SIR CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE 12-WEEK PERIOD ENDED NOVEMBER 22, 2015

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Executive Summary

SIR Corp.'s ("SIR's") first quarter of fiscal 2016 ("Q1 2016") was from August 31, 2015 to November 22, 2015 inclusive.

Highlights for SIR's 2016 first quarter include:

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

- Food and beverage revenue from corporate restaurant operations for Q1 2016 was $63.1 million. This represents a $3.0 million increase, or 4.9% growth, compared to the first quarter of fiscal 2015 ("Q1 2015").
- SIR generated Same Store Sales Growth ("SSSG")[(1)] of 2.3% for Q1 2016.
- For SIR's flagship Concept Restaurant brand, Jack Astor's®, which generated approximately 74% of Pooled Revenue in Q1 2016, SSSG[(1)] was 1.1% for Q1 2016. Canyon Creek® had SSSG[(1)] of 0.2% for Q1 2016. Scaddabush Italian Kitchen & Bar®/Alice Fazooli's® ("Scaddabush") had SSSG[(1)] of 4.7% for Q1 2016. The downtown Toronto Signature Restaurants had SSSG[(1)] of 12.3% for Q1 2016.

Investment in new and existing restaurants

- During Q1 2016, on September 8, 2015, SIR opened a new Jack Astor's restaurant in Ottawa, Ontario. Another Jack Astor's restaurant was opened in a different location in Ottawa, Ontario during the third quarter of fiscal 2015 ("Q3 2015"), on March 24, 2015. It is expected that these two restaurants will be added to Royalty Pooled Restaurants on January 1, 2016. One new Jack Astor's restaurant and one new Scaddabush restaurant, which both opened during fiscal 2014, were added to Royalty Pooled Restaurants on January 1, 2015.
- During Q1 2016, SIR completed its second conversion of an Alice Fazooli's restaurant into a Scaddabush restaurant. This location, in Richmond Hill, Ontario, was closed for 8 days and reopened on October 6, 2015. Subsequent to Q1 2016, SIR completed a major renovation of the Jack Astor's in Scarborough, Ontario.
- During Q1 2015, SIR completed the renovation of one Canyon Creek restaurant. At the end of fiscal 2015, SIR completed major renovations of two Jack Astor's restaurants. These locations were closed for eight and ten days, respectively, reopening on August 24, 2015 and September 2, 2015, respectively.

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

- Net loss and comprehensive loss was $3.8 million in Q1 2016, and is $3.8 million unfavourable compared to Q1 2015.
- Adjusted net loss[(2)] of $0.7 million in Q1 2016 is $1.7 million unfavourable compared to Q1 2015.
  - For Q1 2016, the unfavourable variance is primarily due to a decrease in earnings from corporate restaurant operations of $1.6 million. This is attributable to higher costs of restaurant operations as a percentage of sales as explained in the Results of Operations section under Cost of Corporate Restaurant Operations on page 10.

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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 2016 and fiscal 2015, and the seasonal Duke's Refresher & Bar and Abbey's Bakehouse, which are both located in Muskoka, Ontario. SSS for Alice Fazooli's includes two Alice Fazooli's restaurants and three Scaddabush restaurants. 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 9.

(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 6 of this document.

EBITDA(3)

- EBITDA(3) is $2.9 million for Q1 2016, down from $5.0 million in Q1 2015.

Credit facility and Fund unit transaction

- On July 6, 2015, SIR entered into a new $30.0 million credit facility (New Credit Agreement) with a new senior lender to refinance its previous credit facility; and, concurrently, SIR announced a change to its shareholders (see Liquidity and Capital Resources).
- On November 19, 2014, SIR exchanged 350,000 Class A GP Units of the SIR Royalty Limited Partnership ("the Partnership") into SIR Royalty Income Fund ("the Fund") units and sold these units for total net proceeds of $4.3 million. The net proceeds were deposited into SIR's restricted account at the time. SIR has since drawn all funds from this account to finance capital expenditures.
- The Class A GP Units received by the Fund in exchange for the Fund units issued were converted to Class A LP Units of the Partnership, which are entitled to a pro rata share of the residual income of the Partnership. Accordingly, this transaction did not have a dilutive effect on the Fund. SIR's residual interest in the Partnership was affected by the conversion of the Class A GP Units into Fund units and accordingly SIR's residual interest in the Partnership decreased by 3.6%. The Class A LP Units have been accounted for as a financial liability consistent with the Ordinary LP Units (see Liquidity and Capital Resources).

Outlook

- At the current date, SIR has two commitments to lease properties upon which it plans to build one new Scaddabush restaurant and one new Jack Astor's restaurant.**.** It is expected that these restaurants will open during calendar year 2016 and 2017. There can be no assurance that these restaurants will be opened or will become part of Royalty Pooled Restaurants.
- SIR has continued with its program to evolve its Alice Fazooli's concept brand into a new concept brand called Scaddabush. Scaddabush offers guests a new, refreshing take on Italian dining. To date, SIR has converted two Alice Fazooli's locations; one in Mississauga, Ontario and one in Richmond Hill, Ontario, and it is expected that SIR will convert the remaining two Alice Fazooli's restaurants in the near future. SIR has also opened one new Scaddabush restaurant in Toronto, Ontario. As noted above, SIR plans to open a fourth Scaddabush restaurant in downtown Toronto, in calendar year 2016. In addition, SIR plans to build a new Scaddabush restaurant in the extra space that has been created with the recently completed renovation of the Jack Astor's restaurant in Scarborough, Ontario. This Scaddabush restaurant will be considered a New Additional Restaurant for purposes of Royalty Pooled Restaurants.
- SIR continues to focus on sustaining and growing existing restaurant sales and profits while managing costs. SIR carefully monitors economic conditions and considers new restaurant growth and renovations when appropriate and subject to acceptable long-term financing or other available funds.

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(3) References to EBITDA are to the net earnings (loss) for the period before provision for (recovery of) income taxes, interest (income) and other expense (income) – net, goodwill impairment, impairment of non-financial assets, loss on disposal of property and equipment, interest expense, interest on loan payable to SIR Royalty Income Fund, change in amortized cost of Ordinary LP Units and Class A LP Units of the Partnership, depreciation and amortization.

References to Adjusted EBITDA are to SIR's EBITDA plus 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.

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 November 22, 2015, SIR operated 59 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/Alice Fazooli's. The Signature group of restaurants located in downtown Toronto include Reds® Wine Tavern, Reds® Midtown Tavern, Far Niente®/FOUR®/Petit Four® and the Loose Moose®. SIR also owns and operates 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 November 22, 2015, 55 SIR Restaurants were included in SIR Royalty Pooled Restaurants.

On January 1, 2016, two restaurants will be added to Royalty Pooled Restaurants, consisting of two new Jack Astor's restaurants that opened in Q3 2015 and Q1 2016.

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 2015, Duke's Refresher is not expected to be added to the Royalty Pool on January 1, 2016. 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 2016 and 2015 both consist of 52 weeks.

Seasonality

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

Selected Consolidated Historical Financial Information

The following tables set out selected financial information of SIR for the 12-week periods ended November 22, 2015 and November 23, 2014, respectively. The unaudited 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 22, 2015	12-Week Period Ended November 23, 2014
	(in thousands of dollars) (unaudited)	
Corporate restaurant operations:		
Food and beverage revenue	63,139	60,187
Cost of corporate restaurant operations	59,501	54,969
Earnings from corporate restaurant operations	**3,638**	**5,218**
Net earnings (loss) and comprehensive income (loss)	**(3,781)**	**40**
Adjusted Net Earnings (Loss)(2)	**(650)**	**1,020**

Statement of Financial Position	November 22, 2015	August 30, 2015
	(in thousands of dollars) (unaudited)	
Total assets	75,351	78,234
Total non-current liabilities	151,744	147,730

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

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

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

Reconciliation of net earnings (loss) for the period to Adjusted Net Earnings (Loss)(2)	12-Week Period Ended November 22, 2015	12-Week Period Ended November 23, 2014
	(in thousands of dollars) (unaudited)	
Net earnings (loss)	(3,781)	40
Change in amortized cost of Ordinary LP Units and Class A LP Units of the Partnership	3,131	980
Adjusted Net Earnings (Loss)(2)	**(650)**	**1,020**

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

Reconciliation of net earnings (loss) for the period to EBITDA[3] and Adjusted EBITDA[3]	12-Week Period Ended November 22, 2015	12-Week Period Ended November 23, 2014
	(in thousands of dollars) (unaudited)	
Net earnings (loss) for the period	(3,781)	40
Add (deduct):		
Provision for income taxes	20	67
Interest (income) and other expense (income) – net	(59)	31
Loss on disposal of property and equipment	12	35
Interest expense	324	569
Interest on loan payable to SIR Royalty Income Fund	700	698
Change in amortized cost of Ordinary LP Units and Class A LP Units of the Partnership	3,131	980
Depreciation and amortization	2,560	2,616
EBITDA[3]	**2,907**	**5,036**
Pre-opening costs	96	166
Adjusted EBITDA[3]	**3,003**	**5,202**
Income from Class A & B GP Units of the Partnership[4] (Not included in EBITDA[3] and Adjusted EBITDA[3] above)	878	850
6% Royalty obligations under License and Royalty Agreement[5]	3,663	3,420

Results of Operations

Reconciliation of Revenue from Consolidated Financial Statements to Pooled Revenue	12-Week Period Ended November 22, 2015	12-Week Period Ended November 23, 2014
	(in thousands of dollars) (unaudited)	
Revenue reported in consolidated financial statements	63,139	60,187
Less: Revenue from corporate restaurant operations excluded from the Royalty pool	(2,094)	(3,189)
Revenue for Restaurants in the Royalty pool (Pooled Revenue)	**61,045**	**56,998**

(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 the 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.

Reconciliation of Revenue from Consolidated Financial Statements to Same Store Sales[(1)]	12-Week Period Ended November 22, 2015	12-Week Period Ended November 23, 2014
	(in thousands of dollars) (unaudited)	
Revenue reported in consolidated financial statements	63,139	60,187
Less: Revenue from corporate restaurant operations excluded from Same Store Sales[(1)]	(1,571)	(6)
Same Store Sales[(1)]	**61,568**	**60,181**

Same Store Sales[(1)] by Segment	12-Week Period Ended November 22, 2015	12-Week Period Ended November 23, 2014	% Fav. / (Unfav.)
	(in thousands of dollars) (unaudited)		
Jack Astor's	44,872	44,363	1.1%
Canyon Creek	6,346	6,331	0.2%
Scaddabush/Alice Fazooli's	4,204	4,016	4.7%
Signature Restaurants	6,146	5,471	12.3%
Same Store Sales[(1)]	**61,568**	**60,181**	**2.3%**

Summary of Quarterly Results

Statement of Operations	1st Quarter Ended November 22, 2015 (12 weeks)	4th Quarter Ended August 30, 2015 (16 weeks)	3rd Quarter Ended May 10, 2015 (12 weeks)	2nd Quarter Ended February 15, 2015 (12 weeks)	1st Quarter Ended November 23, 2014 (12 weeks)	4th Quarter Ended August 31, 2014 (17 weeks)	3rd Quarter Ended May 4, 2014 (12 weeks)	2nd Quarter Ended February 9, 2014 (12 weeks)
				(in thousands of dollars) (unaudited)				
Corporate Restaurant Operations								
Food and beverage revenue	63,139	88,734	62,051	58,778	60,187	95,786	59,773	55,224
Cost of corporate restaurant operations	59,501	83,651	56,973	54,253	54,969	89,031	55,399	51,497
Earnings from corporate restaurant operations	**3,638**	**5,083**	**5,078**	**4,525**	**5,218**	**6,755**	**4,374**	**3,727**
Net earnings (loss) and comprehensive income (loss)	**(3,781)**	**4,167**	**(3,664)**	**(4,645)**	**40**	**1,522**	**725**	**113**
Adjusted Net Earnings (Loss)[(2)]	**(650)**	**20**	**557**	**923**	**1,020**	**1,215**	**430**	**(208)**

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

Reconciliation of net earnings (loss) and comprehensive income (loss) for the period to Adjusted Net Earnings (Loss)(2)	1st Quarter Ended November 22, 2015 (12 weeks)	4th Quarter Ended August 30, 2015 (16 weeks)	3rd Quarter Ended May 10, 2015 (12 weeks)	2nd Quarter Ended February 15, 2015 (12 weeks)	1st Quarter Ended November 23, 2014 (12 weeks)	4th Quarter Ended August 31, 2014 (17 weeks)	3rd Quarter Ended May 4, 2014 (12 weeks)	2nd Quarter Ended February 9, 2014 (12 weeks)
	(in thousands of dollars) (unaudited)							
Net earnings (loss) and comprehensive income (loss)	(3,781)	4,167	(3,664)	(4,645)	40	1,522	725	113
Change in amortized cost of the Ordinary LP Units and Class A LP Units of the Partnership	3,131	(4,147)	4,221	5,568	980	(307)	(295)	(321)
Adjusted Net Earnings (Loss)(2)	**(650)**	**20**	**557**	**923**	**1,020**	**1,215**	**430**	**(208)**

Selected Unaudited Consolidated Statement of Cash Flows Information:

	1st Quarter Ended November 22, 2015 (12 weeks)	4th Quarter Ended August 30, 2015 (16 weeks)	3rd Quarter Ended May 10, 2015 (12 weeks)	2nd Quarter Ended February 15, 2015 (12 weeks)	1st Quarter Ended November 23, 2014 (12 weeks)	4th Quarter Ended August 31, 2014 (17 weeks)	3rd Quarter Ended May 4, 2014 (12 weeks)	2nd Quarter Ended February 9, 2014 (12 weeks)
	(in thousands of dollars) (unaudited)							
Cash provided by operations	(2,645)	6,020	2,821	534	7,004	4,877	1,757	1,505
Cash provided by (used in) investing activities	(2,323)	(3,106)	(829)	740	76	(2,575)	2,677	(5,323)
Cash provided by (used in) financing activities	855	(3,426)	(1,950)	(2,422)	(2,235)	(3,281)	(2,329)	669
Increase (decrease) in cash and cash equivalents during the period	(4,113)	(512)	42	(1,148)	4,845	(979)	2,105	(3,149)
Cash and cash equivalents – Beginning of period	7,869	8,381	8,339	9,487	4,642	5,621	3,516	6,665
Cash and cash equivalents – End of period	3,756	7,869	8,381	8,339	9,487	4,642	5,621	3,516

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 Management's Discussion and 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. For the 12-week period ended November 22, 2015, revenue was $63.1 million.

ii. Same Store Sales(1) ("SSS") – this is a sub-set of (i) above used for tracking comparable year-over-year sales. For Q1 2016 and Q1 2015, SSS(1) includes all SIR Restaurants, except for those restaurants that were not open for the entire comparable periods in fiscal 2016 and fiscal 2015, the seasonal Duke's Refresher, Abbey's Bakehouse and Abbey's Bakehouse retail outlet. SSS(1) for Scaddabush/Alice Fazooli's includes two Alice Fazooli's restaurants and three Scaddabush restaurants. For the 12-week period ended November 22, 2015, SSS(1) were $61.6 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. Currently, there are 55 Royalty Pooled Restaurants. For the 12-week period ended November 22, 2015, Pooled Revenue was $61.0 million. The applicable Royalty payable to the Partnership on the Pooled Revenue for these periods was $3.7 million.

Same Store Sales[1]

SIR generated SSSG[1] of 2.3% for the 12-week period ended November 22, 2015.

Jack Astor's, SIR's flagship Concept Restaurant brand, which contributed approximately 74% of Q1 2016 Pooled Revenue, experienced SSSG[1] of 1.1% for the 12-week period ended November 22, 2015. SIR management believes that Jack Astor's SSSG[1] in Q1 2016 was favourably impacted by the success of the Toronto Blue Jays with their strong end to the regular season and playoff run during September and October 2016, especially in the Jack Astor's restaurants located near the Rogers Centre.

Canyon Creek generated SSSG[1] of 0.2% for the 12-week period ended November 22, 2015. Management is currently evaluating a comprehensive plan to improve the long-term performance of all Canyon Creek locations.

Scaddabush/Alice Fazooli's experienced SSSG[1] of 4.7% for the 12-week period ended November 22, 2015, largely due to SIR's continuation of its program to evolve the Alice Fazooli's concept into the popular Scaddabush brand. To date, SIR has renovated two Alice Fazooli's restaurants, located in Mississauga, Ontario and Richmond Hill, Ontario, and opened one new Scaddabush restaurant in Toronto, Ontario. The strong Scaddabush SSSG[1] during Q1 2016 are offset by the SSS[1] declines in the two remaining Alice Fazooli's locations that have not yet been converted to Scaddabush. SIR plans to open a fourth Scaddabush in downtown Toronto, in calendar year 2016. In addition, SIR plans to build a new Scaddabush restaurant in the extra space that was created with the recent completion of the renovation of the Jack Astor's restaurant in Scarborough, Ontario.

The downtown Toronto Signature Restaurants experienced SSSG[1] of 12.3% for the 12-week period ended November 22, 2015. This was primarily attributable to increased guest counts at the Loose Moose due to the aforementioned Toronto Blue Jays playoff run, and the improved performance at Reds Midtown Tavern and Dukes Refresher & Bar.

Cost of Corporate Restaurant Operations

As a percentage of revenue, costs of corporate restaurant operations were 94.2% for the 12-week period ended November 22, 2015, compared to 91.3% for the 12-week period ended November 23, 2014. Higher costs as a percentage of revenue for the 12-week period ended November 22, 2015 are attributable to higher labour costs, mainly due to the increase in minimum wage in Ontario, on October 1, 2015, increased marketing costs in Q1 2016 versus Q1 2015 and cost associated with the launch of a major new menu in the Jack Astor's concept which affected food costs, training labour and operating costs. In addition, there was one new restaurant opened at the beginning of Q1 2016 (none in Q1 2015). Typically costs are higher at the beginning of a new restaurant opening as a percentage of sales.

Corporate Costs

Corporate costs increased $0.5 million for Q1 2016 to $3.3 million compared to $2.8 million in the same period in fiscal 2015. The increase for Q1 2016 is a result of higher compensation and professional fees, including management training costs.

Interest Expense

Interest expense for Q1 2016 is $0.3 million, a decrease of $0.2 million from the corresponding period in fiscal 2015. The decrease is a result of lower interest rates on the new credit facility.

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 through a series of transactions taking place in fiscal years 2013, 2014 and Q1 2015 (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 2016, the change in amortized cost is an expense of $3.1 million and is due to an increase in the underlying Fund unit price compared to Q4 2015. The change in amortized cost was an expense of $1.0 million for the 12-week period ended November 23, 2014.

Interest on the SIR Loan totaled $0.7 million for the 12-week period ended November 22, 2015, and $0.7 million for the 12-week period ended November 23, 2014.

EBITDA(3) and Adjusted EBITDA(3)

EBITDA(3) was $2.9 million for the 12-week period ended November 22, 2015, down from $5.0 million for the 12-week period ended November 23, 2014. Adjusted EBITDA(3) was $3.0 million for the 12-week period ended November 22, 2015, down from $5.2 million for the 12-week period ended November 23, 2014. (See Selected Consolidated Historical Financial Information – Reconciliation of net earnings (loss) and comprehensive income (loss) for the period to EBITDA(3) and Adjusted EBITDA(3)).

SIR Royalty Income Fund

The following is a summary of the accounting implications of the SIR Loan and non-controlling interest of 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 New 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 New 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 the 12-week period ended November 22, 2015, and $0.7 million for the 12-week period ended November 23, 2014.

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 22, 2015	12-Week Period Ended November 23, 2014
	(in thousands of dollars) (unaudited)	
Balance – Beginning of the period	96,196	94,060
Conversion of Class A GP Units	-	4,410
Change in amortized cost of the Ordinary LP Units and Class A LP Units of the Partnership	3,131	980
Distributions paid to Ordinary LP and Class A LP unitholders	(1,472)	(1,381)
Balance – End of period	97,855	98,069
Less: Current portion of Ordinary LP Units and Class A LP Units of the Partnership	(8,827)	(8,827)
Ordinary LP Units and Class A LP Units of the Partnership	89,028	89,242

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

	12-Week Period Ended November 22, 2015	12-Week Period Ended November 23, 2014
	(in thousands of dollars) (unaudited)	
Pooled Revenue(6)	61,045	56,998
Partnership royalty income(7)	3,663	3,420
Other income	6	9
Partnership expenses	(15)	(17)
Net earnings of the Partnership	3,654	3,412
SIR's residual interest in the earnings of the Partnership:		
Income from Class A & B GP Units of the Partnership	(878)	(850)
Income from Class C GP Units of the Partnership	(691)	(690)
	(1,569)	(1,540)
Fund's interest in the earnings of the Partnership	2,085	1,872

On October 12, 2004, the Partnership issued Ordinary LP and GP Units to the Fund for cash consideration of $11.2 million. During Q1 2015, the Fund acquired 350,000 Class A LP Units upon SIR's conversion of its Class A GP Units into Fund units (refer to page 13 of the Liquidity and Capital Resources section). 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.

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(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, 2015, two (January 1, 2014 – four) 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 two new SIR Restaurants on January 1, 2015 (January 1, 2014 – four), as well as the Second Incremental Adjustment for the four new SIR Restaurant added to Royalty Pooled Restaurants on January 1, 2014 (January 1, 2013 – four), SIR converted its Class B GP Units into Class A GP Units based on the formula defined in the Partnership Agreement. The net effect of these adjustments to Royalty Pooled Restaurants was that SIR converted 347,000 (January 1, 2014 – 803,000) Class B GP Units into 347,000 (January 1, 2014 – 803,000) Class A GP Units on January 1, 2015 at an estimated fair value of $4.5 million (January 1, 2014 – $11.4 million).

In addition, the revenues of the four new SIR Restaurants added to Royalty Pooled Restaurants on January 1, 2014 were less than 80% of the Initial Adjustment's estimated revenue (January 1, 2013 – four new SIR Restaurants exceeded 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 $0.005 million in December 2014 and paid in January 2015 (a special conversion distribution of $0.2 million was declared in December 2013 and paid in January 2014).

After the net effect of the adjustments to Royalty Pooled Restaurants on January 1, 2015, SIR's residual interest in the Partnership is 24.6% (August 30, 2015 – 24.6%)

(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 22, 2015	12-Week Period Ended November 23, 2014
	(in thousands of dollars) (unaudited)	
Cash provided by (used in) operations	(2,645)	7,004
Cash provided by (used in) investing activities	(2,323)	76
Cash provided by (used in) financing activities	855	(2,235)
Increase (decrease) in cash and cash equivalents during the period	(4,113)	4,845
Cash and cash equivalents – Beginning of period	7,869	4,642
Cash and cash equivalents – End of period	3,756	9,487

Cash provided by operations decreased by $9.6 million for the 12-week period ended November 22, 2015 compared to the 12-week period ended November 23, 2014. Net earnings decreased by $3.8 million for the 12-week period ended November 22, 2015 compared to the 12-week period ended November 23, 2014. Other decreases in cash include the unfavourable variance in the net change in working capital items of $7.7 million.

Investing activities used cash of $2.3 million for the 12-week period ended November 22, 2015. Investing activities generated cash of $0.1 million for the 12-week period ended November 23, 2014. Purchases of property and equipment and other assets – net amounted to $2.3 million for the 12-week period ended November 22, 2015, and $2.0 million for the 12-week period ended November 23, 2014. The majority of the capital expenditures for the 12-week period ended November 22, 2015 relate to the construction of the new Jack Astor's restaurant in Ottawa, Ontario that opened during Q1 2016, the major renovation of the Jack Astor's in Scarborough, Ontario that was completed subsequent to Q1 2016 and the conversion of one Alice Fazooli's location into a new Scaddabush restaurant that re-opened during Q1 2016. The majority of the capital expenditures for the 12-week period ended November 23, 2014 related to the renovation of one Canyon Creek restaurant and the construction of one new Jack Astor's restaurant that opened in Q3 2015. Management expects that the investments in new and existing restaurants and other profit enhancing initiatives (such as new patios and patio expansions) and maintenance capital expenditures, will help position SIR favourably in the market. The proceeds from the conversion of Class A GP Units to Fund units and their subsequent sale in fiscal 2015, were placed in a restricted account at the time of the transaction and have been accounted for as non-cash transactions in the consolidated statements of cash flows. Cash used in investing activities includes net cash proceeds received from restricted funds of $nil for the 12-week period ended November 22, 2015, and $2.0 million for the 12-week period ended November 23, 2014.

For the 12-week period ended November 22, 2015, cash provided by financing activities was $0.9 million. Cash used in financing activities was $2.2 million for the 12-week period ended November 23, 2014. The increase in bank indebtedness and long-term debt was $2.0 million in the 12-week period ended November 22, 2015 and $nil in the 12-week period ended November 23, 2014. Principal repayments on long-term debt were $0.5 million for the 12-week period ended November 22, 2015 compared to $1.2 million for the period ended November 23, 2014. Interest paid was $0.7 million for the 12-week period ended November 22, 2015 and $1.1 million for the 12-week period ended November 23, 2014.

The new Jack Astor's restaurant and the new Scaddabush Restaurant that opened in fiscal 2014 were added to the Royalty Pooled Restaurants effective January 1, 2015. 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 four New Additional Restaurants that were added to Royalty Pooled Restaurants on January 1, 2014. 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, 2015, SIR held 2,488,421 Class A GP Units (refer to page 15).

As at November 22, 2015, SIR had current assets of $16.7 million (August 30, 2015 – $19.2 million) and current liabilities of $46.0 million (August 30, 2015 – $49.1 million) resulting in a working capital deficit of $29.3 million (August 30, 2015 – $29.9 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.

During Q4 2015, on July 6, 2015, SIR entered into a New Credit Agreement with a Schedule I Canadian chartered bank (the Lender) to refinance its current credit facility. A copy of the New Credit Agreement has been filed on SEDAR. 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, which replaced the Amended and Restated Subordination and Postponement Agreement. A copy of the Intercreditor Agreement has also been filed on SEDAR.

The New Credit Agreement between SIR and the Lender provides for a three-year facility for a maximum principal amount of $30,000,000 consisting of a $20,000,000 revolving term credit facility (Credit Facility 1), and a $10,000,000 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 $5,000,000. The previous term debt, consisting of a term loan and three development loans, was repaid by a full draw down of Credit Facility 2 and a partial draw down of Credit Facility 1.

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, 2018. A standby fee of 0.65% is charged on the undrawn balance of Credit Facility 1. Credit Facility 1 may be repaid and reborrowed at any time during the term of the New Credit Agreement. Credit Facility 2 bears interest at the prime rate plus 2.25% and/or the bankers' acceptance rate plus 3.25%. The initial advance on Credit Facility 2 is repayable in quarterly instalments of $500,000, with the remaining outstanding principal balance due on July 6, 2018. Subsequent advances on Credit Facility 2 may be requested (subject to availability and lender approval), in minimum multiples of $1,000,000, annually on the anniversary of the closing date of the New Credit Agreement (July 6), to finance capital spending on new and renovated restaurants. Each subsequent advance will be repayable in equal quarterly instalments based on a five year amortization, with the remaining outstanding principal balance due on July 6, 2018.

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

Under the Intercreditor Agreement, absent a default or event of default under the New 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 New 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.

The New Credit Agreement has a significantly higher amount of credit available than SIR's previous term loan facilities and the interest rates and scheduled principal repayments are significantly lower. SIR believes that it expects to be able to comply with the covenants under the new credit facility and service the new credit facility, as well as meet its other obligations. However, there can of course be no assurance of this.

On July 6, 2015, a third party, Competitive Foods Canada Ltd. ("CFC") acquired 3.2 million common shares of SIR, directly and indirectly, from certain of the existing minority common shareholders and common share option holders of SIR, representing 26.46% of SIR on a fully diluted basis (29.90% of the currently issued and outstanding shares). CFC currently operates casual dining restaurants in southern Ontario and has investments in the construction services industry across Canada. Peter Fowler Enterprises Ltd. did not sell any of its holdings in SIR and remains the majority shareholder of SIR holding 56.56% of SIR on a fully diluted basis (56.96% of the currently issued and outstanding shares). Following this transaction no other shareholders of SIR hold over 10% of SIR on a fully diluted basis (or hold over 10% of the currently issued and outstanding shares). As part of this share transaction, 0.3 million options were exercised for estimated proceeds of $0.05 million. SIR also issued 2.9 million common shares to CFC for cash proceeds of $14.2 million and immediately repurchased 2.9 million common shares from certain minority common shareholders for cash proceeds of $14.2 million plus transaction costs of $0.3 million. The excess proceeds paid to repurchase the 2.9 million common shares over the weighted average company value of the common shares was charged to contributed surplus and deficit. CFC acquired 0.3 million common shares directly from certain of the existing minority common shareholders and common share option holders of the Company.

On November 5, 2014, the previous lender agreed to release the security over 350,000 Class A GP Units and on November 19, 2014, SIR exchanged 350,000 Class A GP Units of the Partnership into Fund units and sold these Fund units for net proceeds $4.3 million (net of transaction costs of $0.1 million).

SIR's residual interest in the Partnership was affected by the conversions of the Class A GP Units into Fund units. After the November 19, 2014 transaction, SIR's residual interest in the Partnership decreased by 3.6% to 21.9% but increased 2.7% after the net effect of the adjustments to Royalty Pooled Restaurants on January 1, 2015. Therefore, SIR's residual interest in the Partnership is currently 24.6%.

The disposition of Fund units has been accounted for as a non-cash transaction in the consolidated statements of cash flows. The proceeds net of certain transaction costs of $4.3 million were deposited into an account restricted by the previous lender and, accordingly, were classified as restricted cash in the consolidated statements of financial position, at the time. During the 12-week period ended November 22, 2015, $nil (12-week period ended November 23, 2014 - $2.0 million) of the funds held in the restricted account were released to SIR. All funds previously held in this restricted account were drawn during fiscal 2015 to finance capital expenditures. Under the New Credit Agreement, SIR may convert Class A GP 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 new credit facility (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.

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 two commitments to lease properties, on which it plans to build one new Jack Astor's restaurant and one new Scaddabush restaurant. SIR has begun construction of the Scaddabush restaurant and has incurred costs of approximately $0.1 million for the construction of this property. At the current date, SIR has not entered into any other construction contracts for either restaurant, but expects to do so in the future. In addition, SIR has approximately $1.9 million in additional purchase commitments for renovations of restaurants. 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 these restaurants will be opened or will become part of Royalty Pooled Restaurants.

As at November 22, 2015, $16.7 million and $9.5 million were outstanding on SIR's Credit Agreement for Credit Facility 1 and Credit Facility 2, respectively.

Off-Balance Sheet Arrangements

There has been no substantial changes to SIR's off-balance sheet arrangements in the current fiscal year. The reader should refer to the annual MD&A for this information impacting SIR for the year ended August 30, 2015.

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 22, 2015	12-week Period Ended November 23, 2014
	(in thousands of dollars) (unaudited)	
Corporate costs		
Occupancy costs and maintenance services provided by a company owned by a party related to a shareholder of SIR	13	15
Maintenance services provided by a shareholder of SIR	7	2
Consulting fees provided by a company owned by a director and shareholder of SIR	-	21
Direct costs of restaurant operations		
Occupancy costs provided by a company owned by a party related to a director of SIR	2	-
Maintenance services provided by a company owned by a party related to a shareholder of SIR	20	29
Fixtures provided by a shareholder of SIR	-	7
Property and equipment		
Design and construction management fees and fixtures provided by a company owned by a shareholder of SIR	105	51
Construction management fees and fixtures provided by a company owned by a party related to a shareholder of SIR	393	168
Fixtures provided by a shareholder of SIR	11	-

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

	12-week Period Ended November 22, 2015	52-week Period Ended August 30, 2015
	(in thousands of dollars) (unaudited)	
Amounts due from related parties:		
Amounts due from U.S. S.I.R. L.L.C. and its subsidiary	8	7
Amounts due from a company owned by a party related to a director of SIR	9	7
Amounts due to related parties:		
Amounts due to companies owned by a shareholder of SIR	90	63
Amounts due to a company owned by a party related to a shareholder of SIR	48	223
Amounts due to a company owned by a party related to a director of SIR	15	17

- 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 22, 2015 ($0.05 million for the 12-week period ended November 23, 2014). SIR recognized interest income on those loans and advances of $0.05 million for the 12-week period ended November 22, 2015 ($0.05 million for the 12-week period ended November 23, 2014). As at November 22, 2015, SIR has loans and advances of $1.6 million owing from U.S. S.I.R. L.L.C. (August 30, 2015 – $1.6 million).
- Received repayment against a loan receivable from a company owned by a party related to a director of SIR of $0.05 million for the 12-week period ended November 22, 2015 ($nil for the 12-week period ended November 23, 2014). SIR recognized interest income on this loan of $0.002 million for the 12-week period ended November 22, 2015 ($nil for the 12 week period ended November 23, 2014). As at November 22, 2015 the balance of this loan receivable is $0.35 million (August 30, 2015 – $0.4 million).
- SIR has advanced $0.1 million to one shareholder of SIR. The advance has a variable interest rate equal to the prime rate plus 2.25% per annum and is due on February 29, 2016.
- SIR owns an investment in common shares of a company owned by a party related to a shareholder of SIR. SIR does not have the ability to significantly influence the operations of this company and, accordingly, has accounted for the investment as a financial asset (available for sale) and is carried at nominal value.

Transactions with the SIR Royalty Income Fund

Advances receivable from the Fund and its subsidiaries as at November 22, 2015 were $2.8 million (August 30, 2015 – $2.7 million). Advances receivable are non-interest bearing and due on demand.

During the 12-week period ended November 22, 2015, distributions of $2.1 million were declared to the Fund by the Partnership ($1.9 million for the 12-week period ended November 23, 2014). 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 22, 2015 were $4.0 million (August 30, 2015 – $3.4 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 the 12-week period ended November 22, 2015 and $0.7 million for the 12-week period ended November 23, 2014. Interest payable on the SIR Loan as at November 22, 2015 was $0.4 million (August 30, 2015 – $0.2 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 the 12-week period ended November 22, 2015 ($0.006 million for the 12-week period ended November 23, 2014), 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 30, 2015. The reader will find this information in the annual MD&A for the year ended August 30, 2015.

Changes in Accounting Policies, Including Recently Issued Accounting Pronouncements

IFRS issued but not yet effective

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

IFRS 15, Revenue from Contracts with Customers, specifies how and when to recognize revenue as well as requiring entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18, Revenue, IAS 11, Construction Contracts, and a number of revenue-related interpretations. Application of the standard is mandatory for all IFRS reporters and it applies to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts. IFRS 15 must be applied in an entity's first annual IFRS financial statements for periods beginning on or after January 1, 2018 and early adoption is permitted. Management is evaluating this amendment and has not yet determined the impact on its consolidated financial statements.

IFRS 7, Financial Instruments – Disclosure, has been amended to require disclosures on transition from IAS 39 to IFRS 9. This amendment is effective on adoption of IFRS 9. Management is evaluating the amendment and has not yet determined the impact on its consolidated financial statements.

Financial Instruments

Management believes that there have been no substantial changes in the financial instruments since the year ended August 30, 2015. The reader will find this information in the annual MD&A for the year ended August 30, 2015.

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. 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 18, 2015 Annual Information Form for further discussion on risks and uncertainties related to the Fund and SIR.

SIR is a holder of partnership interests in the Partnership. The Fund is also an indirect holder of partnership interests in the Partnership. The income of the Fund must be computed and will be taxed in accordance with Canadian tax laws. There is no assurance that Canadian federal income tax laws respecting the treatment of trusts will not be changed in a manner which adversely affects Unitholders.

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**.**

At the current date, SIR has two commitments to lease properties, upon which it plans to build one new Scaddabush restaurant in downtown Toronto, Ontario and one new Jack Astor's restaurant. It is expected that these locations will open in calendar year 2016 and 2017, respectively. There can be no assurance that these restaurants will be opened or will become part of Royalty Pooled Restaurants.

SIR continues to evolve its Alice Fazooli's concept brand into its new concept brand called Scaddabush which offers guests a new, refreshing take on Italian dining. To date, SIR has converted two Alice Fazooli's locations; one in Mississauga, Ontario and one in Richmond Hill and it is expected that SIR will convert the remaining two Alice Fazooli's restaurants in the near future. SIR has also opened one new Scaddabush restaurant in Toronto, Ontario. SIR plans to open a fourth Scaddabush restaurant in downtown Toronto in calendar year 2016. In addition, SIR plans to build a new Scaddabush restaurant in the extra space that was created with the recently completed renovation of the Jack Astor's restaurant in Scarborough, Ontario. This Scaddabush restaurant will be considered a New Additional Restaurant for purposes of Royalty Pooled Restaurants.

SIR continues to focus on sustaining and growing existing restaurant sales and profits while managing costs. SIR carefully monitors economic conditions, and considers new restaurant growth and renovations when appropriate and subject to availability of acceptable long-term financing.

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; 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 New 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 21, 2015.

In formulating the forward-looking statements contained herein, Management has assumed that business and economic conditions affecting SIR's restaurants and the Fund will continue substantially in the ordinary course, including without limitation with respect to general industry conditions, competition, general levels of economic activity (including in downtown Toronto), regulations (including those regarding employees, food safety, tobacco and alcohol), weather, taxes, foreign exchange rates and interest rates, that there will be no pandemics or other material outbreaks of disease or safety issues affecting humans or animals or food products, and that there will be no unplanned material changes in its facilities, equipment, customer and employee relations, or credit arrangements. These assumptions, although considered reasonable by Management at the time of preparation, may prove to be incorrect. In particular, Management has assumed that the tax effects on distributions will remain consistent with current regulations or pronouncements, and also in estimating the revenue for new restaurants, Management has assumed that they will operate consistent with other similar SIR restaurants, and has assumed that SIR will remain compliant in the future with all of its financial covenants under the New Credit Agreement and imposed by the lender. For more information concerning the Fund's risks and uncertainties, please refer to the March 18, 2015 Annual Information Form, for the period ended December 31, 2014, 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