



**SERVICE INSPIRED  
RESTAURANTS**

**SIR CORP.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FOR THE 16-WEEK AND 52-WEEK PERIODS ENDED AUGUST 26, 2018**

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**SIR CORP.**  
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***Executive Summary***

SIR Corp.'s ("SIR's") fourth quarter of Fiscal 2018 was from May 7, 2018 to August 26, 2018 inclusive. Highlights for SIR's 16-week and 52-week periods ended August 26, 2018 ("Q4 2018" and "Fiscal 2018", respectively) include:

***Consolidated revenue and Same Store Sales<sup>(1)</sup> ("SSS"):***

- Food and beverage revenue from corporate restaurant operations for Q4 2018 totaled \$104.1 million, an increase of 4.3%, or \$4.3 million, compared to the 16-week period ended August 27, 2017 ("Q4 2017"). Food and beverage revenue from corporate restaurant operations for Fiscal 2018 totaled \$310.8 million, up 6.0% from \$293.3 million for the 52-week period ended August 27, 2017 ("Fiscal 2017").
- Same Store Sales Growth ("SSSG")<sup>(1)</sup> was 2.2% for Q4 2018 and 3.0% for Fiscal 2018.
- SIR's flagship Concept Restaurant brand, Jack Astor's®, which generated approximately 74.0% of Pooled Revenue in Q4 2018, generated SSSG<sup>(1)</sup> of 4.2% and 4.3% for Q4 2018 and Fiscal 2018, respectively.
- Canyon Creek® had SSS<sup>(1)</sup> declines of 4.1% and 0.8% for Q4 2018 and Fiscal 2018, respectively.
- Scaddabush Italian Kitchen & Bar® ("Scaddabush") had SSSG<sup>(1)</sup> of 0.1% and 4.2% for Q4 2018 and Fiscal 2018, respectively.
- The Signature Restaurants had SSS<sup>(1)</sup> declines of 9.6% and 5.4% for Q4 2018 and Fiscal 2018, respectively.

***Investment in new and existing restaurants and closed restaurants***

- As part of SIR's focus on further strengthening its flagship Jack Astor's brand and driving SSSG<sup>(1)</sup>, SIR completed four full Jack Astor's renovations and one partial Jack Astor's renovation in Fiscal 2018.
- During Q2 2018, on December 11, 2017, SIR opened a new Reds® restaurant at the Square One shopping centre (Reds Square One) in Mississauga, Ontario.
- During Q2 2018, on November 28, 2017, SIR opened a new Scaddabush restaurant near the Sherway Gardens shopping centre in Etobicoke, Ontario, at the same location of the former Canyon Creek restaurant that was permanently closed during Q1 2018, effective October 15, 2017.
- During Fiscal 2017, SIR opened three new Scaddabush restaurants. 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 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 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

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(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 8 and to the definition of SSS in the Revenue section on page 10.*

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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)<sup>(2)</sup>***

- Net loss and comprehensive loss was \$1.9 million for Q4 2018, compared to net earnings and comprehensive income of \$4.7 million for Q4 2017. Net loss and comprehensive loss for Fiscal 2018 was \$9.8 million, compared to \$13.4 million for Fiscal 2017.
- Adjusted Net Earnings<sup>(2)</sup> were \$4.3 million in Q4 2018 and \$8.3 million in Fiscal 2018, compared to \$2.8 million and \$3.8 million in Q4 2017 and Fiscal 2017, respectively.

***EBITDA<sup>(3)</sup> and Adjusted EBITDA<sup>(3)</sup>***

- EBITDA<sup>(3)</sup> was \$8.8 million in Q4 2018, compared to \$7.4 million in Q4 2017, and Adjusted EBITDA<sup>(3)</sup> was \$9.8 million, up from \$9.2 million in Q4 2017.
- EBITDA<sup>(3)</sup> increased 24.8% from \$18.9 million in Fiscal 2017 to \$23.6 million in Fiscal 2018, and Adjusted EBITDA<sup>(3)</sup> was \$25.5 million, up from \$21.9 million in Fiscal 2017

***Outlook***

- The new Scaddabush restaurant in Etobicoke and the new Reds restaurant in Mississauga will be added to Royalty Pooled Restaurants on January 1, 2019.
- As at November 20, 2018, the date of this Management's Discussion and Analysis ("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.
- The landlord at one location has chosen to execute a demolition clause in the lease agreement, which will result in the closure of one restaurant in December 2018.

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(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, Vaughan, and Etobicoke, 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 7 of this document.*

## *Overview*

SIR is a private company amalgamated under the Business Corporations Act of Ontario. As at May 6, 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 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 August 26, 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 16-week and 52-week periods ended August 26, 2018 and August 27, 2017, respectively. The audited annual 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>	16-Week	16-Week	52-Week	52-Week
	Period Ended August 26, 2018	Period Ended August 27, 2017	Period Ended August 26, 2018	Period Ended August 27, 2017
	(in thousands of dollars)			
<b>Corporate restaurant operations:</b>				
Food and beverage revenue	104,083	99,834	310,762	293,293
Cost of corporate restaurant operations	94,155	91,197	283,444	270,395
<b>Earnings from corporate restaurant operations</b>	<b>9,928</b>	<b>8,637</b>	<b>27,318</b>	<b>22,898</b>
<b>Net earnings (loss) and comprehensive income (loss)</b>	<b>(1,867)</b>	<b>4,666</b>	<b>(9,845)</b>	<b>(13,361)</b>
<b>Adjusted Net Earnings<sup>(2)</sup></b>	<b>4,312</b>	<b>2,815</b>	<b>8,275</b>	<b>3,848</b>

## Statement of Financial Position

	August 26, 2018	August 27, 2017
	(in thousands of dollars)	
Total assets	75,250	73,818
Total non-current liabilities	190,649	166,036

## Adjusted Net Earnings (Loss)<sup>(2)</sup>, EBITDA<sup>(3)</sup> and Adjusted EBITDA<sup>(3)</sup>

Adjusted Net Earnings (Loss)<sup>(2)</sup>, EBITDA<sup>(3)</sup> and Adjusted EBITDA<sup>(3)</sup> 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)<sup>(2)</sup> consist of net earnings (loss) excluding the change in amortized cost of Ordinary LP Units and Class A LP Units of the Partnership. EBITDA<sup>(3)</sup> and Adjusted EBITDA<sup>(3)</sup> 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)<sup>(2)</sup>, EBITDA<sup>(3)</sup> and Adjusted EBITDA<sup>(3)</sup> 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)<sup>(2)</sup>:

	16-Week Period Ended August 26, 2018	16-Week Period Ended August 27, 2017	52-Week Period Ended August 26, 2018	52-Week Period Ended August 27, 2017
	(in thousands of dollars)			
Net earnings (loss) for the period	(1,867)	4,666	(9,845)	(13,361)
Change in amortized cost of Ordinary LP Units and Class A LP Units of the Partnership	6,179	(1,851)	18,120	17,209
<b>Adjusted Net Earnings</b> <sup>(2)</sup>	<b>4,312</b>	<b>2,815</b>	<b>8,275</b>	<b>3,848</b>

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

	16-Week Period Ended August 26, 2018	16-Week Period Ended August 27, 2017	52-Week Period Ended August 26, 2018	52-Week Period Ended August 27, 2017
	(in thousands of dollars)			
Net loss and comprehensive loss for the period	(1,867)	4,666	(9,845)	(13,361)
Add (deduct):				
(Recovery of) income taxes	(313)	(136)	(310)	(1)
Interest expense	551	390	1,544	1,150
Interest on loan payable to SIR Royalty Income Fund	932	931	3,035	3,032
Depreciation and amortization	3,322	3,391	11,018	10,912
Change in amortized cost of Ordinary LP Units and Class A LP Units of the Partnership	6,179	(1,851)	18,120	17,209
<b>EBITDA</b> <sup>(3)</sup>	<b>8,804</b>	<b>7,391</b>	<b>23,562</b>	<b>18,941</b>
Interest (income) and other expense (income) – net	(214)	63	(507)	101
Impairment of goodwill	86	-	86	-
Impairment of non-financial assets	937	1,095	937	1,095
Loss on disposal of property and equipment	115	248	240	395
Pre-opening costs	45	418	1,143	1,379
<b>Adjusted EBITDA</b> <sup>(3)</sup>	<b>9,773</b>	<b>9,215</b>	<b>25,461</b>	<b>21,911</b>
Income from Class A & B GP Units of the Partnership <sup>(4)</sup> (Not included in EBITDA <sup>(3)</sup> and Adjusted EBITDA <sup>(3)</sup> above)	1,139	1,062	3,289	3,207
6% Royalty obligations under License and Royalty Agreement <sup>(5)</sup>	6,019	5,700	17,740	17,077

(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**

<b>Reconciliation of Revenue from Consolidated Financial Statements to Pooled Revenue</b>	16-Week Period Ended August 26, 2018	16-Week Period Ended August 27, 2017	52-Week Period Ended August 26, 2018	52-Week Period Ended August 27, 2017
	(in thousands of dollars)			
Revenue reported in consolidated financial statements	104,083	99,834	310,762	293,293
Less: Revenue from corporate restaurant operations excluded from the Royalty pool	(3,985)	(6,485)	(16,207)	(13,779)
<b>Revenue for Restaurants in Royalty pool (Pooled Revenue)</b>	<b>100,098</b>	<b>93,349</b>	<b>294,555</b>	<b>279,514</b>

<b>Reconciliation of Revenue from Consolidated Financial Statements to Same Store Sales<sup>(1)</sup></b>	16-Week Period Ended August 26, 2018	16-Week Period Ended August 27, 2017	52-Week Period Ended August 26, 2018	52-Week Period Ended August 27, 2017
	(in thousands of dollars)			
Revenue reported in consolidated financial statements	104,083	99,834	310,762	293,293
Less: Revenue from corporate restaurant operations excluded from Same Store Sales <sup>(1)</sup>	(9,054)	(6,826)	(25,666)	(16,569)
<b>Same Store Sales<sup>(1)</sup></b>	<b>95,029</b>	<b>93,008</b>	<b>285,096</b>	<b>276,724</b>

<b>Same Store Sales<sup>(1)</sup> by Segment</b>	16-Week Period Ended August 26, 2018	16-Week Period Ended August 27, 2017	% Fav./ (Unfav.)	52-Week Period Ended August 26, 2018	52-Week Period Ended August 27, 2017	% Fav./ (Unfav.)
	(in thousands of dollars)					
Jack Astor's	74,172	71,200	4.2%	216,080	207,251	4.3%
Canyon Creek	6,742	7,029	(4.1%)	23,597	23,780	(0.8%)
Scaddabush	7,796	7,792	0.1%	23,780	22,812	4.2%
Signature Restaurants	6,319	6,987	(9.6%)	21,639	22,881	(5.4%)
<b>Same Store Sales<sup>(1)</sup></b>	<b>95,029</b>	<b>93,008</b>	<b>2.2%</b>	<b>285,096</b>	<b>276,724</b>	<b>3.0%</b>

*Summary of Quarterly Results*

<b>Statement of Operations</b>	4 <sup>th</sup> Quarter Ended August 26, 2018 (16 weeks)	3 <sup>rd</sup> Quarter Ended May 6, 2018 (12 weeks)	2 <sup>nd</sup> Quarter Ended February 11, 2018 (12 weeks)	1 <sup>st</sup> Quarter Ended November 19, 2017 (12 weeks)	4 <sup>th</sup> Quarter Ended August 27, 2017 (16 weeks)	3 <sup>rd</sup> Quarter Ended May 7, 2017 (12 weeks)	2 <sup>nd</sup> Quarter Ended February 12, 2017 (12 weeks)	1 <sup>st</sup> Quarter Ended November 20, 2016 (12 weeks)
	(in thousands of dollars)							
<b>Corporate Restaurant Operations</b>								
Food and beverage revenue	104,083	72,121	66,180	68,378	99,834	67,536	62,364	63,559
Cost of corporate restaurant operations	94,155	64,905	61,925	62,459	91,197	61,737	57,619	59,842
<b>Earnings from corporate restaurant operations</b>	<b>9,928</b>	<b>7,216</b>	<b>4,255</b>	<b>5,919</b>	<b>8,637</b>	<b>5,799</b>	<b>4,745</b>	<b>3,717</b>
<b>Net earnings (loss) and comprehensive income (loss)</b>	<b>(1,867)</b>	<b>(11,626)</b>	<b>8,007</b>	<b>(4,359)</b>	<b>4,666</b>	<b>(6,912)</b>	<b>(9,905)</b>	<b>(1,210)</b>
<b>Adjusted Net Earnings (Loss)<sup>(2)</sup></b>	<b>4,312</b>	<b>3,251</b>	<b>(431)</b>	<b>1,143</b>	<b>2,815</b>	<b>1,366</b>	<b>225</b>	<b>(558)</b>

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

	4 <sup>th</sup> Quarter Ended August 26, 2018 (16 weeks)	3 <sup>rd</sup> Quarter Ended May 6, 2018 (12 weeks)	2 <sup>nd</sup> Quarter Ended February 11, 2018 (12 weeks)	1 <sup>st</sup> Quarter Ended November 19, 2017 (12 weeks)	4 <sup>th</sup> Quarter Ended August 27, 2017 (16 weeks)	3 <sup>rd</sup> Quarter Ended May 7, 2017 (12 weeks)	2 <sup>nd</sup> Quarter Ended February 12, 2017 (12 weeks)	1 <sup>st</sup> Quarter Ended November 20, 2016 (12 weeks)
	(in thousands of dollars)							
Net earnings (loss) and comprehensive income (loss)	(1,867)	(11,626)	8,007	(4,359)	4,666	(6,912)	(9,905)	(1,210)
Change in amortized cost of the Ordinary LP Units and Class A LP Units of the Partnership	6,179	14,877	(8,438)	5,502	(1,851)	8,278	10,130	652
<b>Adjusted Net Earnings (Loss)<sup>(2)</sup></b>	<b>4,312</b>	<b>3,251</b>	<b>(431)</b>	<b>1,143</b>	<b>2,815</b>	<b>1,366</b>	<b>225</b>	<b>(558)</b>

*Selected Unaudited Consolidated Statement of Cash Flows Information:*

	4 <sup>th</sup> Quarter Ended August 26, 2018 (16 weeks)	3 <sup>rd</sup> Quarter Ended May 6, 2018 (12 weeks)	2 <sup>nd</sup> Quarter Ended February 11, 2018 (12 weeks)	1 <sup>st</sup> Quarter Ended November 19, 2017 (12 weeks)	4 <sup>th</sup> Quarter Ended August 27, 2017 (16 weeks)	3 <sup>rd</sup> Quarter Ended May 7, 2017 (12 weeks)	2 <sup>nd</sup> Quarter Ended February 12, 2017 (12 weeks)	1 <sup>st</sup> Quarter Ended November 20, 2016 (12 weeks)
	(in thousands of dollars)							
<b>Cash provided by (used in) operations</b>	11,241	5,440	(501)	(434)	10,672	4,334	(1,404)	(1,478)
<b>Cash used in investing activities</b>	(1,507)	(1,962)	(5,528)	(3,814)	(5,194)	(2,709)	(2,660)	(3,245)
<b>Cash provided by (used in) financing activities</b>	(7,910)	(3,568)	4,837	3,939	(3,528)	(1,928)	3,151	4,651
Increase (decrease) in cash and cash equivalents during the period	1,824	(90)	(1,192)	(309)	1,950	(303)	(913)	(72)
Cash and cash equivalents – Beginning of period	2,959	3,049	4,241	4,550	2,600	2,903	3,816	3,888
<b>Cash and cash equivalents – End of period</b>	<b>4,783</b>	<b>2,959</b>	<b>3,049</b>	<b>4,241</b>	<b>4,550</b>	<b>2,600</b>	<b>2,903</b>	<b>3,816</b>

### **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 16-week and 52-week periods ended August 26, 2018, revenue was \$104.1 million and \$310.8 million, respectively.
- ii. Same Store Sales<sup>(1)</sup> ("SSS") – this is a sub-set of (i) above used for tracking comparable year-over-year sales. For Q4 2018 and Q4 2017, SSS<sup>(1)</sup> includes all SIR Restaurants, except for those restaurants that were not open for the entire comparable periods in fiscal 2018 and fiscal 2017. The Abbey's Bakehouse and Abbey's Bakehouse retail outlet are not SIR Restaurants. SSS<sup>(1)</sup> for Scaddabush includes three Scaddabush restaurants. The SSS<sup>(1)</sup> performance for Canyon Creek does not include the location in Etobicoke, Ontario, as its sales are excluded from the calculation of SSS<sup>(1)</sup> similar to any permanently closed location. The SSS<sup>(1)</sup> 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, Vaughan and Etobicoke, Ontario are also excluded from the calculation of SSS<sup>(1)</sup> for the 16-week and 52-week periods ended August 26, 2018, since they were not open for the entire comparable periods in 2018 and 2017. For the 16-week and 52-week periods ended August 26, 2018, SSS<sup>(1)</sup> were \$95.0 million and \$285.1 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 August 26, 2018, there were 57 Royalty Pooled Restaurants. For the 16-week and 52-week periods ended August 26, 2018, Pooled Revenue was \$100.0 million and \$294.6 million, respectively. The applicable Royalty payable to the Partnership on the Pooled Revenue for these periods was \$6.0 million and \$17.7 million, respectively. The Royalty payable for the 52-week period ended August 26, 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<sup>(1)</sup>**

SIR reported SSSG<sup>(1)</sup> of 2.2% and 3.0% for Q4 2018 and Fiscal 2018, respectively.

Jack Astor's, SIR's flagship Concept Restaurant brand, which contributed approximately 74% of Q4 2018 Pooled Revenue, generated SSSG<sup>(1)</sup> of 4.2% and 4.3% for Q4 2018 and Fiscal 2018, respectively. SSSG<sup>(1)</sup> 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. During Q3 2018, SIR launched take-out and delivery services with SkipTheDishes, Canada's leading food delivery company, at a small number of Jack Astor's locations. SSSG<sup>(1)</sup> has been positively impacted by these new sales and, based on the success of the limited SkipTheDishes rollout, additional Jack Astor's locations launched take-out and delivery services with SkipTheDishes in Q4 2018. SIR completed renovations at two Jack Astor's locations in Q4 2017 (Vaughan and Brampton, Ontario) which resulted in the closure of these restaurants for a combined total of 19 days. There were no closures for renovations in Q4 2018. In addition to the aforementioned factors that impacted SSS<sup>(1)</sup> in Q4 2018, Fiscal 2018 SSSG<sup>(1)</sup> was impacted by the closure of four Jack Astor's locations for full renovations (Dartmouth, Nova Scotia, two locations in London, Ontario, and the location at 10 Dundas St. East in downtown Toronto), and one location for a partial renovation (Kingston, Ontario) for a combined total of 44 days, compared to eight Jack Astor's renovations completed in Fiscal 2017 that resulted in the closure of these restaurants for a combined total of 66 days, including 20 days at the high-volume Front Street location.

Canyon Creek had SSS<sup>(1)</sup> declines of 4.1% and 0.8% for Q4 2018 and Fiscal 2018, respectively. The decline in Q4 2018 SSS<sup>(1)</sup> reflects the impact on sales performance of a lighter marketing campaign in Q4 2018 than in the comparable quarter last year. The sales from the Canyon Creek location in Etobicoke, which was permanently closed in Q1 2018, have been excluded from the calculation of SSSG<sup>(1)</sup> for Q4 2018 and Fiscal 2018. A new Scaddabush restaurant was opened at this location on November 28, 2017.

Scaddabush SSS<sup>(1)</sup> performance for Q4 2018 includes four Scaddabush locations (Richmond Hill, Mississauga, Scarborough, Ontario and Yonge and Gerrard in downtown Toronto). Scaddabush generated SSSG<sup>(1)</sup> of 0.1% and 4.2% for Q4 2018 and Fiscal 2018, respectively. The new Scaddabush restaurants on Front Street in downtown Toronto and in Oakville, Vaughan, and Etobicoke, Ontario are excluded from the calculation of Q4 2018 and Fiscal 2018 SSSG<sup>(1)</sup> as they were not in operation for the entire comparable periods a year ago.

The downtown Toronto Signature Restaurants had SSS<sup>(1)</sup> declines of 9.6% and 5.4% for Q4 2018 and Fiscal 2018, respectively. The Loose Moose continues to be impacted by increased competition and weaker event attendance in Q4 2018 and Fiscal 2018 compared to the same periods in the prior year. The Q4 2018 and Fiscal 2018 SSSG<sup>(1)</sup> for the Signature Restaurants does not include Far Niente/FOUR/Petit Four, as this location was closed in Q1 2017 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 90.5% and 91.2% for Q4 2018 and Fiscal 2018, respectively, compared to 91.3% and 92.2% for Q4 2017 and Fiscal 2017, respectively. Costs as a percentage of revenue for Q4 2018 and Fiscal 2018 included lower pre-opening costs compared to Q4 2017 and Fiscal 2017, as construction for one new restaurant was just started in Q4 2018, compared to one new restaurant that was near completion and opened subsequent to Q4 2017 (Reds at Square One shopping centre). Pre-opening costs are typical for new restaurant openings. Lower costs as a percentage of revenue for Q4 2018 and Fiscal 2018 are attributable to lower impairment of non-financial assets, along with lower repairs and maintenance costs, resulting from four full renovations and one partial renovation in Fiscal 2018 (none in Q4 2018) compared to ten renovations in Fiscal 2017 (two in Q4 2017). These lower costs were partially offset by higher labour costs resulting from the impact of the minimum wage increase in Ontario that was effective January 1, 2018.

### ***Corporate Costs***

Corporate costs were \$4.7 million and \$15.3 million for Q4 2018 and Fiscal 2018, respectively, compared to \$4.6 million and \$14.8 million for Q4 2017 and Fiscal 2017, respectively. The increases are primarily the result of higher general and administration costs and professional fees, partially offset by lower travel and stock-based compensation costs.

### ***Interest Expense***

Interest expense for Q4 2018 and Fiscal 2018 was \$0.6 million and \$1.5 million, respectively, compared to \$0.4 million and \$1.2 million for Q4 2017 and Fiscal 2017, respectively. The increases are a result of higher debt outstanding, in addition to new lease financing during Q4 2018 and Fiscal 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 Q4 2018, the change in amortized cost is an expense of \$6.2 million and is due to an increase in the underlying Fund unit price compared to the end of Q3 2018. For Fiscal 2018, the change in amortized cost is an expense of \$18.1 million and is due to an increase in the underlying Fund unit price compared to the end of Q4 2017. The change in amortized cost was income of \$1.9 million and expense of \$17.2 million for Q4 2017 and Fiscal 2017, respectively.

Interest on the SIR Loan totaled \$0.9 million and \$3.0 million for Q4 2018 and Fiscal 2018, respectively, and \$0.9 million and \$3.0 million for Q4 2017 and Fiscal 2017, respectively.

### ***EBITDA<sup>(3)</sup> and Adjusted EBITDA<sup>(3)</sup>***

EBITDA<sup>(3)</sup> totaled \$8.8 million and \$23.6 million for Q4 2018 and Fiscal 2018, respectively, compared to \$7.4 million and \$18.9 million for Q4 2017 and Fiscal 2017, respectively. Adjusted EBITDA<sup>(3)</sup> totaled \$9.8 million and \$25.5 million for Q4 2018 and Fiscal 2018, respectively, up from \$9.2 million and \$21.9 million for Q4 2017 and Fiscal 2017, respectively. (See Selected Consolidated Historical Financial Information – Reconciliation of net earnings (loss) and comprehensive income (loss) for the period to EBITDA<sup>(3)</sup> and Adjusted EBITDA<sup>(3)</sup>).

### ***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 \$0.9 million and \$3.0 million for the 16-week and 52-week periods ended August 26, 2018, respectively, and \$0.9 million and \$3.0 million for the 16-week and 52-week periods ended August 27, 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*

	16-Week Period Ended August 26, 2018	16-Week Period Ended August 27, 2017	52-Week Period Ended August 26, 2018	52-Week Period Ended August 27, 2017
	(in thousands of dollars)			
Balance – Beginning of the period	134,354	135,157	130,807	123,821
Change in amortized cost of the Ordinary LP Units and Class A LP Units of the Partnership	6,179	(1,851)	18,120	17,209
Distributions paid to Ordinary LP and Class A LP unitholders	(2,669)	(2,499)	(11,063)	(10,223)
Balance – End of period	137,864	130,807	137,864	130,807
Less: Current portion of Ordinary LP Units and Class A LP Units of the Partnership	(11,358)	(9,991)	(11,358)	(9,991)
Ordinary LP Units and Class A LP Units of the Partnership	126,506	120,816	126,506	120,816

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

Pooled Revenue <sup>(6)</sup>	100,326	93,349	294,555	279,514
Partnership royalty income <sup>(7)</sup>	6,019	5,700	17,740	17,077
Other Income	7	8	24	24
Partnership expenses	(25)	(27)	(79)	(78)
Net earnings of the Partnership	6,001	5,681	17,685	17,023
SIR's residual interest in the earnings of the Partnership:				
Income from Class A & B GP Units of the Partnership	(1,139)	(1,062)	(3,289)	(3,207)
Income from Class C GP Units of the Partnership	(919)	(919)	(2,992)	(2,992)
Fund's interest in the earnings of the Partnership	3,943	3,700	11,404	10,824

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 their 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 2017. 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 August 26, 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***

	16-Week Period Ended August 26, 2018	16-Week Period Ended August 27, 2017	52-Week Period Ended August 26, 2018	52-Week Period Ended August 27, 2017
	(in thousands of dollars)			
Cash provided by operations	11,241	10,672	15,748	12,124
Cash used in investing activities	(1,507)	(5,194)	(12,813)	(13,808)
Cash provided by (used in) financing activities	(7,910)	(3,528)	(2,702)	2,346
Increase in cash and cash equivalents during the period	1,824	1,950	233	662
Cash and cash equivalents – Beginning of period	2,959	2,600	4,550	3,888
Cash and cash equivalents – End of period	4,783	4,550	4,783	4,550

Cash provided by operations increased by \$0.6 million in Q4 2018 compared to Q4 2017. The increase is primarily attributable to an increase in Adjusted Net Earnings<sup>(2)</sup> of \$1.5 million, and an increase in income taxes received of \$0.6 million, partially offset by an increase in distributions paid to the Ordinary LP and Class A LP unitholders of \$0.2 million, a decrease in landlord and other inducements received of \$0.2 million, and an unfavourable variance in the net change in working capital items of \$0.4 million. Cash provided by operations increased \$3.6 million for Fiscal 2018 compared to Fiscal 2017. This increase is primarily attributable an increase in Adjusted Net Earnings<sup>(2)</sup> of \$4.4 million, an increase in landlord and other inducements received of \$1.6 million, and an increase in income taxes received of \$0.9 million, partially offset by an increase in distributions paid to the Ordinary LP and Class A LP unitholders of \$0.8 million, and an unfavourable variance in the net change in working capital items of \$1.4 million.

Investing activities used cash of \$1.5 million and \$12.8 million for Q4 2018 and Fiscal 2018, respectively, compared to \$5.2 million and \$13.8 million for Q4 2017 and Fiscal 2017, respectively. Purchases of property and equipment and other assets – net amounted to \$1.7 million and \$13.2 million for Q4 2018 and Fiscal 2018, respectively, and \$5.2 million and \$14.0 million for Q4 2017 and Fiscal 2017, respectively. The majority of the capital expenditures for Fiscal 2018 relate to: i) the renovations of five Jack Astor's locations in the year, including one partial renovation in Q3 2018; ii) the construction of a four-season patio at the recently opened Scaddabush location in Etobicoke, Ontario; iii) the construction of the new Scaddabush restaurant in Etobicoke, Ontario that opened in Q2 2018; iv) the construction of the new Reds restaurant in Mississauga, Ontario that opened in Q2 2018; and v) the beginning of construction of the new Scaddabush restaurant in the Mimico neighbourhood of Etobicoke, Ontario. The majority of the capital expenditures for Fiscal 2017 relate to: i) the construction of the new Scaddabush restaurant on Front Street in downtown Toronto that opened during Q1 2017; ii) the renovations of ten Jack Astor's locations during Fiscal 2017, including two during Q4 2017; iii) the opening of two new Scaddabush locations in Oakville and Vaughan, Ontario during Q3 2017 and Q4 2017, respectively; and iv) the construction of a new Reds restaurant in Mississauga, Ontario that opened in Q2 2018.

For Q4 2018 and Fiscal 2018, cash used in financing activities was \$7.9 million and \$2.7 million, respectively. Cash used in financing activities was \$3.5 million for Q4 2017 and cash provided by financing activities was \$2.3 million for Fiscal 2017. The decrease in bank indebtedness was \$1.0 million in Q4 2018 and \$1.2 million for Fiscal 2018. Proceeds from issuance of long-term debt were \$2.0 million and \$11.5 million for Q4 2018 and Fiscal 2018, respectively, and \$nil and \$10.0 million for the corresponding periods a year ago. Principal repayments on long-term debt were \$7.8 million and \$9.3 million for Q4 2018 and Fiscal 2018, respectively, and \$2.5 million and \$4.0 million, respectively, for the comparable periods a year ago. Proceeds from lease financing were \$0.6 million and \$1.9 million for Q4 2018 and Fiscal 2018, respectively, compared to \$nil for the corresponding periods a year ago. Principal repayments on lease financing were \$0.2 million and \$0.3 million for Q4 2018 and Fiscal 2018, respectively, compared to \$nil for the corresponding periods a year ago. Interest paid was \$1.1 million and \$4.1 million for Q4 2018 and Fiscal 2018, respectively, compared to \$1.0 million and \$3.8 million for Q4 2017 and Fiscal 2017, respectively. Dividends paid on the common shares of SIR were \$0.4 million and \$1.0 million in Q4 2018 and Fiscal 2018, respectively (\$nil in both Q4 2017 and Fiscal 2017, respectively).

The 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.

As at August 26, 2018, SIR had current assets of \$17.8 million (August 27, 2017 – \$17.4 million) and current liabilities of \$50.9 million (August 27, 2017 – \$63.2 million) resulting in a working capital deficit of \$33.1 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, as amended on December 8, 2017 and July 6, 2018, provides for a maximum principal amount of \$50.0 million consisting of a \$20.0 million revolving term credit facility (Credit Facility 1), and a \$30.0 million revolving term loan (Credit Facility 2). SIR and the Lender have also entered into a purchase card agreement providing credit of up to an additional \$5.0 million.

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%, principal repaid in one bullet repayment on July 6, 2021. 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 can be repaid and reborrowed at any time during the term of the agreement. Credit Facility 2 bears interest at the prime rate plus 2.25% and/or the bankers’ acceptance rate plus 3.25%. Under the Credit Agreement, subsequent advances on Credit Facility 2 may be requested (subject to availability and lender approval), in minimum multiples of \$1.0 million, to finance capital spending on new and renovated restaurants. Each advance under Credit Facility 2 is repayable in equal quarterly instalments based on a seven year amortization, with the remaining outstanding principal balance due on July 6, 2021.

During the 52-week period ended August 26, 2018, the Company drew \$2.0 million of the \$2.2 million leasing facility. Subsequent to Q4 2018, the Company drew an additional \$0.2 million of the \$2.2 million leasing facility. These advances are repayable in equal monthly instalments over 48 months.

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.

### ***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).

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.

At the current date, SIR has one commitment to lease a property, on which it plans to build a new Scaddabush restaurant. SIR has entered into purchasing commitments for \$1.3 million for this restaurant, of which \$0.08 million is included in property and equipment as at August 26, 2018. Subsequent to August 26, 2018, SIR incurred costs of approximately \$0.05 million for this restaurant. Final costs of construction are subject to uncertainties as to their amounts and timing. Items such as finalization of design and final construction quotations could change the total cost of these projects. There can be no assurance that the new Scaddabush restaurant will be opened or will become part of Royalty Pooled Restaurants.

As at August 26, 2018, \$10.8 million and \$8.2 million were outstanding on SIR's Credit Agreement for Credit Facility 1 and Credit Facility 2, respectively.

SIR has the following contractual obligations as of August 26, 2018 (in thousands of dollars):

	1 Year	2 – 3 Years	4 – 5 Years	Thereafter	Total
Operating leases	15,381	27,374	20,763	26,067	89,585
Long-term debt principal repayments	2,588	16,401	-	-	18,989
Lease repayments	539	1,078	234	-	1,851
SIR Loan principal repayment	-	-	-	40,000	40,000
	<b>18,508</b>	<b>44,853</b>	<b>20,997</b>	<b>66,067</b>	<b>150,425</b>

## 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:

	16-Week Period Ended August 26, 2018	16-Week Period Ended August 27, 2017	52-Week Period Ended August 26, 2018	52-Week Period Ended August 27, 2017
(in thousands of dollars)				
<b>Transactions with Related Parties</b>				
<b>Corporate costs</b>				
Occupancy costs and maintenance services provided by a company owned by a party related to a shareholder of SIR	-	-	-	48
Maintenance services provided by a shareholder of SIR	2	1	8	2
Consulting services provided by a company owned by a director and shareholder of SIR	-	-	-	4
Consulting services provided by a company owned by a director of SIR	20	161	118	161
Design fees provided by a company owned by a shareholder of SIR	-	-	14	-
<b>Direct costs of restaurant operations</b>				
Occupancy costs provided by a company owned by a party related to a director and shareholder of SIR	19	10	9	10
Maintenance services provided by a company owned by a party related to a shareholder of SIR	-	8	-	34
Services provided by a shareholder of SIR	3	7	11	11
<b>Property and equipment</b>				
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	-	-	-	38
Fixtures purchased from a shareholder of SIR	2	17	30	63
Equipment purchased from a company owned by a director and shareholder of SIR, together with a member of executive management of SIR	16	29	118	52
<b>Prepaid deposits</b>				
Consulting services provided by a company owned by a director of SIR	-	13	-	13
Fixtures provided by a shareholder of SIR	-	5	-	5
Design fees provided by a company owned by a shareholder of SIR	-	6	-	6
Consulting services provided by a director of the Company	2	-	2	-

Included in trade and other receivables and payables are the following amounts due from and to related parties:

	As at August 26, 2018	As at August 27, 2017
	(in thousands of dollars)	
<b>Amounts due from related parties:</b>		
Amounts due from U.S. S.I.R. L.L.C. and its subsidiary	6	10
Amounts due from a company owned by a party related to a director of SIR	53	34
<b>Amounts due to related parties:</b>		
Amounts due to companies owned by a shareholder or director of SIR	46	41
Amounts due to a company owned by a party related to a director of SIR	19	21

- Received repayment against loans and advances from U.S. S.I.R. L.L.C. of \$0.06 million and \$0.2 million for the 16-week and 52-week periods ended August 26, 2018, respectively \$0.03 million and \$0.2 million for the 16-week and 52-week periods ended August 27, 2017, respectively). SIR recognized interest income on those loans and advances of \$0.04 million and \$0.1 million for the 16-week and 52-week periods ended August 26, 2018, respectively \$0.04 million and \$0.1 million for the 16-week and 52-week periods ended August 27, 2017, respectively). As at August 26, 2018, SIR has loans and advances (adjusted for a provision for recovery) of \$1.0 million owing from U.S. S.I.R. L.L.C. (August 27, 2017 – \$0.8 million).
- SIR advanced \$0.01 million to a company owned by a shareholder and director, together with a member of executive management of SIR, during the 52-week period ended August 27, 2017. 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 \$0.02 million and \$0.05 million for the 16-week and 52-week periods ended August 26, 2018, respectively \$0.02 million and \$0.04 million for the 16-week and 52-week periods ended August 27, 2017, respectively). SIR recognized interest income on this loan of \$0.004 million and \$0.01 million for the 16-week and 52-week periods ended August 26, 2018, respectively (\$0.01 million and \$0.02 million for the 16-week and 52-week periods ended August 27, 2017, respectively). As at August 26, 2018 the balance of this loan receivable is \$0.2 million (August 27, 2017 – \$0.3 million).
- SIR owned an investment in common shares of a company owned by a party related to a shareholder of SIR. SIR did 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). During the 52-week period ended August 26, 2018, SIR sold these shares for cash proceeds of \$0.1 million and recorded a gain of \$0.1 million.

### ***Transactions with the SIR Royalty Income Fund***

Advances receivable from the Fund and its subsidiaries as at August 26, 2018 were \$3.1 million (August 27, 2017 – \$3.3 million). Advances receivable are non-interest bearing and due on demand.

During Q4 2018 and Fiscal 2018, distributions of \$3.9 million and \$11.4 million, respectively, were declared to the Fund by the Partnership, compared to \$3.7 million and \$10.8 million for Q4 2017 and Fiscal 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 August 26, 2018 were \$5.3 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 \$0.9 million and \$3.0 million for Q4 2018 and Fiscal 2018, respectively, and \$0.9 million and \$3.0 million for Q4 2017 and Fiscal 2017, respectively. Interest payable on the SIR Loan as at August 26, 2018 was \$0.4 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 \$0.007 million and \$0.024 million for Q4 2018 and Fiscal 2018, respectively (\$0.007 million and \$0.024 million for Q4 2017 and Fiscal 2017, respectively), which was the amount of consideration agreed to by the related parties.

### ***Critical Accounting Estimates and Judgments***

The preparation of SIR's consolidated financial statements requires Management to use judgment in applying its accounting policies and estimates and assumptions about the future. Estimates and other judgments are continuously evaluated and are based on Management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. The following discusses the most significant judgments and estimates that SIR has made in the preparation of its consolidated financial statements.

#### **Impairment of non-financial assets**

Property and equipment and intangible assets (other than goodwill) are tested for impairment when events or changes in circumstances indicated that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which they are separately identifiable cash flows (CGUs). The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use (being the present value of the expected future cash flows of the relevant asset or CGU, as determined by management).

Goodwill is reviewed for impairment annually or at any time if an indicator of impairment exists. Management monitors goodwill for internal purposes based on its CGUs, which are the restaurants.

SIR evaluated impairment losses, other than goodwill impairment, for potential reversals when events or circumstances warrant such consideration. Goodwill is assessed for impairment together with the assets and liabilities of the related CGU. Impairment losses are recognized in the costs of corporate restaurant operations.

During the 52-week period ended August 26, 2018, \$0.09 million impairment of goodwill was recognized by SIR (52-week period ended August 27, 2017 – \$nil). The impairment for the 52-week period ended August 26, 2018 is the result of a decision to close one restaurant. The recoverable amount was based on value-in-use. Significant assumptions used in the discounted cash flow model included estimated cash flows for the restaurant, the duration of the estimated cash flows, the discount rate of 13% and the estimated proceeds to dispose of the assets at the end of the lease term. Management has performed sensitivity testing and has determined that a reasonable change in the assumptions would not result in a material change to the goodwill impairment.

As a result of a decline in sales and earnings from certain restaurants, SIR conducted an impairment analysis of certain restaurants' non-financial assets. The analysis indicated that the estimated recoverable amounts for three restaurants (2017 – three restaurants) was less than the carrying value of the restaurants' non-financial assets (property and equipment).

In Fiscal 2018, SIR recorded an impairment loss of \$0.9 million in respect of one Signature restaurant and two Jack Astor's restaurants. The recoverable amount for the Signature restaurant was based on value-in-use using a discounted cash flow model. The recoverable amounts for the Jack Astor's restaurants were based on the discounted cash flow (fair value less cost to sell). Significant assumptions used in these models include the estimate of cash flows and a discount rate of 13% for the value-in-use methodology, and a discount rate of 16% for the fair value less cost to sell methodology. Management has performed sensitivity testing on the estimates and determined that a reasonable change in the estimates would not result in a material change in the impairment of the property and equipment.

In Fiscal 2017, SIR recorded an impairment loss of \$1.1 million in respect of one Signature restaurant and two Jack Astor's restaurants. The recoverable amount for the Signature restaurant and one of the Jack Astor's restaurants was based on value-in-use using a discounted cash flow model. Significant assumptions used in these models include the estimate of cash flows and a discount rate of 13%. Management has performed sensitivity testing on the estimates and determined that a reasonable change in the estimates would not result in a material change in the impairment of the property and equipment.

For the remaining Jack Astor's restaurant, the recoverable amount was estimated using a depreciated replacement cost methodology (fair value less cost to sell).

## **Loans and advances**

Loans and advances are recorded at amortized cost and are written down to their estimated realizable amount when there is evidence of an impairment. As at August 26, 2018, SIR evaluated its loans and advances to U.S. S.I.R. L.L.C. for impairment. SIR determined the estimated recoverable amounts by using a discounted cash flow model. Significant assumptions used in the discounted cash flow model include the expected future cash payments. Based on the analysis completed, a recovery of \$0.3 million for the 52-week period ended August 26, 2018 (52-week period ended August 27, 2017 – provision of \$0.08 million) was recognized in the consolidated statements of operations and comprehensive loss.

## **Consolidation of the Partnership**

The determination of the entity being exposed to or having rights to variable returns from its involvement with the Partnership and having the ability to affect these returns through its power over the Partnership required significant judgments. Based on an evaluation of the activities of the Partnership and the Partnership Agreement, management concluded the substance of the relationship between the Partnership, SIR and the Fund indicates that the Partnership is controlled by SIR. Accordingly, SIR has consolidated the Partnership.

## **Ordinary LP Units and Class A LP Units of the Partnership**

The classification of a financial instrument as a liability or equity requires significant judgment. Based on an evaluation of the Partnership Agreement and rights of SIR and SIR GP Inc. under this agreement, management concluded that SIR has an obligation to pay distributions once declared. Accordingly, the Ordinary LP Units and Class A LP Units of the Partnership held by the Fund have been classified as a liability in the consolidated statements of financial position.

In addition, accounting for the Ordinary LP Units and Class A LP Units of the Partnership at amortized cost also requires significant estimates. Management is required to estimate the future cash flows for the distributions on the Ordinary LP Units and Class A LP Units, which are estimated using the changes in the underlying unit price of the Fund units adjusted for taxes and SIR's loan payable to the Fund. Accordingly, the adjustments and methods used to estimate the cash flows are subject to uncertainty due to the fact that the expected cash flows can only be observed indirectly.

The current portion of the Ordinary LP Units and Class A LP Units is estimated based on the expected cash payments in the next fiscal year. The actual cash payments could differ from the estimates due to changes in the Fund's distribution policy, requirements of the Fund to settle its obligations, such as income taxes, and the performance of the Royalty Pooled Restaurants.

## **Income Taxes**

SIR has recognized certain deferred tax liabilities related to its investments in subsidiaries based on management's estimate of the amount of the deferred tax liability that may reverse in the foreseeable future. In estimating the amount of the deferred tax liability, management considered SIR's strategies and its future financing requirements. Changes in SIR's strategic plan and financing requirements could result in a change in the amount of the deferred tax liability recognized.

## ***Changes in Accounting Policies, Including Recently Issued Accounting Pronouncements***

### **IFRS adopted during the period**

IAS 7, Statement of Cash Flows. The International Accounting Standards Board (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 included the additional disclosures in note 11 of 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.

### **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 this standard and expects that the anticipated change in the provision for loans and advances will not have a material impact on the 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. SIR will adopt IFRS 15 using the retrospective method which requires that the comparatives are restated. Revenue arising from the sale of gift cards will be reclassified from costs of corporate restaurant operations to food and beverage revenue. In addition, revenue arising from the expected breakage of gift card sales will be recognized starting in the year the gift cards are sold. As at August 26, 2018 and August 27, 2017, the gift card liability will decrease by \$0.7 million and \$0.5 million respectively. Net loss for the 52-week period ended August 26, 2018 will decrease by \$0.2 million.

**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 will adopt IFRS 16 using the modified retrospective approach which requires that the adjustment be recorded in the opening deficit and comparatives are not restated. Management is implementing plans to have the infrastructure and data requirements for the implementation of IFRS 16 in place. Management is still evaluating how IFRS 16 will affect current business activities, lease and other restaurant contract negotiations, budgeting and controls. Management plans to adopt several of the practical expedients available under IFRS 16. Further evaluation is ongoing regarding the impacts on the consolidated financial statements.

### ***Financial Instruments***

Financial assets and liabilities have been classified into categories that determine their basis of measurement and, for items measured at fair value, whether changes in fair value are recognized in the consolidated statements of operations or in comprehensive loss. SIR's financial instruments consist of cash and cash equivalents, trade and other receivables, loans and advances, bank indebtedness, trade and other payables, long-term debt, loan payable to the Fund, and Ordinary LP Units and Class A LP Units of the Partnership. The fair values of cash and cash equivalents, trade and other receivables, bank indebtedness, and trade and other payables approximate their carrying amounts due to their short-term maturity. The carrying value of the loans and advances approximates fair values as the effective interest rate approximates current market rates. The fair value of the long-term debt as at August 26, 2018 is \$20.0 million and is determined based on the estimated contractual schedule of payments as the interest rate varies with the current market rates or, in the case of the finance lease obligations, the effect interest rate approximates current market rates. The fair value of the Ordinary LP Units and Class A LP Units of the Partnership could only be determined through the valuation of the financial instruments. The Ordinary LP Units and Class A LP Units of the Partnership are held by the Fund and there is no active market for the Ordinary LP Units and Class A LP Units. As a result, the determination of its fair value is not practicable within the constraints of timeliness and cost.

The loan payable to the Fund is due to a related party and there is no active market for the debt. SIR intends to hold the loan payable to the Fund until its maturity on October 12, 2044. The fair value of the loan payable to the Fund as at September 30, 2018 is estimated to be \$42.0 million (January 1, 2018 - \$42.5 million).

The fair value of the loan payable to the Fund is estimated by discounting the expected cash flows using a current market interest rate adjusted for the Company's credit risk. In determining the appropriate discount rate, management

considered available market information as well as the credit risk for SIR.

Management has estimated the discount rate by considering comparable corporate bond rates, risk free rates and SIR's credit risk.

During the nine-month period ended September 30, 2018, management adjusted the discount rate from 7.0% at January 1, 2018 to 7.05% at September 30, 2018. The adjustment consists of an estimated decrease in the corporate bond rate and the comparative risk free rate of 0.09%, offset by an increase of 0.14% in the Canadian risk free rate.

SIR's financial instruments exposed to credit risk include cash and cash equivalents, trade and other receivables and loans and advances. SIR minimizes the credit risk of cash and cash equivalents by depositing funds with reputable financial institutions. SIR's trade and other receivables primarily comprise amounts due from major credit card companies; therefore, management believes that SIR's trade and other receivables credit risk exposure is limited. SIR monitors the collectability of its loans and advances, predominantly due from related parties, by reviewing them for impairment on an individual basis and recording the instrument at its estimated recoverable amount. SIR has determined that the loans and advances to U.S. S.I.R. L.L.C. are impaired based on estimated future cash flows. Accordingly, the carrying values of these loans and advances are recorded at their estimated recoverable amounts, which were determined by discounting the expected future cash flows.

SIR is exposed to interest rate risk with respect to its credit facility because it has a floating interest rate. The loan payable to the Fund has a fixed interest rate. Accordingly, changes in interest rates for this financial liability would not impact the consolidated statements of operations and comprehensive loss or the carrying value of this financial liability. However the fair value of this financial liability will vary with changes in the interest rates.

SIR is exposed to price risk as the expected cash flows used in the estimate of the amortized cost of the Ordinary LP Units and Class A LP Units of the Partnership are derived from the market price of the Fund units adjusted for taxes and SIR's loan payable to the Fund. Accordingly, the change in the carrying value of the Ordinary LP Units and Class A LP Units changes with changes in the market price of the Fund units.

### ***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, two Jack Astor's locations in Q2 2018, and one partial renovation of a Jack Astor's location in Q3 2018. Subsequent to August 26, 2018, SIR completed a renovation at an additional Jack Astor's location (Kanata, Ontario). This brings the total number of Jack Astor's renovations to 16 since the commencement of the renovation program at the end of calendar 2015. 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 further strengthening its flagship brand and driving same store sales growth.

Subsequent to August 26, 2018, the new provincial government, elected on June 7, 2018, announced plans to repeal portions of employment legislation passed by the previous provincial government (Bill 148). This legislation included an increase in Ontario's general minimum wage that was effective on January 1, 2018, and proposed to raise it again on January 1, 2019, followed by annual increases at the rate of inflation. The new Ontario government has confirmed plans to freeze the general minimum wage at the current level until 2020. The government also confirmed plans to implement annual increases to the general minimum wage, tied to inflation, starting in 2020, and changes to the previous government's personal emergency-leave rules. SIR's Management continues to evaluate alternatives to mitigate the impact of previously enacted changes.

Subsequent to the end of Fiscal 2018, a dividend payable of \$1.0 million was declared to the holders of the issued and outstanding common shares of SIR as at August 26, 2018.

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.

The landlord at one location has chosen to execute a demolition clause in the lease agreement, which will result in the closure of one restaurant in December 2018.

### ***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 November 20, 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, cannabis, 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 addition, 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](http://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](http://www.sedar.com) under SIR Royalty Income Fund and on SIR's website at [www.sircorp.com](http://www.sircorp.com)*