SIR CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE 12-WEEK PERIOD ENDED NOVEMBER 20, 2016

SIR CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE 12-WEEK PERIOD ENDED NOVEMBER 20, 2016

TABLE OF CONTENTS

	Page
Executive Summary	3
Overview	4
Seasonality	5
Selected Consolidated Historical Financial Information	6
Results of Operations	8
SIR Royalty Income Fund	12
Liquidity and Capital Resources	14
Contractual Obligations	16
Off-Balance Sheet Arrangements	17
Transactions with Related Parties	17
Critical Accounting Estimates and Judgments	19
Changes in Accounting Policies, Including Recently Issued Accounting Pronouncements	19
Financial Instruments	19
Risks and Uncertainties	20
Outlook	20
Forward Looking Information	21

FOR THE 12-WEEK PERIOD ENDED NOVEMBER 20, 2016

Executive Summary

SIR Corp.'s ("SIR's") first quarter of fiscal 2017 ("Q1 2017") was from August 29, 2016 to November 20, 2016 inclusive. Highlights for SIR's fiscal 2017 first quarter include:

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

- Food and beverage revenue from corporate restaurant operations for Q1 2017 was $63.6 million. This represents a $0.4 million increase, or 0.7% growth, compared to the first quarter of fiscal 2016 ("Q1 2016").
- SIR reported a decline in overall SSS(1) of 0.5% for Q1 2017.
- For SIR's flagship Concept Restaurant brand, Jack Astor's®, which generated approximately 74% of Pooled Revenue in Q1 2017, SSS(1) declined 1.8% for Q1 2017. Canyon Creek® had a SSS(1) decline of 3.3% for Q1 2017. Scaddabush Italian Kitchen & Bar® ("Scaddabush"), together with Alice Fazooli's®, had Same Store Sales Growth ("SSSG")(1) of 12.8% for Q1 2017. The downtown Toronto Signature Restaurants had SSSG(1) of 3.9% for Q1 2017.

Investment in new and existing restaurants and closed restaurants

- During Q1 2017, on November 3, 2016, SIR opened a new Scaddabush restaurant on Front Street in downtown Toronto, Ontario. This restaurant is expected to be added to Royalty Pooled Restaurants on January 1, 2018.
- During Q1 2017, SIR completed renovations at four Jack Astor's locations. Another Jack Astor's renovation was completed subsequent to Q1 2017.
- During Q1 2017, effective October 15, 2016, Far Niente®/FOUR®/Petit Four® located in downtown Toronto was permanently closed. SIR is required to pay a Make-Whole Payment for this location from the date of closure until it ceases to be part of Royalty Pooled Restaurants on January 1, 2017.
- During Q1 2016, on September 8, 2015, SIR opened its third Jack Astor's restaurant in Ottawa, Ontario. This restaurant was added to Royalty Pooled Restaurants on January 1, 2016, along with another Jack Astor's restaurant that was opened in Ottawa during fiscal 2015.
- During Q4 2016, on July 12, 2016, SIR opened a new Scaddabush restaurant in Scarborough, Ontario. This restaurant will be added to Royalty Pooled Restaurants on January 1, 2017.
- During fiscal 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. SIR also completed major renovations of two Jack Astor's restaurants. These locations were closed for 16 and 11 days, respectively, reopening on December 16, 2015 and June 7, 2016, respectively.

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

- Net loss and comprehensive loss was $1.2 million in Q1 2017, compared to $3.8 million in Q1 2016.
- Adjusted net loss(2) was $0.6 million in Q1 2017, compared to $0.7 million in Q1 2016.

---

(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 2017 and fiscal 2016. The seasonal Abbey's Bakehouse and Abbey's Bakehouse retail outlet are not SIR Restaurants. SSS for Scaddabush includes three Scaddabush restaurants and two Alice Fazooli's 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 10.

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

EBITDA[(3)] and Adjusted EBITDA[(3]

- EBITDA[(3)] was $2.9 million in Q1 2017, compared to $3.0 million in Q1 2016, and Adjusted EBITDA[(3)] was $3.7 million, up from $3.0 million in Q1 2016.

Outlook

- As at December 21, 2016, the date of this MD&A, SIR has two commitments to lease properties upon which it plans to build two new restaurants, one of which will be a Reds restaurant. It is expected that the Reds restaurant will open during calendar year 2017 and the other restaurant will open during calendar year 2018. There can be no assurance that these restaurants will be opened or will become part of Royalty Pooled Restaurants.

- SIR's newest concept brand Scaddabush is demonstrating strong sales performance and SIR has continued with its program to evolve its Alice Fazooli's concept brand into the more popular Scaddabush brand. To date, SIR has converted two Alice Fazooli's locations into Scaddabush locations (Mississauga and Richmond Hill, Ontario). SIR plans to convert its remaining two Alice Fazooli's restaurants by the end of calendar year 2017. SIR has also opened three new Scaddabush restaurants including the one at the intersection of Yonge Street and Gerrard Street in downtown Toronto, Ontario, one in Scarborough, Ontario, and one on Front Street in downtown Toronto. The new Scaddabush restaurants in Scarborough and on Front Street in Toronto will be added to Royalty Pooled Restaurants on January 1, 2017 and January 1, 2018, respectively.
- SIR's Management is pleased with the performance at the recently renovated Jack Astor's locations and plans to continue to implement similar renovations at additional Jack Astor's locations in the future.
- SIR continues to focus on sustaining and growing existing restaurant sales and profits while effectively managing costs. SIR carefully monitors economic conditions, competitive actions, and consumer confidence, and considers new restaurant developments and renovations to existing restaurants where appropriate. Based on its assessment of these conditions, the timing of new restaurant construction and renovations, as well as related opening schedules will be reviewed regularly by SIR and adjusted as necessary.

Overview

SIR is a private company amalgamated under the Business Corporations Act of Ontario. As at November 20, 2016, SIR operated 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/Alice Fazooli's. The Signature group of restaurants located in downtown Toronto include Reds® Wine Tavern, Reds® Midtown Tavern, and the Loose Moose®. SIR also owns a Duke's Refresher® & Bar, in downtown Toronto and one seasonal restaurant: Abbey's Bakehouse®, in addition to one seasonal Abbey's Bakehouse retail outlet, which are not part of Royalty Pooled Restaurants. SIR owns 100% of all its Canadian restaurants. As at November 20, 2016, 57 SIR Restaurants (56 operating restaurants and one closed restaurant) were included in SIR Royalty Pooled Restaurants.

On January 1, 2017, one restaurant will be added to Royalty Pooled Restaurants, which is the new Scaddabush restaurant in Scarborough, Ontario that opened in Q4 2016.

On November 3, 2016, SIR opened a new Scaddabush restaurant located on Front Street in downtown Toronto. This restaurant will be added to Royalty Pooled Restaurants on January 1, 2018.

---

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

References to Adjusted EBITDA are to SIR's EBITDA plus or minus interest (income) and other expense (income) – net, goodwill impairment, impairment of non-financial assets, loss on disposal of property and equipment, and pre-opening costs. Pre-opening costs are added back to EBITDA because Management views these costs as investments in new restaurants and not as on-going costs of operations.

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.

Effective October 15, 2016, Far Niente/FOUR/Petit Four located in downtown Toronto was closed. SIR was unable to negotiate a lease extension with the landlord with sufficient term to ensure a suitable return on its planned investment in the location and therefore decided to allow its lease for the site at 187 Bay Street to terminate on the expiry date of October 31, 2016. Far Niente/FOUR/Petit Four are considered as one restaurant under the Fund's Royalty Pooled Revenue accounting structure. 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 $0.08 million which is the amount of the Royalty that otherwise would have been paid to the Partnership by Far Niente/FOUR/Petit Four from their date of closure until December 31, 2016. On January 1, 2017, 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. Far Niente/FOUR/Petit Four will cease to be a part of Royalty Pooled Restaurants on January 1, 2017.

SIR expects the impact to Royalty Pool Revenue resulting from the closure of Far Niente/FOUR/Petit Four to be offset in 2017 and beyond by the aforementioned conversion of Class A GP units to Class B GP units, the anticipated positive contributions from the addition of new restaurants to the Royalty Pool going forward, and from investments by SIR to drive future same store sales growth.

SIR believes that Duke's Refresher has multi-unit growth potential and has advised the Fund that Duke's Refresher should be considered as a potential New Concept Restaurant brand. As such, the earliest that any Duke's Refresher would be added to the Royalty pool would be the Adjustment Date following the earlier of: (i) the date that four Duke's Refresher restaurants are open for business at the same time, and (ii) 90 days following the end of the fiscal year in which revenues from all Duke's Refresher restaurants in Canada first exceed $12.0 million (the "Trigger Event"). As neither of these events are expected to occur in calendar year 2016, Duke's Refresher is not expected to be added to the Royalty Pool on January 1, 2017. 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 2017 and 2016 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 20, 2016 and November 22, 2015, 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 20, 2016	12-Week Period Ended November 22, 2015
	(in thousands of dollars) (unaudited)	
Corporate restaurant operations:		
Food and beverage revenue	63,559	63,139
Cost of corporate restaurant operations	59,842	59,501
Earnings from corporate restaurant operations	**3,717**	**3,638**
Net loss and comprehensive loss	**(1,210)**	**(3,781)**
Adjusted Net Loss(2)	**(558)**	**(650)**

Statement of Financial Position	November 20, 2016	August 28, 2016
	(in thousands of dollars) (unaudited)	
Total assets	71,912	71,071
Total non-current liabilities	170,377	166,287

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

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

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

	12-Week Period Ended November 20, 2016	12-Week Period Ended November 22, 2015
	(in thousands of dollars) (unaudited)	
Net loss for the period	(1,210)	(3,781)
Change in amortized cost of Ordinary LP Units and Class A LP Units of the Partnership	652	3,131
Adjusted Net Loss[(2)]	**(558)**	**(650)**

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

	12-Week Period Ended November 20, 2016	12-Week Period Ended November 22, 2015
	(in thousands of dollars) (unaudited)	
Net loss and comprehensive loss for the period	(1,210)	(3,781)
Add (deduct):		
Provision for income taxes	24	20
Interest expense	205	324
Interest on loan payable to SIR Royalty Income Fund	692	700
Depreciation and amortization	2,500	2,560
Change in amortized cost of Ordinary LP Units and Class A LP Units of the Partnership	652	3,131
EBITDA[(3)]	2,863	2,954
Interest (income) and other expense (income) – net	12	(59)
Loss on disposal of property and equipment	69	12
Pre-opening costs	722	96
Adjusted EBITDA[(3)]	**3,666**	**3,003**
Income from Class A & B GP Units of the Partnership[(4)] (Not included in EBITDA[(3)] and Adjusted EBITDA[(3)] above)	727	878
6% Royalty obligations under License and Royalty Agreement[(5)]	3,741	3,663

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

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

Results of Operations

Reconciliation of Revenue from Consolidated Financial Statements to Pooled Revenue	12-Week Period Ended November 20, 2016	12-Week Period Ended November 22, 2015
	(in thousands of dollars) (unaudited)	
Revenue reported in consolidated financial statements	63,559	63,139
Less: Revenue from corporate restaurant operations excluded from the Royalty pool	(1,835)	(2,094)
Revenue for Restaurants in Royalty pool (Pooled Revenue)	**61,724**	**61,045**

Reconciliation of Revenue from Consolidated Financial Statements to Same Store Sales(1)	12-Week Period Ended November 20, 2016	12-Week Period Ended November 22, 2015
	(in thousands of dollars) (unaudited)	
Revenue reported in consolidated financial statements	63,559	63,139
Less: Revenue from corporate restaurant operations excluded from Same Store Sales(1)	(2,666)	(1,947)
Same Store Sales(1)	**60,893**	**61,192**

Same Store Sales(1) by Segment	12-Week Period Ended November 20, 2016	12-Week Period Ended November 22, 2015	% Fav./ (Unfav.)
	(in thousands of dollars) (unaudited)		
Jack Astor's	44,803	45,628	(1.8%)
Canyon Creek	6,136	6,346	(3.3%)
Scaddabush/Alice Fazooli's	4,743	4,204	12.8%
Signature Restaurants	5,211	5,014	3.9%
Same Store Sales(1)	**60,893**	**61,192**	**(0.5%)**

Summary of Quarterly Results

Statement of Operations	1st Quarter Ended November 20, 2016 (12 weeks)	4th Quarter Ended August 28, 2016 (16 weeks)	3rd Quarter Ended May 8, 2016 (12 weeks)	2nd Quarter Ended February 14, 2016 (12 weeks)	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)
	(in thousands of dollars) (unaudited)							
Corporate Restaurant Operations								
Food and beverage revenue	63,559	92,043	64,438	61,198	63,139	88,734	62,051	58,778
Cost of corporate restaurant operations	59,842	85,441	58,171	57,106	59,501	83,651	56,973	54,253
Earnings from corporate restaurant operations	**3,717**	**6,602**	**6,267**	**4,092**	**3,638**	**5,083**	**5,078**	**4,525**
Net earnings (loss) and comprehensive income (loss)	**(1,210)**	**(15,572)**	**(13,442)**	**9,122**	**(3,781)**	**4,167**	**(3,664)**	**(4,645)**
Adjusted Net Earnings (Loss)(2)	**(558)**	**517**	**1,772**	**(29)**	**(650)**	**20**	**557**	**923**

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

	1st Quarter Ended November 20, 2016 (12 weeks)	4th Quarter Ended August 28, 2016 (16 weeks)	3rd Quarter Ended May 8, 2016 (12 weeks)	2nd Quarter Ended February 14, 2016 (12 weeks)	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)
	(in thousands of dollars) (unaudited)							
Net earnings (loss) and comprehensive income (loss)	(1,210)	(15,572)	(13,442)	9,122	(3,781)	4,167	(3,664)	(4,645)
Change in amortized cost of the Ordinary LP Units and Class A LP Units of the Partnership	652	16,089	15,214	(9,151)	3,131	(4,147)	4,221	5,568
Adjusted Net Earnings (Loss)(2)	**(558)**	**517**	**1,772**	**(29)**	**(650)**	**20**	**557**	**923**

Selected Unaudited Consolidated Statement of Cash Flows Information:

	1st Quarter Ended November 20, 2016 (12 weeks)	4th Quarter Ended August 28, 2016 (16 weeks)	3rd Quarter Ended May 8, 2016 (12 weeks)	2nd Quarter Ended February 14, 2016 (12 weeks)	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)
	(in thousands of dollars) (unaudited)							
Cash provided by (used in) operations	(1,478)	8,313	3,110	3,182	(2,645)	6,020	2,821	534
Cash provided by (used in) investing activities	(3,245)	(3,611)	(2,092)	(1,634)	(2,323)	(3,106)	(829)	740
Cash provided by (used in) financing activities	4,651	(3,725)	(1,463)	(1,948)	855	(3,426)	(1,950)	(2,422)
Increase (decrease) in cash and cash equivalents during the period	(72)	977	(445)	(400)	(4,113)	(512)	42	(1,148)
Cash and cash equivalents – Beginning of period	3,888	2,911	3,356	3,756	7,869	8,381	8,339	9,487
Cash and cash equivalents – End of period	3,816	3,888	2,911	3,356	3,756	7,869	8,381	8,339

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 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 20, 2016, revenue was $63.6 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 2017 and Q1 2016, SSS(1) includes all SIR Restaurants, except for those restaurants that were not open for the entire comparable periods in fiscal 2017 and fiscal 2016. The Abbey's Bakehouse and Abbey's Bakehouse retail outlet are not SIR Restaurants. SSS(1) for Scaddabush/Alice Fazooli's includes three Scaddabush restaurants and two Alice Fazooli's restaurants. For the 12-week period ended November 20, 2016, SSS(1) were $60.9 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 57 Royalty Pooled Restaurants (56 operating restaurants and one closed restaurant). For the 12-week period ended November 20, 2016, Pooled Revenue was $61.7 million. The applicable Royalty payable to the Partnership on the Pooled Revenue for these periods was $3.7 million, and includes a Make-Whole Payment with respect to the closed Far Niente/FOUR/Petit Four location in Toronto, Ontario from its date of closure to November 20, 2016.

Same Store Sales(1)

SIR had a decline in SSS(1) of 0.5% for the 12-week period ended November 20, 2016.

Jack Astor's, SIR's flagship Concept Restaurant brand, which contributed approximately 74% of Q1 2017 Pooled Revenue, had a SSS(1) decline of 1.8% for the 12-week period ended November 20, 2016. SSS(1) were impacted by sales declines at two restaurants affected by their weakened local economies (Jack Astor's in Calgary, Alberta, and Jack Astor's in St. John's, Newfoundland), a decline in beverage sales, and the closure of four Jack Astor's locations for renovations during the quarter, for a combined total of 20 days. These unfavourable impacts were partially offset by the positive impact on SSS(1) from the World Cup of Hockey, which took place in Toronto, Ontario during September 2016, particularly at locations near the Air Canada Centre. SIR management continues to review its beverage programs with a view to improving sales. SIR also plans to continue with renovations at additional Jack Astor's in order to drive SSSG(1). These renovations include enhanced beverage programs to also help drive beverage sales.

Canyon Creek had a SSS(1) decline of 3.3% for the 12-week period ended November 20, 2016. The Q1 2017 SSS(1) decline is primarily due to the impact of a recent significant competitive intrusion at one of the eight Canyon Creek locations, which had a decline of 22%.

Scaddabush/Alice Fazooli's generated SSSG(1) of 12.8% for the 12-week period ended November 20, 2016, primarily due to the strong performance of Scaddabush and SIR's continuation of its program to evolve the Alice Fazooli's concept into the popular Scaddabush brand. Since introducing its new Scaddabush concept, SIR has renovated and converted two Alice Fazooli's restaurants (Mississauga and Richmond Hill, Ontario) into Scaddabush locations, and opened three new Scaddabush restaurants, one at the intersection of Yonge Street and Gerrard Street in downtown Toronto, Ontario, one in Scarborough, Ontario, and one on Front Street in downtown Toronto that opened during Q1 2017. The strong combined Scaddabush/Alice Fazooli's SSSG(1) for Q1 2017 has been partially offset by SSS(1) declines at the two remaining Alice Fazooli's locations that have not yet been converted to Scaddabush. SIR intends to convert these two remaining Alice Fazooli's restaurants during calendar year 2017. The new Scaddabush locations in Scarborough and on Front Street in downtown Toronto will be added to Royalty Pooled Restaurants on January 1, 2017 and January 1, 2018, respectively, and are not currently part of the above mentioned SSS(1).

The downtown Toronto Signature Restaurants generated SSSG(1) of 3.9% for the 12-week period ended November 20, 2016. The Loose Moose continues to post strong SSSG(1) due in part to the impact of favourable guest traffic driven by the World Cup of Hockey in September 2016. In addition, Duke's Refresher & Bar continues to demonstrate improved sales performance. The above mentioned SSSG(1) does not include Far Niente/FOUR/Petit Four, as this location was closed effective October 15, 2016.

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 20, 2016, unchanged from 94.2% for the 12-week period ended November 22, 2015. Costs as a percentage of revenue for the 12-week period ended November 20, 2016 included higher pre-opening costs compared to the 12-week period ended November 22, 2015. Although there was one new restaurant opened in both Q1 2017 and Q1 2016, the latter one opened one week into the quarter so most of the preopening costs were included in the prior year. Pre-opening costs are typical for new restaurant openings. There was also higher repairs and maintenance costs in Q1 2017 compared to the same period a year ago, due to the four Jack Astor's renovations. This was offset by lower food costs, due in part to menu engineering that occurred in the latter part of fiscal 2016 and the fact that there were significant costs related to the launch of a major new menu in the Jack Astor's concept in Q1 2016, which affected food costs, training labour and operating costs.

Corporate Costs

Corporate costs were $3.3 million for Q1 2017 and are consistent with corporate costs for the same period in fiscal 2016.

Interest Expense

Interest expense for Q1 2017 is $0.2 million, a decrease of $0.1 million from the corresponding period in fiscal 2016. The decrease is a result of lower average debt during the 12-week period ended November 20, 2016 compared to the 12-week period ended November 22, 2015.

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 2017, the change in amortized cost is an expense of $0.7 million and is due to a slight increase in the underlying Fund unit price compared to Q4 2016. The change in amortized cost was an expense of $3.1 million for the 12-week period ended November 22, 2015.

Interest on the SIR Loan totaled $0.7 million for the 12-week period ended November 20, 2016, and $0.7 million for the 12-week period ended November 22, 2015.

EBITDA(3) and Adjusted EBITDA(3)

EBITDA(3) was $2.9 million for the 12-week period ended November 20, 2016, down from $3.0 million for the 12-week period ended November 22, 2015. Adjusted EBITDA(3) was $3.7 million for the 12-week period ended November 20, 2016, up from $3.0 million for the 12-week period ended November 22, 2015. The increase in Adjusted EBITDA(3) is primarily due to the higher preopening costs included in the net loss for the current period compared to the prior year. (See Selected Consolidated Historical Financial Information – Reconciliation of net earnings (loss) and comprehensive income (loss) for the period to EBITDA(3) and Adjusted EBITDA(3)).

SIR Royalty Income Fund

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

(a) SIR Loan

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

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

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

Interest expense on the SIR Loan was charged to the consolidated statements of operations and comprehensive income (loss) in the amount of $0.7 million for the 12-week period ended November 20, 2016, and $0.7 million for the 12-week period ended November 22, 2015.

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 20, 2016	12-Week Period Ended November 22, 2015
	(in thousands of dollars) (unaudited)	
Balance – Beginning of the period	123,821	96,196
Change in amortized cost of the Ordinary LP Units and Class A LP Units of the Partnership	652	3,131
Distributions paid to Ordinary LP and Class A LP unitholders	(2,402)	(1,472)
Balance – End of period	122,071	97,855
Less: Current portion of Ordinary LP Units and Class A LP Units of the Partnership	(9,991)	(8,827)
Ordinary LP Units and Class A LP Units of the Partnership	112,080	89,028

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

Pooled Revenue[6]	61,724	61,045
Partnership royalty income[7]	3,741	3,663
Other Income	6	6
Partnership expenses	(18)	(15)
Net earnings of the Partnership	3,729	3,654
SIR's residual interest in the earnings of the Partnership:		
Income from Class A & B GP Units of the Partnership	(727)	(878)
Income from Class C GP Units of the Partnership	(683)	(691)
	(1,410)	(1,569)
Fund's interest in the earnings of the Partnership	2,319	2,085

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 (refer to page 16 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.

(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, 2016, two (January 1, 2015 – two) 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, 2016 (January 1, 2015 – two), as well as the Second Incremental Adjustment for the two new SIR Restaurant added to Royalty Pooled Restaurants on January 1, 2015 (January 1, 2014 – 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 323,000 (January 1, 2015 – 347,000) Class B GP Units into 323,000 (January 1, 2015 – 347,000) Class A GP Units on January 1, 2016 at an estimated fair value of $4.2 million (January 1, 2015 – $4.5 million).

In addition, the revenues of the two new SIR Restaurants added to Royalty Pooled Restaurants on January 1, 2015 exceeded 80% of the Initial Adjustment's estimated revenue (January 1, 2014 – the revenues of the four new SIR Restaurants were less than 80% of the Initial Adjustment's estimated revenue) and, as a result, a special conversion distribution of $0.1 million was declared in December 2015 and paid in January 2016 (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).

SIR's residual interest in the Partnership is 19.8% as at November 20, 2016 (August 28, 2016 – 19.8%) (refer to page 16 of the Liquidity and Capital Resources section).

(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 20, 2016	12-Week Period Ended November 22, 2015
	(in thousands of dollars) (unaudited)	
Cash used in operations	(1,478)	(2,645)
Cash used in investing activities	(3,245)	(2,323)
Cash provided by financing activities	4,651	855
Decrease in cash and cash equivalents during the period	(72)	(4,113)
Cash and cash equivalents – Beginning of period	3,888	7,869
Cash and cash equivalents – End of period	3,816	3,756

Cash used in operations declined by $1.2 million for the 12-week period ended November 20, 2016 compared to the 12-week period ended November 22, 2015. The decrease is attributable to an increase in Adjusted Net Earnings(2) of $0.1 million and a favourable variance in the net change in working capital items of $2.1 million, offset by an increase in distributions paid of $0.9 million.

Investing activities used cash of $3.2 million and $2.3 million for the 12-week periods ended November 20, 2016 and November 22, 2015, respectively. Purchases of property and equipment and other assets – net amounted to $3.3 million for the 12-week period ended November 20, 2016 and $2.3 million for the 12-week period ended November 22, 2015, respectively. The majority of the capital expenditures for the 12-week period ended November 20, 2016 relate to the construction of the new Scaddabush restaurant in Toronto, Ontario that opened during Q1 2017, and the renovations of four Jack Astor's locations during the quarter. The majority of the capital expenditures for the 12-week period ended November 22, 2015 related 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.

For the 12-week period ended November 20, 2016, cash provided by financing activities was $4.7 million. Cash provided by financing activities was $0.9 million for the 12-week period ended November 22, 2015. The decrease in bank indebtedness was $0.1 million in the 12-week period ended November 20, 2016, and $1.0 million in the 12-week period ended November 22, 2015. Proceeds from the issuance of long-term debt were $6.0 million for the 12-week period ended November 20, 2016 and $3.0 million for the 12-week period ended November 22, 2015. Principal repayments on long-term debt were $0.5 million for both the 12-week periods ended November 20, 2016 and November 22, 2015. Interest paid was $1.0 million for the 12-week period ended November 20, 2016 and $0.7 million for the 12-week period ended November 22, 2015.

The two new Jack Astor's restaurants that opened in fiscal 2015 and Q1 2016 were added to the Royalty Pooled Restaurants effective January 1, 2016. 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 two New Additional Restaurants that were added to Royalty Pooled Restaurants on January 1, 2015. 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, 2016 and after the effect of the August 24, 2016 conversion of Class A GP Units into Fund Units, SIR holds 2,061,097 Class A GP Units (refer to page 16).

As at November 20, 2016, SIR had current assets of $15.7 million (August 28, 2016 – $15.0 million) and current liabilities of $44.7 million (August 28, 2016 – $47.0 million) resulting in a working capital deficit of $29.0 million (August 28, 2016 – $32.0 million). Revenues in the restaurant business are largely paid by cash and credit cards whereas most suppliers offer credit terms for payment. Therefore, restaurants are able to pay their suppliers from the cash received on revenues in the following months, as the supplier payables are due. Cash balances are typically used to construct new restaurants or re-invest in existing restaurants to grow the business. As a result, SIR, like many other restaurant businesses, would anticipate having a negative working capital balance in the foreseeable future.

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

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

The Credit Agreement between SIR and the Lender provides for a three-year facility for a maximum principal amount of $30.0 million consisting of a $20.0 million revolving term credit facility (Credit Facility 1), and a $10.0 million revolving term loan (Credit Facility 2). SIR and the Lender have also have 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, 2018. A standby fee of 0.65% is charged on the undrawn balance of Credit Facility 1. Provided SIR is in compliance with the Credit Agreement, the principal amount of Credit Facility 1 may be repaid and reborrowed at any time during the term of the Credit Agreement. Credit Facility 2 bears interest at the prime rate plus 2.25% and/or the bankers' acceptance rate plus 3.25%. The initial advance on Credit Facility 2 is repayable in quarterly instalments of $0.5 million, with the remaining outstanding principal balance due on July 6, 2018. Subsequent advances on Credit Facility 2 may be requested (subject to availability and lender approval), in minimum multiples of $1.0 million, annually on the anniversary of the closing date of the 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. During fiscal 2016, the Lender approved SIR's request for an advance of $2,000,000 on Credit Facility 2. SIR has not yet drawn on this advance.

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

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

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

During Q4 2016, the lender agreed to release the security over 750,000 Class A GP Units and, on August 24, 2016, SIR exchanged 750,000 Class A GP Units of the Partnership into Fund units and sold these Fund units for proceeds of $10.3 million (net of transaction costs of $0.3 million). SIR's residual interest in the Partnership decreased by 7.1% as a result of this conversion and is currently 19.8%.

Under the Credit Agreement, SIR may convert Class A GP Units into Fund Units without prior consent from the Lender, provided such units are promptly sold by SIR for the purposes of financing the construction of new restaurants and renovations to existing restaurants, in each case not to exceed in any year the lower of $7.0 million and 0.4 million units. As mentioned above, SIR received consent from the lender to convert greater than the 0.4 million units during Q4 2016.

Contractual Obligations

In 2004, the Partnership granted SIR a 99-year license to use the SIR Rights in most of Canada in consideration for a Royalty, payable by SIR to the Partnership, equal to 6% of the revenue of the restaurants included in Royalty Pooled Restaurants. Payment of the Royalty is secured by the Partnership General Security Agreement. On July 6, 2015, SIR, the Fund and the Partnership amended the agreement to subordinate and postpone their claims against SIR in favour of the senior lender. The Partnership and the Fund have not guaranteed the Credit Agreement (Please refer to SIR Royalty Income Fund section).

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

Under the terms of the License and Royalty Agreement, SIR may be required to pay a Make-Whole Payment in respect of the reduction in revenue for restaurants closed during a reporting period. SIR is not required to pay any Make-Whole Payment in respect of a closed restaurant following the date on which the number of Royalty Pooled Restaurants is equal to or greater than 68, or following October 12, 2019, whichever occurs first. On January 1 of each year (the "Adjustment Date"), the restaurants subject to the License and Royalty Agreement are adjusted for new SIR restaurants opened for at least 60 days preceding such Adjustment Date. At each Adjustment Date, SIR will be entitled to convert its Class B GP Units to Class A GP Units based on a formula defined in the Partnership Agreement.

Far Niente/FOUR/Petit Four was closed on October 15, 2016. Under the terms of the License and Royalty Agreement, SIR is required to pay a Make-Whole Payment for this location from their date of closure until December 31, 2016. In accordance with the License and Royalty Agreement, on January 1, 2017, the revenue of this closed restaurant will be netted against the revenue of the new SIR Restaurants, which have been open for at least 60 days prior to the Adjustment Date, when determining the number of Class B GP Units of the Partnership, held by SIR, that will be converted into Class A GP Units of the Partnership.

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 two new restaurants. SIR has entered into purchasing commitments for $0.1 million for one of these restaurants, of which $0.09 million is included in property and equipment as at November 20, 2016. As at the current date, SIR has not entered into any construction contracts for the other restaurant, but expects to do so in the future. 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 20, 2016, $9.7 million and $7.5 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 28, 2016.

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 20, 2016	12-Week Period Ended November 22, 2015
	(in thousands of dollars) (unaudited)	
Corporate costs		
Occupancy costs and maintenance services provided by a company owned by a party related to a shareholder of SIR	16	13
Maintenance services provided 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	-	2
Maintenance services provided by a company owned by a party related to a shareholder of SIR	5	20
Maintenance services provided by a shareholder of SIR	2	-
Property and equipment		
Design and construction management fees and fixtures provided by a company owned by a shareholder of SIR	5	105
Construction management fees and fixtures provided by a company owned by a party related to a shareholder of SIR	34	393
Fixtures provided by a shareholder of SIR	29	11

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

	As at November 20, 2016	As at August 28, 2016
	(in thousands of dollars) (unaudited)	
Amounts due from related parties:		
Amounts due from U.S. S.I.R. L.L.C. and its subsidiary	26	6
Amounts due from a company owned by a party related to a director of SIR	27	24
Amounts due to related parties:		
Amounts due to companies owned by a shareholder or director of SIR	85	150
Amounts due to a company owned by a party related to a shareholder of SIR	49	30
Amounts due to a company owned by a party related to a director of SIR	4	4

- Received repayment against loans and advances from U.S. S.I.R. L.L.C. of $0.01 million for the 12-week period ended November 20, 2016 ($0.04 million for the 12-week period ended November 22, 2015). SIR recognized interest income on those loans and advances of $0.03 million for the 12-week period ended November 20, 2016 ($0.05 million for the 12-week period ended November 22, 2015). As at November 20, 2016, SIR has loans and advances (net of a provision) of $0.9 million owing from U.S. S.I.R. L.L.C. (August 28, 2016 – $1.0 million).
- Received repayment against a loan receivable from a company owned by a party related to a director of SIR of $0.01 million for the 12-week period ended November 20, 2016 ($0.05 for the 12-week period ended November 22, 2015). SIR recognized interest income on this loan of $0.004 million for the 12-week period ended November 20, 2016 ($0.002 for the 12-week period ended November 22, 2015). As at November 20, 2016 the balance of this loan receivable is $0.3 million (August 28, 2016 – $0.3 million).
- During the 12-week period ended November 22, 2015, SIR advanced $0.1 million to one shareholder of SIR. The advance was repaid prior to the end of fiscal 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 20, 2016 were $3.0 million (August 28, 2016 – $3.2 million). Advances receivable are non-interest bearing and due on demand.

During the 12-week period ended November 20, 2016, distributions of $2.3 million were declared to the Fund by the Partnership ($2.1 million for the 12-week period ended November 22, 2015). 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 20, 2016 were $4.3 million (August 28, 2016 – $4.3 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 20, 2016 and $0.7 million for the 12-week period ended November 22, 2015. Interest payable on the SIR Loan as at November 20, 2016 was $0.4 million (August 28, 2016 – $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 the 12-week period ended November 20, 2016 ($0.006 million for the 12-week period ended November 22, 2015), 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 28, 2016. The reader will find this information in the annual MD&A for the year ended August 28, 2016.

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 was amended to clarify guidance in identifying performance indicators, licences of intellectual properties and principle versus agent and to provide additional expedients on transition. IFRS 15 must be applied in an entity's first annual IFRS financial statements for periods beginning on or after January 1, 2018 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.

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

IAS 7, Statement of Cash Flows. The IASB issued an amendment to require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendment is effective for annual periods beginning on or after January 1, 2017. Management is evaluating the standard and has not yet determined the impact on its consolidated financial statements.

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

Financial Instruments

Management believes that there have been no substantial changes in the financial instruments since the year ended August 28, 2016. The reader will find this information in the annual MD&A for the year ended August 28, 2016.

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 11, 2016 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**.**

Restaurants Canada estimates that total sales in the full-service category, the category in which SIR competes, will grow at a 0.5% higher rate in calendar 2016 than it did in calendar 2015, but that rate of growth will slow by about 1.0% in calendar 2017 compared to 2016. 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.

As at December 21, 2016, the date of this report, SIR has two commitments to lease properties, upon which it plans to build two new restaurants. The first restaurant is a new Reds restaurant, to be located in the Square One Shopping Centre in Mississauga, Ontario, which is expected to open in calendar year 2017. The second restaurant is expected to open in calendar year 2018. There can be no assurance that these restaurants will be opened or will become part of Royalty Pooled Restaurants.

On August 24, 2016, SIR exchanged 750,000 Class A GP Units of the Partnership into Fund units and sold these units for total net proceeds of $10.3 million. Proceeds from the sale of the Fund units will be used by SIR to fund the costs associated with constructing new restaurants and renovating existing restaurants.

SIR continues to evolve its Alice Fazooli's concept brand into the more popular Scaddabush brand. To date, SIR has converted two Alice Fazooli's locations (Mississauga and Richmond Hill, Ontario) to Scaddabush locations and SIR expects to convert the remaining two Alice Fazooli's restaurants during calendar year 2017. SIR opened its first Scaddabush restaurant that was not previously an Alice Fazooli's location at the corner of Yonge Street and Gerrard Street in downtown Toronto on February 18, 2014, and a new Scaddabush restaurant in Scarborough, Ontario on July 12, 2016. SIR opened its fifth Scaddabush location on Front Street in downtown Toronto on November 3, 2016. It is expected that the Scaddabush restaurants in Scarborough, Ontario and Toronto, Ontario will be added to Royalty Pooled Restaurants on January 1, 2017 and January 1, 2018, respectively.

SIR's Management is pleased with the performance at the recently renovated Jack Astor's locations including two completed during Fiscal 2016, four additional renovations completed during Q1 2017 and one subsequent to Q1 2017. Therefore SIR plans to continue to implement similar renovations at additional Jack Astor's locations, in the future, in order to drive SSSG[1]**.**

During Q1 2017, SIR announced the closure of Far Niente/FOUR/Petit Four, located in downtown Toronto. The closure was effective October 15, 2016. SIR was unable to negotiate a lease extension with the landlord with sufficient term to ensure a suitable return on its planned investment in the location and therefore decided to allow its lease for the site at 187 Bay Street to terminate on the expiry date of October 31, 2016. Far Niente/FOUR/Petit Four are considered as one restaurant under the Fund's Royalty Pooled Revenue accounting structure. 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, initially equal to the amount of the Royalty that otherwise would have been paid to the Partnership by Far Niente/FOUR/Petit Four from their date of closure until December 31, 2016. On January 1, 2017, 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.

SIR expects the impact to Royalty Pool Revenue in 2017 and beyond resulting from the closure of Far Niente/FOUR/Petit Four to be offset by the aforementioned conversion of Class A GP units to Class B GP units, the anticipated positive contributions from the addition of new restaurants to the Royalty Pool going forward, and from investments by SIR to drive future same store sales growth.

SIR continues to focus on sustaining and growing existing restaurant sales and profits while managing costs. SIR continues to monitor economic conditions and consumer confidence and considers new restaurant developments and renovations to existing restaurants where appropriate and subject to availability of acceptable long-term financing. Based on its assessment of these conditions, the timing of new restaurant construction and renovations as well as related opening schedules will be reviewed regularly by SIR and adjusted as necessary.

Forward Looking Information

Certain statements contained in this report, or incorporated herein by reference, including the information set forth as to the future financial or operating performance of the Fund or SIR, that are not current or historical factual statements may constitute forward-looking information within the meaning of applicable securities laws ("forward-looking statements"). Statements concerning the objectives, goals, strategies, intentions, plans, beliefs, expectations and estimates, and the business, operations, financial performance and condition of the Fund, the Trust, the Partnership, SIR, the SIR Restaurants or industry results, are forward-looking statements. The words "may", "will", "should", "would", "expect", "believe", "plan", "anticipate", "intend", "estimate" and other similar terminology and the negative of such expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of Fund, the Trust, the Partnership, SIR, the SIR Restaurants or industry results, to differ materially from the anticipated results, performance, achievements or developments expressed or implied by such forward-looking statements. These statements reflect Management's current expectations, estimates and projections regarding future events and operating performance and speak only as of the date of this document. Readers should not place undue importance on forward-looking statements and should not rely upon this information as of any other date. Risks related to forward-looking statements include, among other things, challenges presented by a number of factors, including: market conditions at the time of this filing; competition; changes in demographic trends; weather; changing consumer preferences and discretionary spending patterns; changes in consumer confidence; changes in national and local business and economic conditions; changes in foreign exchange; changes in availability of credit; legal proceedings and challenges to intellectual property rights; dependence of the Fund on the financial condition of SIR; legislation and governmental regulation; 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 21, 2016.

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 Credit Agreement and imposed by the lender. For more information concerning the Fund's risks and uncertainties, please refer to the March 11, 2016 Annual Information Form, for the period ended December 31, 2015, 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