SIR CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE 12-WEEK PERIOD ENDED NOVEMBER 17, 2019

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Q1 2020 Executive Summary

SIR Corp.'s ("SIR's") first quarter of Fiscal 2020 was from August 26, 2019 to November 17, 2019 ("Q1 2020") inclusive.

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

- Food and beverage revenue from corporate restaurant operations for Q1 2020 totaled $62.1 million, a decrease of 10.2%, or $7.0 million, compared to the 12-week period ended November 18, 2018 ("Q1 2019").
- Consolidated SSS[(1)] declined 8.0% for Q1 2020.
- SIR's flagship Concept Restaurant brand, Jack Astor's®, which generated approximately 69.0% of Pooled Revenue in Q1 2020, had a SSS[(1)] decline of 9.3% for Q1 2020.
- Scaddabush Italian Kitchen & Bar® ("Scaddabush") had a SSS[(1)] decline of 3.5% for Q1 2020.
- Canyon Creek® had a SSS[(1)] decline of 12.0% for Q1 2020.
- The Signature Restaurants had a SSS[(1)] decline of 3.6% for Q1 2020.
- Please refer to page 10 for a discussion on the factors that impacted SSS[(1)] in Q1 2020.

Investment in new and existing restaurants and closed restaurants

- During Q1 2020, effective September 23, 2019, SIR permanently closed the Jack Astor's restaurant on John Street in downtown Toronto at the end of the lease, as SIR was unable to negotiate an economically acceptable lease extension due to the rent and property tax escalations at this location in recent years.
- During Q1 2020, on September 26, 2019, SIR opened a new Duke's Refresher® and Bar ("Duke's Refresher") in the St. Lawrence Market neighbourhood of downtown Toronto, at the former location of the Jack Astor's restaurant that closed in Fiscal 2019.
- During Q1 2020, effective October 13, 2019, SIR permanently closed the Canyon Creek restaurant in Burlington, Ontario and opened a new Scaddabush restaurant at this location subsequent to Q1 2020, on November 19, 2019.

Net Earnings (Loss) and Comprehensive Income (Loss), Adjusted Net Earnings (Loss)[(1)], EBITDA[(1)], and Adjusted EBITDA[(1)]

- EBITDA[(1)] was positively impacted by the adoption of International Financial Reporting Standard 16 ("IFRS 16"). Please refer to page 12 for a discussion on the impact of IFRS 16 on EBITDA[(1)] in Q1 2020.
- Net earnings and comprehensive income was $33.7 million for Q1 2020, compared to net loss and comprehensive loss of $10.6 million for Q1 2019.
- Adjusted Net Loss[(1)] was $1.0 million in Q1 2020, compared to Adjusted Net Earnings[(1)] of $0.7 million in Q1 2019.
- EBITDA[(1)] was $7.3 million in Q1 2020, compared to $4.1 million in Q1 2019, and Adjusted EBITDA[(1)] was $4.0 million, down from $4.1 million in Q1 2019.

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(1) Same store sales ("SSS"), same store sales growth ("SSSG"), Adjusted Net Earnings (Loss), Earnings before interest, tax, depreciation, and amortization ("EBITDA"), and Adjusted EBITDA are non-GAAP financial measures and do not have standardized meanings prescribed by International Financial Reporting Standards ("IFRS"). For additional information regarding these financial measures, including full details on how these financial measures are calculated, see the "Description of Non-IFRS Measures" section of this MD&A (page 24).

Outlook

- During Q4 2019, SIR opened a new Scaddabush restaurant in the Mimico neighbourhood of Etobicoke, Ontario. This restaurant is expected to be added to Royalty Pooled Restaurants on January 1, 2020.
- The closed Jack Astor's restaurant in the St. Lawrence Market neighbourhood of downtown Toronto and the closed Jack Astor's restaurant on John Street in downtown Toronto will cease to be a part of Royalty Pooled Restaurants on January 1, 2020.
- Subsequent to Q1 2020, on November 19, 2019, SIR opened a new Scaddabush restaurant in Burlington, Ontario at the location of the closed Canyon Creek restaurant noted above. The closed Canyon Creek restaurant will cease to be a part of Royalty Pooled Restaurants on January 1, 2020. The new Scaddabush restaurant is expected to be added to Royalty Pooled Restaurants on January 1, 2021, but there can be no assurance of this.
- SIR continues to focus on sustaining and growing existing restaurant sales and profits while effectively managing costs. SIR continues to assess changes in the marketplace, including economic conditions and consumer confidence, and has adopted a more cautious stance toward new restaurant openings.
- SIR's management believes that recent performance in the full-service restaurant industry has been impacted by a shift in consumer behaviour. Consumer spending at full-service restaurants in Ontario, where the majority of SIR's restaurants are located, has been restrained by a number of factors, including: the impact of a minimum wage increase on menu pricing, changes to impaired driving legislation impacting beverage sales, rising costs of living, and high levels of consumer debt. In addition, an increasing number of consumers are choosing to order through meal delivery services instead of in-restaurant dining.

Overview

SIR is a private company amalgamated under the Business Corporations Act of Ontario. As at November 17, 2019, SIR owned 60 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 two Duke's Refresher and Bar restaurants in downtown Toronto and one seasonal restaurant, Abbey's Bakehouse®, which are not part of Royalty Pooled Restaurants. SIR owns 100% of all its Canadian restaurants. As at November 17, 2019, 58 SIR Restaurants were included in Royalty Pooled Restaurants. (55 operating restaurants and three closed restaurants).

Effective October 13, 2019, SIR permanently closed the Canyon Creek restaurant in Burlington, Ontario. In accordance with the License and Royalty Agreement, as of October 12, 2019, the 15th anniversary of the closing date of the Fund's Initial Public Offering, SIR is no longer required to pay a "Make-Whole Payment" in respect of a permanently closed Royalty Pooled Restaurant. On January 1, 2020, SIR will convert the same number of Class A GP units that it received for this restaurant when it was 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 will have the net effect of increasing the Fund's share of the SIR Royalty Limited Partnership (the "Partnership") earnings. Canyon Creek Burlington will cease to be a part of Royalty Pooled Restaurants on January 1, 2020.

Effective September 23, 2019, SIR permanently closed the Jack Astor's restaurant on John Street in downtown Toronto at the end of the lease, as SIR was unable to negotiate an economically acceptable lease extension given rent and property tax escalations in the location in recent years. Under terms of the License and Royalty Agreement between SIR and the Partnership, SIR is obligated to indirectly pay the Fund, via the Partnership, a "Make-Whole Payment", subject to certain terms, equal to $0.06 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, 2019. On January 1, 2020, SIR will convert the same number of Class A GP units that it received for this restaurant when it was 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 will have the net effect of increasing the Fund's share of the Partnership's earnings. Jack Astor's John Street will cease to be a part of Royalty Pooled Restaurants on January 1, 2020.

Effective February 4, 2019, SIR closed the Jack Astor's restaurant in the St. Lawrence Market neighbourhood of downtown Toronto. Under terms of the License and Royalty Agreement between SIR and the Partnership, SIR is obligated to indirectly pay 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 date of closure until December 31, 2019. On January 1, 2020, SIR will convert the same number of Class A GP units that it received for this restaurant when it was 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 will have the net effect of increasing the Fund's share of the Partnership's earnings. Jack Astor's St. Lawrence Market will cease to be a part of Royalty Pooled Restaurants on January 1, 2020.

On January 1, 2019, two restaurants were added to Royalty Pooled Restaurants: the Scaddabush restaurant near the Sherway Gardens shopping centre in Etobicoke, Ontario (opened November 28, 2017) and Reds Square One in Mississauga, Ontario (opened December 11, 2017). One restaurant - the closed Canyon Creek restaurant on Front Street in downtown Toronto - was removed from Royalty Pooled Restaurants on January 1, 2019.

On September 26, 2019, SIR opened a new Duke's Refresher in the St. Lawrence Market neighbourhood of downtown Toronto. 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 have occurred in calendar year 2019, Duke's Refresher is not being considered for inclusion in the Royalty Pool. The Duke's Refresher brand is currently being managed and developed by SIR's Signature group. Accordingly, the two Duke's Refresher locations in downtown Toronto are classified as a Signature restaurant for SIR 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 sequential accounting periods of 12, 12, 12 and 16 (or 17) weeks, respectively. The fiscal years for 2020 and 2019 consist of 53 weeks and 52 weeks, respectively.

Seasonality

The full-service restaurant sector of the Canadian foodservice industry, in which SIR operates, experiences seasonal fluctuations in revenues. Favourable summer weather generally results in increased revenues during SIR's fourth quarter (ending on the last Sunday in August) when patios can be open. Certain holidays and observances also affect dining patterns both favourably and unfavourably.

Selected Consolidated Historical Financial Information

The following tables set out selected financial information of SIR for the 12-week periods ended November 17, 2019 and November 18, 2018, respectively. The unaudited interim consolidated financial statements of SIR are prepared in accordance with IFRS and are presented in Canadian dollars. This information should be read in conjunction with the annual audited consolidated financial statements of SIR, including the notes thereto.

Statements of Operations and Comprehensive Income (Loss)	12-Week Period Ended November 17, 2019	12-Week Period Ended November 18, 2018
	(in thousands of dollars) (unaudited)	
Corporate restaurant operations:		
Revenue	62,153	69,164
Cost of corporate restaurant operations	57,333	63,689
Earnings from corporate restaurant operations	**4,820**	**5,475**
Net earnings (loss) and comprehensive income (loss)	**33,728**	**(10,577)**
Adjusted Net Earnings (Loss)(1)	**(963)**	**688**

Statement of Financial Position	November 17, 2019	August 25, 2019
	(in thousands of dollars)	
Total assets	187,537	71,735
Total non-current liabilities	229,871	160,978

Adjusted Net Earnings (Loss)(1), EBITDA(1) and Adjusted EBITDA(1)

Adjusted Net Earnings (Loss)(1), EBITDA(1) and Adjusted EBITDA(1) 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)(1) consist of net earnings (loss) excluding the change in amortized cost of Ordinary LP Units and Class A LP Units of the Partnership. EBITDA(1) and Adjusted EBITDA(1) 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)(1), EBITDA(1) and Adjusted EBITDA(1) are useful measures 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 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)[(1)]:

	12-Week Period Ended November 17, 2019	12-Week Period Ended November 18, 2018
	(in thousands of dollars) (unaudited)	
Net earnings (loss) for the period	33,728	(10,577)
Change in amortized cost of Ordinary LP Units and Class A LP Units of the Partnership	(34,691)	11,265
Adjusted Net Earnings (Loss) [(1)]	**(963)**	**688**

The following table reconciles net earnings (loss) and comprehensive income (loss) for the 12-week periods ended November 17, 2019 and November 18, 2018 to EBITDA[(1)] and Adjusted EBITDA[(1)]:

	12-Week Period Ended November 17, 2019	12-Week Period Ended November 18, 2018
	(in thousands of dollars) (unaudited)	
Net loss and comprehensive loss for the period	33,728	(10,577)
Add (deduct):		
Recovery of income taxes	(204)	-
Interest expense	422	331
Interest on lease obligations	1,693	-
Interest on loan payable to SIR Royalty Income Fund	695	694
Depreciation and amortization	5,730	2,386
Change in amortized cost of Ordinary LP Units and Class A LP Units of the Partnership	(34,691)	11,265
EBITDA[(1)]	**7,373**	**4,099**
Interest and other expense (income) – net	(69)	24
Loss on disposal of property and equipment	62	12
Cash rent	(3,982)	-
Pre-opening costs	652	12
Adjusted EBITDA[(1)]	**4,036**	**4,147**
Income from Class A & B GP Units of the Partnership[(2)] (Not included in EBITDA[(1)] and Adjusted EBITDA[(1)] above)	748	754
6% Royalty obligations under License and Royalty Agreement[(3)]	3,705	3,983

(2) 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.

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

Results of Operations

Reconciliation of Revenue from Consolidated Financial Statements to Pooled Revenue	12-Week Period Ended November 17, 2019	12-Week Period Ended November 18, 2018
	(in thousands of dollars) (unaudited)	
Food and beverage revenue reported in consolidated financial statements	62,069	69,117
Less: Revenue from corporate restaurant operations excluded from the Royalty pool	(1,408)	(2,734)
Revenue for Restaurants in Royalty pool (Pooled Revenue)	**60,661**	**66,383**

Reconciliation of Revenue from Consolidated Financial Statements to Same Store Sales[(1)]	12-Week Period Ended November 17, 2019	12-Week Period Ended November 18, 2018
	(in thousands of dollars) (unaudited)	
Food and beverage revenue reported in consolidated financial statements	62,069	69,117
Less: Revenue from corporate restaurant operations excluded from Same Store Sales[(1)]	(1,396)	(3,181)
Same Store Sales[(1)]	**60,673**	**65,936**

Same Store Sales[(1)] by Segment	12-Week Period Ended November 17, 2019	12-Week Period Ended November 18, 2018	% Fav./ (Unfav.)
	(in thousands of dollars) (unaudited)		
Jack Astor's	41,496	45,737	(9.3%)
Scaddabush	10,136	10,506	(3.5%)
Canyon Creek	3,208	3,645	(12.0%)
Signature Restaurants	5,833	6,048	(3.6%)
Same Store Sales[(1)]	**60,673**	**65,936**	**(8.0%)**

Summary of Quarterly Results

Statement of Operations	1st Quarter Ended November 19, 2019 (12 weeks)	4th Quarter Ended August 25, 2019 (16 weeks)	3rd Quarter Ended May 5, 2019 (12 weeks)	2nd Quarter Ended February 10, 2019 (12 weeks)	1st Quarter Ended November 18, 2018 (12 weeks)	4th Quarter Ended August 26, 2018 (16 weeks) (restated)	3rd Quarter Ended May 6, 2018 (12 weeks) (restated)	2nd Quarter Ended February 11, 2018 (12 weeks) (restated)
				(in thousands of dollars) (unaudited)				
Corporate Restaurant Operations								
Revenue (restated for IFRS 15)	62,153	97,099	67,713	65,716	69,164	104,184	72,226	66,368
Cost of corporate restaurant operations (restated for IFRS 15)	57,333	88,941	62,126	61,374	63,689	94,203	64,970	62,073
Earnings from corporate restaurant operations	**4,820**	**8,158**	**5,587**	**4,342**	**5,475**	**9,981**	**7,256**	**4,295**
Net earnings (loss) and comprehensive income (loss)	**33,728**	**42,722**	**(11,198)**	**3,801**	**(10,577)**	**(1,814)**	**(11,586)**	**8,047**
Adjusted Net Earnings (Loss)(1)	**(963)**	**2,272**	**1,248**	**253**	**688**	**4,365**	**3,291**	**(391)**

The following table reconciles net earnings (loss) and comprehensive income (loss) for the quarters to Adjusted Net Earnings (Loss)(1):

	1st Quarter Ended November 19, 2019 (12 weeks)	4th Quarter Ended August 25, 2019 (16 weeks)	3rd Quarter Ended May 5, 2019 (12 weeks)	2nd Quarter Ended February 10, 2019 (12 weeks)	1st Quarter Ended November 18, 2018 (12 weeks)	4th Quarter Ended August 26, 2018 (16 weeks) (restated)	3rd Quarter Ended May 6, 2018 (12 weeks) (restated)	1st Quarter Ended November 19, 2017 (12 weeks) (restated)
				(in thousands of dollars) (unaudited)				
Net earnings (loss) and comprehensive income (loss)	33,728	42,722	(11,198)	3,801	(10,577)	(1,814)	(11,586)	8,047
Change in amortized cost of the Ordinary LP Units and Class A LP Units of the Partnership	(34,691)	(40,450)	12,446	(3,548)	11,265	6,179	14,877	(8,438)
Adjusted Net Earnings (Loss)(1)	**(963)**	**2,272**	**1,248**	**253**	**688**	**4,365**	**3,291**	**(391)**

Selected Consolidated Statement of Cash Flows Information:

	4th Quarter Ended November 19, 2019 (12 weeks)	4th Quarter Ended August 25, 2019 (16 weeks)	3rd Quarter Ended May 5, 2019 (12 weeks)	2nd Quarter Ended February 10, 2019 (12 weeks)	1st Quarter Ended November 18, 2018 (12 weeks)	4th Quarter Ended August 26, 2018 (16 weeks)	3rd Quarter Ended May 6, 2018 (12 weeks)	2nd Quarter Ended February 11, 2018 (12 weeks)
				(in thousands of dollars) (unaudited)				
Cash provided by (used in) operations	1,986	9,644	3,509	(2,757)	(3,491)	11,241	5,440	(501)
Cash used in investing activities	(1,236)	(3,351)	(3,523)	(1,650)	(1,706)	(1,507)	(1,962)	(5,528)
Cash provided by (used in) financing activities	1,129	(5,006)	(856)	3,460	4,558	(7,910)	(3,568)	4,837
Increase (decrease) in cash and cash equivalents during the period	1,879	1,287	(870)	(947)	(639)	1,824	(90)	(1,192)
Cash and cash equivalents – Beginning of period	3,614	2,327	3,197	4,144	4,783	2,959	3,049	4,241
Cash and cash equivalents – End of period	5,493	3,614	2,327	3,197	4,144	4,783	2,959	3,049

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 this Management Discussion & Analysis ("MD&A"). The following definitions are provided for greater clarification of these groupings:

i. Revenue (per the SIR consolidated statements of operations and comprehensive income (loss)) – this is the total consolidated revenue of all restaurants for the period. The restaurants include all SIR Restaurants as well as Abbey's Bakehouse. For the 12-week period ended November 17, 2019, revenue was $62.1 million.

ii. Same Store Sales(1) ("SSS") – this is a sub-set of Revenue used for tracking comparable year-over-year sales. For Q1 2020 and Q1 2019, SSS(1) includes all SIR Restaurants, except for those restaurants that were not open for the entire comparable periods in fiscal 2020 and fiscal 2019, and Abbey's Bakehouse as it is not a SIR Restaurant. The SSS(1) performance does not include the Jack Astor's location in the St. Lawrence Market neighbourhood of downtown Toronto, the Jack Astor's location on John Street in downtown Toronto, the Canyon Creek locations on Front Street in downtown Toronto, and the Canyon Creek location in Burlington, Ontario as their sales are excluded from the calculation of SSS(1) similar to any permanently closed locations. The SSS(1) performance for Scaddabush does not include the new Scaddabush location in the Mimico neighbourhood of Etobicoke, Ontario that opened in Q4 2019. The new Duke's Refresher in the St. Lawrence Market neighbourhood of downtown Toronto is also excluded from the calculation of SSS(1) for the 12-week period ended November 17, 2019, since they it was not open for the entire comparable periods in Fiscal 2020 and Fiscal 2019. For the 12-week period ended November 17, 2019, SSS(1) were $60.7 million.

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 November 17, 2019, there were 58 Royalty Pooled Restaurants (56 operating restaurants and two closed restaurant). For the 12-week period ended November 17, 2019, Pooled Revenue was $60.7 million. The applicable Royalty payable to the Partnership on the Pooled Revenue for this period was $3.7 million. The Royalty payable for Q1 2020includes the recognition of one Make-Whole payment totaling $0.06 million with respect to the closed Jack Astor's location on John Street in downtown Toronto from its date of closure to December 31, 2019.

Same Store Sales(1)

SIR reported an overall SSS(1) decline of 8.0% for Q1 2020. SSS(1) are typically impacted by changes in guest traffic and average cheque amount. Other factors are identified below.

SIR believes that its recent SSS(1) performance has been impacted by a shift in consumer behaviour related to spending at full-service restaurants, especially in Ontario.

SIR believes that the recent rapid growth of delivery services in commercial foodservice has negatively impacted the volume of guest visits to full-service restaurants. In addition, due to the nature of take-out and delivery orders, guests who choose these options are unable to order alcoholic beverages, which has contributed to a decline in beverage sales at SIR restaurants.

Effective December 18, 2018, Ontario introduced new impaired driving laws, including higher mandatory fines and/or imprisonment for many alcohol-impaired driving offences. In addition, the new legislation gives police officers the authority to demand roadside breathalyzer tests from any driver. While SIR supports the initiative to eliminate impaired driving and remains dedicated to responsible alcohol service, SIR believes that the introduction of stricter legislation has contributed to lower alcoholic beverage sales in full-service restaurants. The decline in alcoholic beverage sales has impacted the majority of SIR restaurants, with certain locations that cater to guests that live within walking distance (downtown Toronto locations) experiencing smaller declines than locations in areas where the majority of guest traffic uses a motor vehicle to travel to the restaurant.

On January 1, 2018, the minimum wage in Ontario increased by 23%. To help offset the increased labour costs, most Ontario restaurants, including SIR, increased their prices, which SIR believes contributed to a decline in full-service restaurant visits compared to prior years. Subsequent to these events, Ontario restaurant guests appear to be dining out less frequently. According to Restaurants Canada data, real commercial food service sales (sales adjusted for menu inflation) in Ontario declined 0.2% in calendar year 2018 (despite the generally higher menu prices) and are expected to rebound only slightly in calendar year 2019.

Jack Astor's, SIR's flagship Concept Restaurant brand, which contributed approximately 69% of Q1 2020 Pooled Revenue, had a SSS(1) decline of 9.3% for Q1 2020. There were no renovations at any Jack Astor's locations in Q1 2020, compared to two renovations in Q1 2020 (Kanata and Mississauga, Ontario), resulting in the closure of these restaurants for a total of 20 days in Q1 2019. The sales from the two permanently closed Jack Astor's locations (the former locations in the

St. Lawrence Market neighbourhood and on John Street in downtown Toronto) have been excluded from the calculation of SSS(1) for Q1 2020. Beginning in late 2019, SIR's management began implementing a number of strategies to address declining food and beverage sales, resulting from changes in consumer behaviour, and changing guest preferences.

Scaddabush SSS(1) performance for Q1 2020 includes eight Scaddabush locations (Mississauga, Richmond Hill, Scarborough, Oakville, Vaughan, and Etobicoke, Ontario, as well as Front Street and Yonge and Gerrard in downtown Toronto). Scaddabush had a SSS(1) decline of 3.5% for Q1 2020. The Scaddabush restaurant in the Mimico neighbourhood of Etobicoke, Ontario is excluded from the calculation of Q1 2020 SSS(1) as it was not in operation for the entire comparable period a year ago. During Q3 2019, SIR closed the Scaddabush location at the Square One shopping centre in Mississauga, Ontario for décor refresh and a major menu update. The refined pizza and pasta program implemented at this first Scaddabush location was rolled-out to the remainder of the Scaddabush locations during Q1 2020 to drive Same Store Sales Growth ("SSSG")(1).

Canyon Creek had a SSS(1) decline of 12.0% for Q1 2020. Sales from the closed Canyon Creek locations on Front Street in downtown Toronto (permanently closed in Q2 2019) and in Burlington, Ontario have been excluded from the calculation of SSS(1) performance for Q1 2020. SIR's management continues to evaluate options for the remaining restaurants in the Canyon Creek portfolio to improve performance.

The downtown Toronto Signature Restaurants had a SSS1) decline of 3.6% for Q1 2020. The Q1 2020 SSS(1) for the Signature Restaurants does not include the new Duke's Refresher in the St. Lawrence Market neighbourhood of downtown Toronto which opened during Q1 2020 on September 26, 2019.

Cost of Corporate Restaurant Operations

Costs of corporate restaurant operations as a percentage of revenue were 92.2% for Q1 2020, compared to 92.1% for Q1 2019. Costs as a percentage of revenue for Q1 2020 included lower food, labour and general operating partially offset by higher pre-opening costs.

Pre-opening costs were higher in Q1 2020, compared to Q1 2019, and reflect the costs associated with two new restaurants that were under construction. One of these restaurants, the new Duke's Refresher in the St. Lawrence Market neighbourhood of downtown Toronto, opened in Q1 2020. Pre-opening costs in Q1 2020 also reflect the construction of one other new restaurant that was opened subsequent to Q1 2020 (the new Scaddabush restaurant in Burlington). Pre-opening costs for Q1 2019 were the initial costs for the construction of the new Scaddabush restaurant in the Mimico neighbourhood of Etobicoke that opened in the last quarter of Fiscal 2019. Pre-opening costs are typical for new restaurant openings.

Corporate Costs

Corporate costs were $3.2 million for Q1 2020, compared to $3.7 million Q1 2019.

Interest Expense

Interest expense for Q1 2020 was $0.4 million, compared to $0.3 million for Q1 2019.

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 Q1 2020, the change in amortized cost is income of $34.7 million and is due to a decrease in the underlying Fund unit price compared to the end of Q4 2019. The change in amortized cost was an expense of $11.3 million for Q1 2019.

Interest on the SIR Loan totaled $0.7 million for both Q1 2020 and Q1 2019.

EBITDA[(1)] and Adjusted EBITDA[(1)]

EBITDA[(1)] totaled $7.4 million for Q1 2020, compared to $4.1 million for Q1 2019. EBITDA[(1)] was impacted by the adoption of IFRS 16 on August 26, 2019, as the majority of occupancy costs related to all leases, which are mainly comprised of restaurant property, head office, and warehouse leases, are no longer recognized as general operating expenses and are now included in amortization expense. This results in a higher EBITDA[(1)] compared to the same period in the prior year, before the adoption of IFRS 16.

Adjusted EBITDA[(1)] totaled $4.0 million for Q1 2020, compared to $4.1 million for Q1 2019. (See Selected Consolidated Historical Financial Information – Reconciliation of net earnings (loss) and comprehensive income (loss) for the period to EBITDA[(1)] and Adjusted EBITDA[(1)].

SIR Royalty Income Fund

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

(a) *SIR Loan*

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

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

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

Interest expense on the SIR Loan was charged to the consolidated statements of operations and comprehensive income (loss) in the amount of $0.7 million for both 12-week periods ended November 17, 2019 and November 18, 2018.

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

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

	12-Week Period Ended November 17, 2019	12-Week Period Ended November 18, 2018
	(in thousands of dollars) (unaudited)	
Balance – Beginning of the period	105,755	137,864
Change in amortized cost of the Ordinary LP Units and Class A LP Units of the Partnership	(34,691)	11,265
Distributions paid to Ordinary LP and Class A LP unitholders	(2,841)	(2,784)
Balance – End of period	68,223	146,345
Less: Current portion of Ordinary LP Units and Class A LP Units of the Partnership	(8,965)	(11,358)
Ordinary LP Units and Class A LP Units of the Partnership	59,258	134,987

	12-Week Period Ended November 17, 2019	12-Week Period Ended November 18, 2018
	(in thousands of dollars) (unaudited)	
Pooled Revenue(4)	60,661	66,382
Partnership royalty income(5)	3,705	3,983
Other Income	6	6
Partnership expenses	(15)	(17)
Net earnings of the Partnership	3,696	3,972
SIR's residual interest in the earnings of the Partnership:		
Income from Class A & B GP Units of the Partnership	(748)	(754)
Income from Class C GP Units of the Partnership	(682)	(683)
	(1,430)	(1,437)
Fund's interest in the earnings of the Partnership	2,535	2,446

(4) 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.

(5) 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.

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.

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.

As consideration for the additional Royalty associated with the addition of two new SIR Restaurants on January 1, 2019 (January 1, 2018 - three), as well as the Second Incremental Adjustment for three new SIR Restaurant added to Royalty Pooled Restaurants on January 1, 2018 (January 1, 2017 - one), 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 one (January 1, 2018 – three) SIR Restaurants during 2018. The net effect of these adjustments to Royalty Pooled Restaurants was that SIR converted 197,824 Class B GP Units into 197,824 Class A GP Units (January 1, 2018 – SIR converted 34,810 Class B GP Units into 34,810 Class A GP Units) on January 1, 2019 at a value of $4.0 million (January 1, 2018 - $2.8 million).

In addition, the revenues of the three (January 1, 2017 – one new restaurant) new SIR Restaurants added to Royalty Pooled Restaurants on January 1, 2018 exceeded 80% of the Initial Adjustment's estimated revenue (January 1, 2017 – revenue of the one new SIR Restaurant was less than 80% of the Initial Adjustment's estimated revenue) and, as a result, a special conversion distribution of $0.09 million was declared on the Class B GP Units in December 2018 and paid in January 2019 (the distributions of the Class A GP Units were reduced by a special conversion refund of $0.05 million in December 2017 and paid in January 2018).

As a result of the permanent closure of one SIR Restaurant during the 12-week period ended November 17, 2019, a Make-Whole Payment totaling $0.06 million was recognized by SIR for the 12-week period ended November 17, 2019.

SIR's residual interest in the Partnership is 20.91% as at November 17, 2019 (August 25, 2019 – 20.91%).

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

Liquidity and Capital Resources

Selected Consolidated Statement of Cash Flows Information	12-Week Period Ended November 17, 2019	12-Week Period Ended November 18, 2018
	(in thousands of dollars) (unaudited)	
Cash provided by (used in) operations	1,986	(3,491)
Cash used in investing activities	(1,236)	(1,706)
Cash provided by (used in) financing activities	1,129	4,558
Increase in cash and cash equivalents during the period	1,879	(639)
Cash and cash equivalents – Beginning of period	3,614	4,783
Cash and cash equivalents – End of period	5,493	4,144

Cash provided by operations increased by $5.8 million in Q1 2020 compared to Q1 2019. The increase is primarily attributable to an increase in supplier rebates received of $1.3 million, $0.2 million of income taxes recovered in the quarter and a favourable variance in the net change in working capital of $0.8 million.

Investing activities used cash of $1.2 million for Q1 2020, compared to $1.7 million for Q1 2019. Purchases of property and equipment and other assets – net amounted to $1.3 million for Q1 2020, and $1.6 million for Q1 2020. The majority of the capital expenditures for Q1 2020 relate to: i) the construction of the new Dukes Refresher in downtown Toronto that opened subsequent to Q4 2019; and ii) the construction of the new Scaddabush restaurant in Burlington that opened subsequent to the quarter. The majority of the capital expenditures for Q1 2019 relate to: i) the renovations of two Jack Astor's locations in the quarter; and ii) the ongoing construction of the new Scaddabush restaurant in the Mimico neighbourhood of Etobicoke, Ontario.

Cash provided by financing activities was $1.1 million for Q1 2020 and $4.6 million for Q1 2019. The decrease in bank indebtedness was $0.3 million in Q1 2020. Proceeds from issuance of long-term debt were $10.0 million for Q1 2020, and $4.0 million for the corresponding period a year ago. Principal repayments on long-term debt were $0.7 million for Q1 2020, and $1.6 million for the comparable period a year ago. Proceeds from lease financing were $nil for Q1 2020, compared to $0.2 million for the corresponding period a year ago. Principal repayments on lease obligations were $4.0 million for Q1 2020, compared to $0.1 million for the corresponding period a year ago. Interest paid was $1.1 million for Q1 2020, compared to $1.0 million for Q1 2019. Dividends paid on the common shares of SIR were $nil in Q1 2020, compared to $0.2 million for the corresponding period a year ago.

The new Scaddabush restaurant near the Sherway Gardens shopping centre in Etobicoke, Ontario (opened November 28, 2017) and the new Reds restaurant at the Square One shopping centre in Mississauga, Ontario (opened December 11, 2017) were added to the Royalty Pooled Restaurants effective January 1, 2019. 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 three New Additional Restaurants that were added to Royalty Pooled Restaurants on January 1, 2018 and was reduced by an adjustment for the permanent closure of one SIR Restaurant. 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, 2019, SIR held 2,214,250 Class A GP Units.

As at November 17, 2019, SIR had current assets of $19.6 million (August 25, 2019 – $17.1 million) and current liabilities of $63.5 million (August 25, 2019 – $53.7 million) resulting in a working capital deficit of $43.9 million (August 25, 2019 – $36.6 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. In addition, the adoption of IFRS 16 has resulted in an increase in current liabilities at November 17, 2019 compared to November 18, 2018 as the current portion of lease obligations has been recorded as of the date of adoption, August 26, 2019.

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 25, 2019, the Company drew the remaining $0.2 million of the $2.2 million leasing facility. These advances are repayable in equal monthly instalments over 48 months.

During Q1 2020, the Company drew an additional $5.0 million on Credit Facility 2. As at November 17, 2019, SIR has drawn $28.9 million on Credit Facility 1 and Credit Facility 2, net of cash excluding the cash balance of the Partnership (August 25, 2019 - $25.2 million).

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.

SIR currently holds 2.2 million Class A GP Units, representing a 20.91% residual interest in the Partnership. The Class A GP Units are exchangeable into units of the Fund on a one for one basis, and, as at November 17, 2019, have a market value of approximately $20.5 million.

Under the Credit Agreement and without prior consent from the Lender, SIR may convert Class A GP Units into Fund Units and promptly sell such units for the purposes of financing construction projects for new and existing restaurants, provided in any year the sale of the units does not exceed 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.

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.

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, the 15th anniversary of the closing date of the Fund's Initial Public Offering, whichever occurs first.

During Q1 2020, SIR permanently closed two restaurants: the Jack Astor's restaurant on John Street in downtown Toronto (effective September 23, 2019) and the Canyon Creek restaurant in Burlington, Ontario (effective October 13, 2019). SIR is required to pay a Make-Whole Payment from the effective date of closure to December 31 in the year of closure for the Jack Astor's location. In accordance with the License and Royalty Agreement, as noted above, as of October 12, 2019, SIR is no longer required to pay a "Make-Whole Payment" in respect of a permanently closed Royalty Pooled Restaurant. No Make-Whole Payment was made in respect of the closed Canyon Creek restaurant in Burlington, Ontario.

The Jack Astor's restaurant on John Street in downtown Toronto, along with the closed Jack Astor's restaurant in the St. Lawrence Market neighbourhood in downtown Toronto and the closed Canyon Creek restaurant in Burlington, Ontario will all cease to be part of Royalty Pooled Restaurants on January 1, 2020. At this date, SIR will reconvert the Class A GP Units received when these restaurants were added to Royalty Pooled Restaurants into Class B GP Units.

SIR and its subsidiaries have entered into operating leases relating to its head office and restaurant locations with minimum annual payments.

Off-Balance Sheet Arrangements

With the adoption of IFRS 16, operating leases relating to SIR's head office and restaurant locations with minimum annual payments are no longer considered off-balance sheet arrangements. SIR did not have any material off-balance sheet arrangements as at November 17, 2019, nor did it have any subsequent to Q1 2020.

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:

Transactions with Related Parties	12-Week Period Ended November 17, 2019	12-Week Period Ended November 18, 2018
	(in thousands of dollars)	
Corporate costs		
Consulting services provided by a company owned by a former director of SIR(resigned April 2019)	-	17
Design fees provided by a company owned by a shareholder of SIR	7	-
Direct costs of restaurant operations		
Occupancy costs provided by a company owned by a party related to a director and shareholder of SIR	3	6
Services provided by a shareholder of SIR	-	2
Property and equipment		
Design and construction management fees and fixtures purchased from a company owned by a shareholder of SIR	12	-
Fixtures purchased from a shareholder of SIR	11	2
Equipment purchased from a company owned by a director and shareholder of SIR, together with a member of executive management of SIR	13	8

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

	As at November 17, 2019	As at August 25, 2019
	(in thousands of dollars)	
Amounts due from related parties		
Amounts due from U.S. S.I.R. L.L.C. and its subsidiary	5	-
Prepaid Deposits		
Consulting Services provided by a director of SIR	4	2
Retainer for directors of SIR	26	-
Amounts due to related parties		
Amounts due from U.S. S.I.R. L.L.C. and its subsidiary	-	8
Amounts due to companies owned by a shareholder or director of SIR	61	56
Amounts due to a company owned by a party related to a director of SIR	-	31

- Received repayment against loans and advances from U.S. S.I.R. L.L.C. of $0.04 million for the 12-week period ended November 17, 2019 ($0.04 million for the 12-week period ended November 18, 2018). SIR recognized interest income on those loans and advances of $0.3 million for the 12-week period ended November 17, 2019 ($0.03 million for the 12-week period ended November 18, 2018). As at November 17, 2019, SIR has loans and advances (adjusted for a provision) of $0.8 million owing from U.S. S.I.R. L.L.C. (August 25, 2019 – $0.6 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.
- During the 52-week period ended August 25, 2019, SIR advanced $0.2 million to a shareholder and director. This advance bears interest at prime plus 2.25%. SIR recognized interest income on this loan of $0.003 million for the 12-week period ended November 17, 2019 ($0.001 million for the 12-week period ended November 18, 2018).

Transactions with the SIR Royalty Income Fund

Advances receivable from the Fund and its subsidiaries as at November 17, 2019 were $3.6 million (August 25, 2019 – $3.3 million). Advances receivable are non-interest bearing and due on demand.

During Q1 2020, distributions of $2.3 million were declared to the Fund by the Partnership, compared to $2.5 million for Q1 2019. Distributions paid during the 12-week period ended November 17, 2019 were $2.8 million (12-week period ended November 18, 2018 - $2.8 million). 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 November 17, 2019 were $4.0 million (August 25, 2019 – $4.5 million) and are included in Ordinary LP Units and Class A LP Units of the Partnership in the consolidated statements of financial position.

The SIR Loan bears interest at 7.5% per annum. Interest expense on the SIR Loan totaled $0.7 million for both Q1 2020 and Q1 2019. Interest payable on the SIR Loan as at November 17, 2019 was $0.4 million (August 25, 2019 – $0.5 million).

SIR, through the Partnership, has entered into an arrangement with the Fund and the Trust whereby the Partnership will provide or arrange for the provision of services required in the administration of the Fund and the Trust. The Partnership has arranged for these services to be provided by SIR GP Inc., in its capacity as the managing general partner of the Partnership. The Partnership provided these services to the Fund and the Trust for consideration of $0.006 million for Q1 2020 ($0.006 million for Q1 2019), which was the amount of consideration agreed to by the related parties.

Critical Accounting Estimates and Judgments

Management believes that there have been no substantial changes in the nature of critical accounting estimates since the year ended August 25, 2019. The reader will find this information in the annual MD&A for the year ended August 25, 2019.

Changes in Accounting Policies, Including Recently Issued Accounting Pronouncements

Changes in accounting policies

IFRS 16, Leases

IFRS 16 replaces IAS 17, Leases and related interpretations. The new standard requires lessees to recognize a lease obligation reflecting future lease payments and a right-of-use asset for virtually all lease contracts, and record it on the statement of financial position, except with respect to lease contracts that meet limited exception criteria.

The Company has adopted IFRS 16 using the modified retrospective method. Under this approach, the Company applied a cumulative adjustment to shareholders' deficiency at August 26, 2019, the date of initial application. There is no restatement of prior period financial information. The adjustments to the opening balances is described in note 3.

On adoption, a cumulative adjustment was recognized directly to shareholders' deficiency as at August 26, 2019 that related adjustments as a result of the elimination of step rent liabilities under IFRS 16. For leases previously classified as finance leases, the Company recognized the carrying amount of the lease asset and lease obligation immediately before transition as the carrying value of the right-of-use asset and the lease obligation at the date of initial application. The adjustments to the opening balances below resulted from the initial application of IFRS 16 as at August 26, 2019. The prior period amounts were not adjusted. The effects on the transition were recognized directly in shareholders' deficit.

	As originally reported August 25, 2019 $	IFRS 16 adjustments $	August 26, 2019 (restated) $
		(in thousands of dollars)	
Assets			
Right-of-use assets	-	118,711	118,711
Property and equipment	49,331	(1,527)	47,804
Total assets	71,735	117,184	188,919
Liabilities			
Current portion of long-term debt	3,194	(546)	2,648
Current portion of lease obligations	-	17,384	17,384
Current portion of provisions and other long-term liabilities	4,203	(548)	3,655
Current liabilities	52,747	16,290	69,037
Long-term debt	22,297	(876)	21,421
Long-term portion of lease obligation	-	104,873	104,873
Provisions and other long-term liabilities	8,395	(5,514)	2,881
Total liabilities	213,725	114,773	328,498
Deficit	(162,443)	2,411	(160,032)
Shareholders' Deficiency	(141,990)	2,411	(139,579)
Total liabilities and Shareholders' Deficiency	71,735	117,184	188,919
Cost of corporate restaurant operations			
Amortization of lease obligations			3,306
Corporate costs			
Amortization of lease obligations			115

As of August 26, 2019, SIR recognized right-of-use assets of $118.7 million, and lease obligations of $122.3 million in certain operating lease arrangements for which SIR is considered the lessee with lease terms of more than 12 months. When measuring lease liabilities, SIR discounted lease payments using its incremental borrowing rate at August 26, 2019. The weighted-average rate applied is 5.13%.

Depreciation expense on the right-of-use asset and interest expense on the lease obligations replaced the previously recognized operating lease expense. The impact of adopting IFRS 16 on the condensed interim statement of cash flows is to present the principal repayment of lease obligations in financing activities under IFRS 16, whereas previously payments for operating leases were presented in operating activities.

The following table reconciles the Company's operating lease obligations at August 25, 2019, as previously disclosed in the Company's consolidated financial statements, to the lease obligations recognized on initial application of IFRS 16 at August 26, 2019.

	$ (in thousands of dollars)
Operating lease commitments as at August 25, 2019	92,127
Add:	
Extension and termination options reasonably certain to be exercised	64,884
Undiscounted minimum lease payments on finance lease liabilities	1,422
Less:	
Short-term and low value leases	(42)
Undiscounted lease obligations	158,391
Discounted using the Company's incremental borrowing rate	(36,135)
Lease obligations recognized as at August 26, 2019	122,257

Amendments to IFRS 9, Financial Instruments

This standard has been amended to enable companies to measure at amortized cost some prepayable financial assets with negative compensation. The assets affected, that include some loans and debt securities, would otherwise have been measured at fair value through profit or loss. Financial assets that would otherwise have contractual cash flows that are solely payments of principal and interest but do not meet that condition only as a result of a prepayment feature with negative compensation, may be measured at amortized cost or at fair value through other comprehensive income when eligibility conditions are met. The amendment to IFRS 9 also clarifies how to account for the modification of a financial liability. Most modifications of financial liabilities will result in immediate recognition of a gain or loss. The amendment did not have a significant impact on the condensed interim consolidated financial statements.

IFRIC 23, Uncertainty over Tax Treatments

In June 2017, the IASB issued IFRIC 23 effective for fiscal years beginning on or after January 1, 2019. The interpretations provide guidance on how to value uncertain income tax positions based on the probability of whether the relevant tax authorities will accept the company's tax treatments. A company is to assume that a taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when doing so. IFRIC 23 is to be adopted using the modified retrospective approach, which requires that the adjustment be recorded in the opening deficit and comparatives are not restated. The interpretations did not have a significant impact on the condensed interim consolidated financial statements.

Recently issued accounting pronouncements

Amendments to IAS 1, Presentation of Financial Statements, and IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors

This standard has been amended to clarify the definition of 'material'. The definition of material was revised with three new aspects to the definition. The existing definition focused on omitting or misstating information, whereas the new definition makes reference to obscuring information in addition to omitting or misstating. The new definition of material also specifies that information is material if it could reasonably be expected to influence the decisions of users. Previously the definition referred to 'could influence'. The third revision to the definition of material clarifies that the users of the financial statements refers to 'primary users'. The amendment is effective for annual periods beginning on or after January 1, 2020. The Company has not yet assessed the impact of the amendment on the consolidated financial statements.

Amendments to IFRS 3, Business Combinations

These amendments provide guidance to assist entities in determining whether they have acquired a business or a group of assets by amending the defined terms, the application guidance, and the illustrative examples found in IFRS 3. The amendments are effective for annual periods beginning on or after January 1, 2020. The Company has not yet assessed the impact of the amendment on the consolidated financial statements.

Accounting pronouncements adopted at August 27, 2018

IFRS 9, Financial Instruments - Classification and Measurement

In July 2014, the IASB issued an amended IFRS 9, Financial Instruments - Classification and Measurement of Financial Assets and Financial Liabilities. IFRS 9 replaces IAS 39, Financial Instruments - Recognition and Measurement. In addition, IFRS 7, Financial Instruments - Disclosures is amended to include additional disclosure requirements on transition to IFRS 9. The amendments were effective for annual periods beginning on or after January 1, 2018. The standard uses a single approach based on how an entity manages its financial instruments to determine whether a financial asset is measured at amortized cost or fair value and requires a single impairment method to be used. The standard requires that for financial liabilities measured at fair value, any changes in an entity's own credit risk are generally to be presented in other comprehensive income instead of net earnings. A new hedge accounting model is included in the standard, as well as increased disclosure requirements about risk management activities for entities that apply hedge accounting. The new requirements were adopted effective August 27, 2018 using the modified retrospective method. As at August 27, 2018, SIR recorded a provision of $0.02 million on amounts due from related parties. Subsequent adjustments to the provision on amounts due from related parties will be recorded in the statement of earnings.

IFRS 15, Revenue from Contracts with Customers

During May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers, which supersedes IAS 18, Revenue, and IAS 11, Construction Contracts. The Company adopted the requirements of IFRS 15 using the full retrospective method as permitted by IFRS 15, which requires that comparative figures are restated. IFRS 15 is based on the principle that revenue is recognized when control of a good or service is transferred to a customer.

A five-step recognition model is used to apply the standard as follows:

1. Identify the contract(s) with the customer;
2. Identify the separate performance obligations in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to separate performance obligations; and
5. Recognize revenue when (or as) each performance obligation is satisfied.

Under IFRS 15, the Company must disaggregate revenue from contracts with customers. The Company has determined that a disaggregation of revenue using Concept and Signature restaurants is adequate for its circumstances. Food and beverage revenue is determined as follows:

Food and beverage revenue by Concept	12-Week Period Ended November 17, 2019	12-Week Period Ended November 18, 2018
Jack Astor's	41,771	47,297
Scaddabush	10,578	10,507
Canyon Creek	3,492	5,217
Signature Restaurants	6,228	6,096
	62,069	**69,117**

Under IFRS 15, revenue is derived from the sale of goods and is recognized at a point in time when the performance obligation is fulfilled. For sales to consumers, the performance obligation is deemed fulfilled when food and beverage is purchased. Breakage is estimated based on historical actuals as a percentage of sales. Deferred revenue represents amounts paid by customers in advance of the purchase of products which typically takes the form of pre-loaded gift cards. The amounts received are recorded as a liability within the current portion of provisions and other long-term liabilities on the condensed consolidated balance sheets. Once a gift card is redeemed to make a purchase, the liability is relieved, and revenue is recognized as part of food and beverage revenue.

As at August 26, 2018, the gift card liability decreased by $0.7 million.

The impact on the consolidated statement of financial position on the adoption of IFRS 15 is as follows:

	As originally reported August 26, 2018 $	**IFRS 15 adjustments $**	**August 26, 2018 (restated) $**
Current portion of provisions and other long-term liabilities	4,115	(688)	3,427
Current liabilities	50,815	(688)	50,127
Deficit	(186,807)	688	(186,119)
Shareholders' Deficiency	(166,214)	688	(165,526)
Total liabilities and shareholders' deficiency	75,250	-	75,250

Financial Instruments

Management believes there have been no substantial changes in the financial instruments since the year ended August 25, 2019. The reader will find this information in the annual MD&A for the year ended August 25, 2019.

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 and cannabis legislation), 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 12, 2019 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**.**

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's management believes that recent performance in the full-service restaurant industry has been impacted by a shift in consumer behaviour. Consumer spending at full-service restaurants in Ontario, where the majority of SIR's restaurants are located, has been restrained by a number of factors, including: the impact of a minimum wage increase on menu pricing, changes to impaired driving legislation impacting beverage sales, rising costs of living, and high levels of consumer debt. In addition, an increasing number of consumers are choosing to order through meal delivery services instead of in-restaurant dining. According to Restaurants Canada data, real foodservice sales (sales adjusted for menu inflation) in Ontario fell in 2018, following four years of average annual real growth between 2014 and 2017. To date in 2019, real foodservice sales in Ontario have increased slightly, and SIR's management continues to focus its strategic efforts on capturing a greater share of the market.

During Q4 2019, SIR opened a new Scaddabush restaurant in the Mimico neighbourhood of Etobicoke, Ontario. This restaurant is expected to be added to Royalty Pooled Restaurants on January 1, 2020.

Subsequent to Q1 2020, on November 19, 2019, SIR opened a new Scaddabush restaurant in Burlington, Ontario, at the location of the permanently closed Canyon Creek restaurant. This new Scaddabush restaurant, the tenth Scaddabush location, is expected to be added to Royalty Pooled Restaurants on January 1, 2021, but there can be no assurance of this.

SIR continues to focus on sustaining and growing existing restaurant sales and profits while effectively managing costs. SIR continues to assess changes in the marketplace, including economic conditions and consumer confidence, and has adopted a more cautious stance toward new restaurant openings.

Description of non-IFRS measures

Management believes that disclosing certain non-IFRS financial measures provides a useful supplemental measure to evaluate SIR's performance. By considering these measures in combination with the most closely comparable IFRS measure, management believes that investors are provided with additional and more useful information about SIR than investors would have if they simply considered IFRS measures alone.

The non-IFRS financial measures do not have standardized meanings prescribed by IFRS. SIR's method of calculating these non-IFRS financial measures may differ from that of other issuers and, accordingly, may not be comparable to measures used by other issuers.

<u>Same Store Sales and Same Store Sales Growth</u>

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 2019 and fiscal 2018 and Abbey's Bakehouse as it is not a SIR Restaurant. 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 10 and to the definition of SSS in the Revenue section on page 10.

<u>Adjusted Net Earnings (Loss)</u>

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.

EBITDA and Adjusted EBITDA

References to EBITDA are to the net earnings (loss) for the period before provision for (recovery of) income taxes, interest expense, interest on lease obligations, 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, cash rent payments, 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 Etobicoke and Burlington, 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.

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 tariffs and international trade; 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; laws affecting the sale and use of alcohol (including availability and enforcement); changes in cannabis laws; 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 December 18, 2019.

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 and the potential effects of variations and climate change, 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 12, 2019 Annual Information Form, for the period ended December 31, 2018, which is available under the Fund's profile at www.sedar.com**.**

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

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