggering a cross default under the Credit Agreement, for a period of up to nine consecutive months. SIR and each obligor provided an undertaking to cooperate and explore all options with the Fund to maximize value to the Fund's unitholders and SIR and its shareholders in exchange for the Subordinating Parties not demanding repayment or enforcing security as a result of any such Related Party Obligation Default. The Intercreditor Agreement also contains various other typical covenants of the Fund and the Partnership.

Interest expense on the SIR Loan was charged to the consolidated statements of operations and comprehensive income (loss) in the amount of \$0.7 million and \$1.4 million for Q2 2018 and YTD 2018, respectively, and \$0.7 million and \$1.4 million for Q2 2017 and YTD 2017, respectively.

SIR has the right to require the Fund to, indirectly, purchase their Class C GP Units and assume a portion of the SIR Loan as consideration for the acquisition of the Class C GP Units.

(b) *Ordinary LP Units and Class A LP Units of SIR Royalty Limited Partnership*

| | 12-Week Period Ended February 11, 2018 | 12-Week Period Ended February 12, 2017 | 24-Week Period Ended February 11, 2018 | 24-Week Period Ended February 12, 2017 |
|--|--|--|--|--|
| | (in thousands of dollars) (unaudited) | | | |
| Balance – Beginning of the period | 133,810 | 122,071 | 130,807 | 123,821 |
| Change in amortized cost of the Ordinary LP Units and Class A LP Units of the Partnership | (8,438) | 10,130 | (2,936) | 10,782 |
| Distributions paid to Ordinary LP and Class A LP unitholders | (3,339) | (2,824) | (5,838) | (5,226) |
| Balance – End of period | 122,033 | 129,377 | 122,033 | 129,377 |
| Less: Current portion of Ordinary LP Units and Class A LP Units of the Partnership | (9,991) | (9,991) | (9,991) | (9,991) |
| Ordinary LP Units and Class A LP Units of the Partnership | 112,042 | 119,386 | 112,042 | 119,386 |

The following is a summary of the results of the operations of the Partnership:

| | | | | |
|--|---------|---------|---------|---------|
| Pooled Revenue ⁽⁶⁾ | 61,468 | 59,820 | 125,136 | 121,544 |
| Partnership royalty income ⁽⁷⁾ | 3,688 | 3,629 | 7,575 | 7,370 |
| Other Income | 5 | 5 | 11 | 11 |
| Partnership expenses | 1 | (11) | (35) | (29) |
| Net earnings of the Partnership | 3,694 | 3,623 | 7,551 | 7,352 |
| SIR's residual interest in the earnings of the Partnership: | | | | |
| Income from Class A & B GP Units of the Partnership | (643) | (678) | (1,371) | (1,405) |
| Income from Class C GP Units of the Partnership | (690) | (690) | (1,373) | (1,373) |
| | (1,333) | (1,368) | (2,744) | (2,778) |
| Fund's interest in the earnings of the Partnership | 2,361 | 2,255 | 4,807 | 4,574 |

On October 12, 2004, the Partnership issued Ordinary LP and GP Units to the Fund for cash consideration of \$11.2 million. The Fund has also acquired Class A LP Units upon SIR's conversion of its Class A GP Units into Fund units. The holders of the Ordinary LP Units and Class A LP Units are entitled to receive their pro rata share of all residual distributions of the Partnership. The distributions are declared by the board of directors of SIR GP Inc., which is controlled by the Fund. Accordingly, the Ordinary LP Units and Class A LP Units of the Partnership have been classified as a financial liability in the consolidated statements of financial position. The Ordinary LP Units and Class A LP Units of the Partnership are accounted for at amortized cost, with changes in the carrying value recorded in the consolidated statements of operations and comprehensive income (loss).

SIR, as the holder of the Class A GP Units, is entitled to receive its pro rata share of all residual distributions of the Partnership and the Class A GP Units are exchangeable into units of the Fund.

(6) Includes revenue from the SIR Restaurants subject to the License and Royalty Agreement. The Partnership owns the SIR Rights formerly owned or licensed by SIR or its subsidiaries and used in connection with the operation of the majority of SIR's restaurants in Canada.

(7) Partnership royalty income is 6% of Pooled Revenue in accordance with the License and Royalty Agreement, plus a Make-Whole Payment for closed restaurants, if applicable.

In 2004, 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 Royalty Pooled Restaurants (the "License and Royalty Agreement").

Under the terms of the License and Royalty Agreement, SIR may be required to pay a Make-Whole Payment in respect of the reduction in revenues for restaurants permanently closed during a reporting period. SIR is not required to pay any Make-Whole Payments in respect of a permanently closed restaurant following the date on which the number of Royalty Pooled Restaurants 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, SIR will be entitled to convert its Class B GP Units to Class A GP Units 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 exceeded 80% of the initial estimated revenues and the formula defined in the Partnership Agreement. Conversely, converted Class A GP Units will be returned by SIR if the actual revenues of the new SIR Restaurants are less than 80% of the initial estimated revenues. In December of each year, an additional distribution will be payable to the Class B GP unitholders based on actual revenues of the new SIR Restaurants exceeding 80% of the initial estimated revenues or there will be a reduction in the distributions to the Class A GP unitholders if revenues are less than 80% of the initial estimated revenues.

On January 1, 2018, three (January 1, 2017 - one) new SIR Restaurants were added to Royalty Pooled Restaurants in accordance with the Partnership Agreement. As consideration for the additional Royalty associated with the addition of three new SIR Restaurants on January 1, 2018 (January 1, 2017 - one), as well as the Second Incremental Adjustment for one new SIR Restaurant added to Royalty Pooled Restaurants on January 1, 2017 (January 1, 2016 - two), SIR converted its Class B GP Units into Class A GP Units based on the formula defined in the Partnership Agreement. In addition, there was a re-conversion of Class A GP Units into Class B GP Units for the permanent closure of three (January 1, 2017 - one) SIR Restaurants during the prior year. The net effect of these adjustments to Royalty Pooled Restaurants was that SIR converted 35,000 Class B GP Units into 35,000 Class A GP Units (January 1, 2016 - SIR exchanged 79,000 Class A GP Units into 79,000 Class B GP Units) on January 1, 2018 at a value of \$2.8 million (January 1, 2017 - \$0.016 million).

In addition, the revenues of the one (January 1, 2016 - two) new SIR Restaurant added to Royalty Pooled Restaurants on January 1, 2017 was less than 80% of the Initial Adjustment's estimated revenue and, as a result, the distributions on the Class A GP Units were reduced by a special conversion refund of \$0.05 million in December 2017 and paid in January 2018 (December 31, 2016 - \$0.0005 million, paid in January 2017).

As a result of the permanent closure of three SIR Restaurants during the year ended December 31, 2017, Make-Whole Payments totaling \$0.3 million (year ended December 31, 2016 - \$0.08 million) were paid by SIR to the Partnership.

SIR's residual interest in the Partnership is 19.4% as at February 11, 2018 (August 27, 2017 - 19.1%).

(c) *Amounts due to the Fund* - (see Transactions with the SIR Royalty Income Fund in the Transactions with Related Parties section)

Liquidity and Capital Resources

Selected Consolidated Statement of Cash Flows Information

| | 12-Week Period Ended February 11, 2018 | 12-Week Period Ended February 12, 2017 | 24-Week Period Ended February 11, 2018 | 24-Week Period Ended February 12, 2017 |
|---|--|--|--|--|
| | (in thousands of dollars) | | | |
| | (unaudited) | | | |
| Cash used in operations | (501) | (1,404) | (935) | (2,882) |
| Cash used in investing activities | (5,528) | (2,660) | (9,342) | (5,905) |
| Cash provided by financing activities | 4,837 | 3,151 | 8,776 | 7,802 |
| Decrease in cash and cash equivalents during the period | (1,192) | (913) | (1,501) | (985) |
| Cash and cash equivalents – Beginning of period | 4,241 | 3,816 | 4,550 | 3,888 |
| Cash and cash equivalents – End of period | 3,049 | 2,903 | 3,049 | 2,903 |

Cash provided by operations increased by \$0.9 million for Q2 2018 compared to Q2 2017. The increase is primarily attributable to a favourable variance in the net change in working capital items of \$1.9 million, offset by a decrease in the Adjusted Net Earnings⁽²⁾ of \$0.7 million and an increase in distributions paid to the Ordinary LP and Class A LP unitholders of \$0.5 million. Cash used in operations increased \$1.9 million for YTD 2018 compared to YTD 2017. The increase is primarily attributable to an increase in Adjusted Net Earnings⁽²⁾ of \$1.0 million and a favourable variance in the net change in working capital items of \$1.4 million, partially offset by an increase in distributions paid to the Ordinary LP and Class A LP unitholders of \$0.6 million.

Investing activities used cash of \$5.5 million and \$9.3 million for Q2 2018 and YTD 2018, respectively. Investing activities used cash of \$2.7 million and \$5.9 million for Q2 2017 and YTD 2017, respectively. Purchases of property and equipment and other assets – net amounted to \$5.6 million and \$9.5 million in Q2 2018 and YTD 2018, respectively, and \$2.7 million and \$6.0 million in Q2 2017 and YTD 2017, respectively. The majority of the capital expenditures for Q2 2018 and YTD 2018 relate to: i) the renovations of four Jack Astor's locations to date in the year, including two in Q2 2018; ii) the construction of the new Scaddabush restaurant in Etobicoke, Ontario that opened in Q2 2018; and iii) the construction of the new Reds restaurant in Mississauga, Ontario that opened in Q2 2018. The majority of the capital expenditures for Q1 2017 and YTD 2017 relate to: i) the construction of the new Scaddabush restaurant on Front Street in downtown Toronto that opened during Q1 2017; and ii) the renovations of six Jack Astor's locations in YTD 2017.

For Q2 2018 and YTD 2018, cash provided by financing activities was \$4.8 million and \$8.8 million, respectively. Cash provided by financing activities was \$3.2 million and \$7.8 million for Q2 2017 and YTD 2017, respectively. Bank indebtedness decreased \$0.2 million in Q2 2018 and increased \$1.3 million in YTD 2018. Proceeds from issuance of long-term debt were \$6.9 million and \$10.9 million for Q2 2018 and YTD 2018, respectively, and \$4.0 million and \$10.0 million, respectively, for the corresponding periods a year ago. Principal repayments on long-term debt were \$0.5 million and \$1.0 million for Q2 2018 and YTD 2018, respectively, and \$0.5 million and \$1.0 million for Q2 2017 and YTD 2017, respectively. Interest paid was \$1.0 million and \$2.0 million for Q2 2018 and YTD 2018, respectively, compared to \$1.0 million and \$1.9 million for Q2 2017 and YTD 2017, respectively. Dividends paid on the common shares of SIR were \$0.2 million and \$0.3 million in Q2 2018 and YTD 2018, respectively (\$nil in both Q2 2017 and YTD 2017, respectively).

The three new Scaddabush restaurants on Front Street in Toronto (opened November 3, 2016), Oakville (opened April 5, 2017), and Vaughan, Ontario (opened July 5, 2017) were added to the Royalty Pooled Restaurants effective January 1, 2018. At that time, SIR received additional Class A GP Units in accordance with the formula for adjustment for New Additional Restaurants added to Royalty Pooled Restaurants. The amount of Class A GP Units received was adjusted for the Second Incremental Adjustment for the one New Additional Restaurant that was added to Royalty Pooled Restaurants on January 1, 2017 and was reduced by an adjustment for the permanent closure of three SIR Restaurants. Under the terms of the Exchange Agreement, SIR has the right to convert some or all of the Class A GP Units into Fund units on a one-for-one basis. After the net effect of the adjustments to Royalty Pooled Restaurants on January 1, 2018, SIR held 2,016,426 Class A GP Units (refer to page 15).

As at February 11, 2018, SIR had current assets of \$18.6 million (August 27, 2017 – \$17.4 million) and current liabilities of \$51.8 million (August 27, 2017 – \$63.2 million) resulting in a working capital deficit of \$33.2 million (August 27, 2017 – \$45.8 million). Revenues in the restaurant business are largely paid by cash and credit cards whereas most suppliers offer credit terms for payment. Therefore, restaurants are able to pay their suppliers from the cash received on revenues in the following months, as the supplier payables are due. Cash balances are typically used to construct new

restaurants or re-invest in existing restaurants to grow the business. As a result, SIR, like many other restaurant businesses, would anticipate having a negative working capital balance in the foreseeable future.

Management believes that currently there are sufficient cash resources retained in SIR from its cash generated by operations and from its financing activities to fund its working capital requirements, scheduled debt repayments, and future construction commitments.

SIR has a credit agreement ("Credit Agreement") with a Schedule I Canadian chartered bank (the "Lender"). The Credit Agreement is "permitted indebtedness" within the meaning of the agreements between the Fund, the Partnership, and SIR, and as a result the Fund and the Partnership have, as contemplated in the existing agreements, subordinated and postponed their claims against SIR to the claims of the Lender. This subordination, which includes a subordination of the Partnership's rights under the License and Royalty Agreement between the Partnership and SIR whereby the Partnership licenses to SIR the right to use trade-marks and related intellectual property in return for royalty payments based on revenues, has been effected pursuant to the terms of the Intercreditor Agreement.

The Credit Agreement between SIR and the Lender provides for a three-year facility for a maximum principal amount of \$30.0 million consisting of a \$20.0 million revolving term credit facility (Credit Facility 1), and a \$10.0 million revolving term loan (Credit Facility 2). SIR and the Lender also have a purchase card agreement providing credit of up to an additional \$5.0 million. The Credit Agreement matures on July 6, 2018 and accordingly has been classified as a current liability in SIR's consolidated statement of financial position. On December 8, 2017, SIR extended the Credit Agreement from July 6, 2018 to July 6, 2020 under substantially the same terms and conditions. The Credit Agreement as amended provides for a new \$2.2 million leasing facility.

Credit Facility 1 is for general corporate and operating purposes, including capital spending on new and renovated restaurants, bearing interest at the prime rate plus 2.25% and/or the bankers' acceptance rate plus 3.25%. A standby fee of 0.65% is charged on the undrawn balance of Credit Facility 1. Provided SIR is in compliance with the Credit Agreement, the principal amount of Credit Facility 1 may be repaid and re-borrowed at any time during the term of the Credit Agreement. Credit Facility 2 bears interest at the prime rate plus 2.25% and/or the bankers' acceptance rate plus 3.25%. The initial advance on Credit Facility 2 is repayable in quarterly instalments of \$0.5 million, with the remaining outstanding principal balance due on July 6, 2020. Under the amended Credit Agreement, subsequent advances on Credit Facility 2 may be requested annually (subject to availability and lender approval), in minimum multiples of \$1.0 million, to finance capital spending on new and renovated restaurants. Each subsequent advance will be repayable in equal quarterly instalments based on a five-year amortization, with the remaining outstanding principal balance due on July 6, 2020.

On December 15, 2017, SIR drew an additional \$4.5 million on Credit Facility 2. This advance is repayable in quarterly instalments of \$0.2 million, with the remaining principal balance due on July 6, 2020.

During the 12-week period ended February 11, 2018, the Company drew \$1.8 million of the \$2.2 million leasing facility. These advances are repayable in equal monthly instalments.

The Credit Agreement is secured by substantially all of the assets of SIR and most of its subsidiaries, which are also guarantors. The Partnership and the Fund have not guaranteed the Credit Agreement.

Under the Intercreditor Agreement, absent a default or event of default under the Credit Agreement, ordinary payments to the Fund and the Partnership 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, the Fund and the Partnership agree not to take actions on their security until the Lender has been repaid in full. However, payments by SIR, to the Fund and the Partnership, will be permitted for such amounts as are required to fund their monthly operating expenses, up to an annual limit. In addition, the Fund, the Partnership and SIR will have the right, acting cooperatively, to reduce payments of Royalties and/or interest on the SIR Loan by up to 50% without triggering a cross default under the Credit Agreement, for a period of up to nine consecutive months. SIR and each Obligor provided an undertaking to cooperate and explore all options with the Fund to maximize value to the Fund's unitholders and SIR and its shareholders in exchange for the Subordinating Parties not demanding repayment or enforcing security as a result of any such Related Party Obligation Default. The Intercreditor Agreement also contains various other typical covenants of the Fund and the Partnership.

SIR believes that it expects to be able to comply with the covenants under the credit facility and service the credit facility, as well as meet its other obligations. However, there can of course be no assurance of this.

Under the Credit Agreement, SIR may convert Class A GP Units into Fund Units without prior consent from the Lender, provided such units are promptly sold by SIR for the purposes of financing the construction of new restaurants and renovations to existing restaurants, in each case not to exceed in any year the lower of \$7.0 million and 0.4 million units.

As at February 11, 2018, \$18.3 million and \$9.5 million were outstanding on SIR's Credit Agreement for Credit Facility 1 and Credit Facility 2, respectively, and \$1.8 million was outstanding on SIR's leasing facility.

Contractual Obligations

In 2004, 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 Royalty Pooled Restaurants. Payment of the Royalty is secured by the Partnership General Security Agreement. On July 6, 2015, SIR, the Fund and the Partnership amended the agreement to subordinate and postpone their claims against SIR in favour of the senior lender. The Partnership and the Fund have not guaranteed the Credit Agreement (Please refer to SIR Royalty Income Fund section on page 13).

The security interest for all amounts payable by SIR to the Partnership under the License and Royalty Agreement, as set out in the Partnership General Security Agreement, is substantially the same as, and ranks equally with, the security interest granted by SIR to the Fund in respect of the SIR Loan. SIR consolidates the Partnership, and this transaction between SIR and the Partnership is eliminated in SIR's consolidated financial statements; however, the obligation for payments remains.

Under the terms of the License and Royalty Agreement, SIR may be required to pay a Make-Whole Payment in respect of the reduction in revenue for restaurants closed during a reporting period. SIR is not required to pay any Make-Whole Payment in respect of a closed restaurant following the date on which the number of Royalty Pooled Restaurants 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, SIR will be entitled to convert its Class B GP Units to Class A GP Units based on a formula defined in the Partnership Agreement.

During Fiscal 2017, SIR permanently closed the Alice Fazooli's restaurant in Oakville, Ontario effective March 19, 2017, and the last Alice Fazooli's restaurant in Vaughan, Ontario effective June 18, 2017. SIR opened new Scaddabush restaurants at these locations on April 5, 2017 and July 5, 2017, respectively. During Q1 2018, effective October 15, 2017, SIR permanently closed the Canyon Creek restaurant in Etobicoke, Ontario and opened a new Scaddabush restaurant at this location on November 28, 2017. SIR elected, per its option, under the License and Royalty Agreement, to treat the closed Alice Fazooli's restaurants in Oakville and Vaughan, Ontario and the closed Canyon Creek restaurant in Etobicoke, Ontario as New Closed Restaurants and to treat the new Scaddabush restaurants in Oakville, Vaughan, and Etobicoke as New Additional Restaurants. Therefore, SIR paid Make-Whole Payments from the effective dates of closure to December 31, 2017. The Alice Fazooli's restaurants in Oakville and Vaughan, and the Canyon Creek in Etobicoke, ceased to be part of Royalty Pooled Restaurants on January 1, 2018. The new Scaddabush restaurants in Oakville and Vaughan were added to Royalty Pooled Restaurants, as New Additional Restaurants, on January 1, 2018. The new Scaddabush restaurant in Etobicoke will be added to Royalty Pooled Restaurants, as a New Additional Restaurant, on January 1, 2019.

SIR and its subsidiaries have entered into operating leases relating to its head office and restaurant locations with minimum annual payments. There have been no significant changes in SIR's lease obligations as reported in the August 27, 2017 MD&A.

SIR has one commitment to lease a property in the Mimico neighbourhood of Etobicoke, Ontario upon which it plans to build one new Scaddabush restaurant. There can be no assurance that this restaurant will be opened or will become part of Royalty Pooled Restaurants

Off-Balance Sheet Arrangements

SIR has off-balance sheet arrangements with respect to its operating leases relating to its head office and restaurant locations with minimum annual payments. (See Contractual Obligations section).

Transactions with Related Parties

SIR has entered into related party transactions with shareholders and directors or companies controlled by shareholders and directors of SIR. The transactions are in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Significant transactions with related parties include:

| <i>Transactions with Related Parties</i> | 12-Week Period Ended February 11, 2018 | 12-Week Period Ended February 12, 2017 | 24-Week Period Ended February 11, 2018 | 24-Week Period Ended February 12, 2017 |
|--|---|---|---|---|
| | (in thousands of dollars) | | | |
| | (unaudited) | | | |
| Corporate costs | | | | |
| Occupancy costs and maintenance services provided by a company owned by a party related to a shareholder of SIR | - | 16 | - | 33 |
| Maintenance services provided by a shareholder of SIR | 5 | - | 5 | - |
| Consulting services provided by a company owned by a director of SIR | 45 | - | 65 | - |
| Design fees paid to a company owned by a shareholder of SIR | 14 | - | 14 | - |
| Direct costs of restaurant operations | | | | |
| Maintenance services provided by a company owned by a party related to a shareholder of SIR | - | 19 | - | 24 |
| Maintenance services provided by a shareholder of SIR | 1 | 2 | 4 | 3 |
| Property and equipment | | | | |
| Design and construction management fees and fixtures purchased from a company owned by a shareholder of SIR | - | - | - | 5 |
| Construction management fees and fixtures purchased from a company owned by a party related to a shareholder of SIR | - | - | - | 34 |
| Fixtures purchased from a shareholder of SIR | 15 | 1 | 27 | 30 |
| Equipment purchased from a company owned by a director and shareholder of SIR, together with a member of executive management of SIR | 47 | - | 83 | - |

Included in trade and other receivables, prepaid deposits, trade and other payables, and dividends payable are the following amounts due from and to related parties:

| | As at February 11, 2018 | As at August 27, 2017 |
|---|---|-----------------------------|
| | (in thousands of dollars) (unaudited) | |
| Amounts due from related parties: | | |
| Amounts due from U.S. S.I.R. L.L.C. and its subsidiary | 11 | 10 |
| Amounts due from a company owned by a party related to a director of SIR | 42 | 34 |
| Prepaid deposits with related parties: | | |
| Amounts prepaid for consulting services to a company owned by a director of SIR | - | 13 |
| Amounts prepaid for fixtures to a shareholder of SIR | - | 5 |
| Amounts prepaid for design fees to a company owned by a shareholder of SIR | - | 6 |
| Amounts due to related parties: | | |
| Amounts due to companies owned by a shareholder or director of SIR | 54 | 41 |
| Amounts due to a company owned by a party related to a director of SIR | - | 21 |
| Dividends payable to shareholders | 700 | - |

- Received repayment against loans and advances from U.S. S.I.R. L.L.C. of \$0.1 million and \$0.1 million for the 12-week and 24-week periods ended February 11, 2018, respectively (\$0.07 million and \$0.08 million for the 12-week and 24-week periods ended February 12, 2017, respectively). SIR recognized interest income on those loans and advances of \$0.03 million and \$0.06 million for the 12-week and 24-week periods ended February 11, 2018, respectively (\$0.03 million and \$0.07 million for the 12-week and 24-week periods ended February 12, 2017, respectively). As at February 11, 2018, SIR has loans and advances (net of a provision) of \$0.8 million owing from U.S. S.I.R. L.L.C. (August 27, 2017 – \$0.8 million).
- As at February 11, 2018 and August 27, 2017, \$0.01 million is receivable from a company owned by a shareholder and director, together with a member of executive management of SIR. This advance is non-interest bearing and is payable on demand.
- Received repayment against a loan receivable from a company owned by a party related to a director of SIR of \$0.01 million and \$0.03 million for the 12-week and 24-week periods ended February 11, 2018, respectively (\$0.01 million and \$0.02 million for the 12-week and 24-week periods ended February 12, 2017, respectively). SIR recognized interest income on this loan of \$0.003 million and \$0.007 million for the 12-week and 24-week periods ended February 11, 2018, respectively (\$0.004 million and \$0.007 million for the 12-week and 24-week periods ended February 12, 2017, respectively). As at February 11, 2018 the balance of this loan receivable is \$0.25 million (August 27, 2017 – \$0.3 million).
- SIR owns an investment in common shares of a company owned by a party related to a shareholder of SIR. SIR does not have the ability to significantly influence the operations of this company and, accordingly, has accounted for the investment as a financial asset (available for sale) and is carried at nominal value.

Transactions with the SIR Royalty Income Fund

Advances receivable from the Fund and its subsidiaries as at February 11, 2018 were \$2.8 million (August 27, 2017 – \$3.3 million). Advances receivable are non-interest bearing and due on demand.

During Q2 2018 and YTD 2018, distributions of \$2.4 million and \$4.8 million were declared to the Fund by the Partnership, respectively, compared to \$2.3 million and \$4.0 million for Q2 2017 and YTD 2017, respectively. The Fund, indirectly through the Trust, is entitled to receive a pro rata share of all residual distributions. Distributions previously declared, but unpaid as at February 11, 2018 were \$3.9 million (August 27, 2017 – \$4.9 million) and are included in Ordinary LP Units and Class A LP Units of the Partnership in the consolidated statements of financial position.

The SIR Loan bears interest at 7.5% per annum. Interest expense on the SIR Loan totaled \$0.7 million and \$1.4 million for Q2 2018 and YTD 2018, respectively, and \$0.7 million and \$1.4 million for Q2 2017 and YTD 2017, respectively. Interest payable on the SIR Loan as at February 11, 2018 was \$0.3 million (August 27, 2017 – \$0.5 million).

SIR, through the Partnership, has entered into an arrangement with the Fund and the Trust whereby the Partnership will provide or arrange for the provision of services required in the administration of the Fund and the Trust. The Partnership has arranged for these services to be provided by SIR GP Inc., in its capacity as the managing general partner of the Partnership. The Partnership provided these services to the Fund and the Trust for consideration of \$0.006 million and \$0.012 million for Q2 2018 and YTD 2018, respectively (\$0.006 million and \$0.012 million for Q2 2017 and YTD 2017, respectively), which was the amount of consideration agreed to by the related parties.

Critical Accounting Estimates and Judgments

Management believes that there have been no substantial changes in the nature of critical accounting estimates since the year ended August 27, 2017. The reader will find this information in the annual MD&A for the year ended August 27, 2017.

Changes in Accounting Policies, Including Recently Issued Accounting Pronouncements

IFRS issued but not yet effective

IFRS 9, Financial Instruments – Classification and Measurement: In July 2014, the International Accounting Standards Board (IASB) issued the final version of IFRS 9, Financial Instruments, bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39, Financial Instruments: Recognition and Measurement. The mandatory effective date of IFRS 9 would be annual periods beginning on or after January 1, 2018. SIR will adopt the standard on August 27, 2018. Management is evaluating the standard and has not yet determined the impact on its consolidated financial statements.

IFRS 15, Revenue from Contracts with Customers, specifies how and when to recognize revenue as well as requiring entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18, Revenue, IAS 11, Construction Contracts, and a number of revenue-related interpretations. Application of the standard is mandatory for all IFRS reporters and it applies to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts. IFRS 15 was amended to clarify guidance in identifying performance indicators, licences of intellectual properties and principle versus agent and to provide additional expedients on transition. IFRS 15 must be applied in an entity's first annual IFRS financial statements for periods beginning on or after January 1, 2018. SIR will adopt the standard on August 27, 2018. Management is evaluating this amendment and has not yet determined the impact on its consolidated financial statements.

IFRS 7, Financial Instruments – Disclosure, has been amended to require disclosures on transition from IAS 39 to IFRS 9. This amendment will be adopted by SIR on August 27, 2018.

IFRS 16, Leases. On January 13, 2016, the International Accounting Standards Board (IASB) issued IFRS 16, Leases which replaces the current guidance in IAS 17, Leases. IFRS 16 requires lessees to recognize a lease liability reflecting future lease payments and a right of use asset for virtually all lease contracts. A depreciation charge for the right of use asset will be recorded within cost of corporate restaurant operations and corporate costs and an interest expense will be recorded within interest expense. IFRS 16 must be applied to an entity's first annual IFRS financial statements for periods beginning on or after January 1, 2019, with early adoption permitted if the entity has adopted IFRS 15. As SIR has contractual obligations in the form of operating leases under IAS 17, there may be a material increase to both assets and liabilities upon adoption of IFRS 16, and material changes to the timing of recognition of expenses associated with the lease arrangements. Management is evaluating the standard and has not yet determined the impact on its consolidated financial statements.

Changes in accounting policies

IAS 7, Statement of Cash Flows. The IASB issued an amendment to require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendment is effective for annual periods beginning on or after January 1, 2017. SIR will include the additional disclosures in the 2018 annual consolidated financial statements.

IAS 12, Income Taxes. The IASB issued an amendment to clarify the requirements for (a) recognizing deferred tax assets on unrealized losses, (b) deferred tax where an asset is measured at a fair value below the asset's tax base, and (c) certain other aspects of accounting for deferred tax assets. The amendment is effective for years beginning on or after January 1, 2017. The amendment did not have a material impact on the consolidated financial statements.

Financial Instruments

Management believes that there have been no substantial changes in the financial instruments since the year ended August 27, 2017. The reader will find this information in the annual MD&A for the year ended August 27, 2017.

Risks and Uncertainties

The performance of SIR is dependent on many factors. The restaurant industry generally, and in particular, the casual and fine dining segment of this industry, is intensely competitive with respect to price, service, location, food quality and qualified staff. Increases in minimum wage rates and other labour legislation may affect the growth and profitability of SIR, as a significant portion of its restaurant employees are paid at wage rates related to minimum wage. SIR Restaurants are subject to laws that prohibit or limit smoking in enclosed workplaces and/or certain outdoor public places, such as restaurant patios. There are many well-established competitors with greater financial and other resources than SIR. Competitors include national and regional chains, as well as individually owned restaurants. Recently, competition has increased in the mid-price, full-service, casual and fine dining sectors in which many of the SIR Restaurants operate. Some of SIR's competitors have been in existence for a substantially longer period than SIR and may be better established in the markets where SIR Restaurants are or may be located. In addition, factors such as business and economic conditions, changes in foreign exchange, availability of credit, inflation, increased food, labour and benefits costs, taxes, government regulations (including those governing alcoholic beverages), weather, seasonality, public safety issues and the availability and quality of food, services and products sold in the restaurants affect the restaurant industry in general and therefore SIR. Please refer to the Fund's March 14, 2018 Annual Information Form for further discussion on risks and uncertainties related to the Fund and SIR.

The Fund's distributions are subject to change based on a number of factors, including the cash reserves of the Fund, the Trust and the Partnership. The Trustees will continue their practice of regularly reviewing the Fund's distribution levels.

Outlook

Management believes that there are sufficient cash resources retained in SIR from its cash generated by operations and from its financing activities to fund its current working capital requirements, scheduled debt repayments, and future construction commitments.

Restaurants Canada estimates that the rate of growth of total sales in the full-service category, the category in which SIR competes, slowed by about 0.5% in 2017 compared to 2016. Restaurants Canada expects that while sales at full-service restaurants will continue to grow in the next five years, the rate of growth will slow by an additional 1% in 2018 compared to 2017. The Canadian full-service category has become increasingly competitive in recent years. While SIR believes it is well positioned to compete in this category, it will continue monitoring the economy and consumer confidence and their effects on the full-service category.

SIR has one commitment to lease a property in the Mimico neighbourhood of Etobicoke, Ontario upon which it plans to build one new Scaddabush restaurant. There can be no assurance that this restaurant will be opened or will become part of Royalty Pooled Restaurants

SIR completed renovations of 10 Jack Astor's locations during Fiscal 2017, two Jack Astor's locations in Q1 2018, and two more Jack Astor's locations in Q2 2018. This brings the total number of Jack Astor's renovations to 15 since the commencement of the renovation program at the end of calendar 2015. Subsequent to Q2 2018, SIR completed partial renovations at one additional Jack Astor's location. SIR is pleased with the performance of the renovated Jack Astor's locations and intends to implement similar renovations at the other Jack Astor's locations as part of its ongoing focus on strengthening its flagship brand and driving same store sales growth.

On November 22, 2017, the Ontario government passed legislation that raised Ontario's general minimum wage on January 1, 2018, and will raise it again on January 1, 2019, followed by annual increases at the rate of inflation. These changes will materially increase the cost of hourly labour in the majority of SIR's restaurants. These rapid increases to minimum wage may impact SIR's profitability and/or its ability to pass on increased costs through price increases without adversely affecting guest count velocity. SIR's Management is evaluating alternatives to offset the impact of these increases in an effort to reduce the price increases that otherwise may have to be implemented to mitigate anticipated cost increases.

SIR continues to focus on sustaining and growing existing restaurant sales and profits while managing costs. SIR continues to monitor economic conditions and consumer confidence and considers new restaurant developments and renovations to existing restaurants where appropriate and subject to availability of acceptable long-term financing. Based on

its assessment of these conditions, the timing of new restaurant construction and renovations as well as related opening schedules will be reviewed regularly by SIR and adjusted as necessary.

Forward Looking Information

Certain statements contained in this report, or incorporated herein by reference, including the information set forth as to the future financial or operating performance of the Fund or SIR, that are not current or historical factual statements may constitute forward-looking information within the meaning of applicable securities laws ("forward-looking statements"). Statements concerning the objectives, goals, strategies, intentions, plans, beliefs, expectations and estimates, and the business, operations, financial performance and condition of the Fund, the Trust, the Partnership, SIR, the SIR Restaurants or industry results, are forward-looking statements. The words "may", "will", "should", "would", "expect", "believe", "plan", "anticipate", "intend", "estimate" and other similar terminology and the negative of such expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of Fund, the Trust, the Partnership, SIR, the SIR Restaurants or industry results, to differ materially from the anticipated results, performance, achievements or developments expressed or implied by such forward-looking statements. These statements reflect Management's current expectations, estimates and projections regarding future events and operating performance and speak only as of the date of this document. Readers should not place undue importance on forward-looking statements and should not rely upon this information as of any other date. Risks related to forward-looking statements include, among other things, challenges presented by a number of factors, including: market conditions at the time of this filing; competition; changes in demographic trends; weather; changing consumer preferences and discretionary spending patterns; changes in consumer confidence; changes in national and local business and economic conditions; changes in foreign exchange; changes in availability of credit; legal proceedings and challenges to intellectual property rights; dependence of the Fund on the financial condition of SIR; legislation and governmental regulation including the cost and/or availability of labour as it relates to changes in minimum wage rates or other changes to labour legislation; accounting policies and practices; and the results of operations and financial condition of SIR. The foregoing list of factors is not exhaustive. Many of these issues can affect the Fund's or SIR's actual results and could cause their actual results to differ materially from those expressed or implied in any forward-looking statements made by, or on behalf of, the Fund or SIR. There can be no assurance that SIR will remain compliant in the future with all of its financial covenants under the Credit Agreement and imposed by the lender. Given these uncertainties, readers are cautioned that forward-looking statements are not guarantees of future performance, and should not place undue reliance on them. The Fund and SIR expressly disclaim any obligation or undertaking to publicly disclose or release any updates or revisions to any forward looking statements, except as required by securities legislation. Forward-looking statements are based on Management's current plans, estimates, projections, beliefs and opinions, and the Fund and SIR do not undertake any obligation to update forward-looking statements should assumptions related to these plans, estimates, projections, beliefs and opinions change, except as expressly required by applicable securities laws. This Management's Discussion and Analysis is provided as of March 22, 2018.

In formulating the forward-looking statements contained herein, Management has assumed that business and economic conditions affecting SIR's restaurants and the Fund will continue substantially in the ordinary course, including without limitation with respect to general industry conditions, competition, general levels of economic activity (including in downtown Toronto), regulations (including those regarding employees, food safety, tobacco and alcohol), weather, taxes, foreign exchange rates and interest rates, that there will be no pandemics or other material outbreaks of disease or safety issues affecting humans or animals or food products, and that there will be no unplanned material changes in its facilities, equipment, customer and employee relations, or credit arrangements. Recent changes in employment law, including announced increases in minimum wage, are factored into management's assumptions. These assumptions, although considered reasonable by Management at the time of preparation, may prove to be incorrect. In particular, Management has assumed that the tax effects on distributions will remain consistent with current regulations or pronouncements, and also in estimating the revenue for new restaurants, Management has assumed that they will operate consistent with other similar SIR restaurants, and has assumed that SIR will remain compliant in the future with all of its financial covenants under the Credit Agreement and imposed by the lender. For more information concerning the Fund's risks and uncertainties, please refer to the March 14, 2018 Annual Information Form, for the period ended December 31, 2017, which is available under the Fund's profile at www.sedar.com.

All of the forward-looking statements made in this report are qualified by these cautionary statements and other cautionary statements or factors contained herein, and there can be no assurance that the actual results or developments will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, the Fund or SIR.

Additional information related to the Fund, the Partnership, and SIR can be found at www.sedar.com under SIR Royalty Income Fund and on SIR's website at www.sircorp.com