SIR CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE 12-WEEK AND 36-WEEK PERIODS ENDED MAY 8, 2016

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Executive Summary

Highlights for SIR Corp.'s ("SIR's") 12-week and 36-week periods ended May 8, 2016 ("Q3 2016" and "YTD 2016", respectively) include:

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

- Food and beverage revenue from corporate restaurant operations for Q3 2016 was $64.4 million, up 3.8% from $62.1 million for the 12-week period ended May 10, 2015 ("Q3 2015"). Food and beverage revenue from corporate restaurant operations for YTD 2016 was $188.8 million, up 4.3% from $181.0 million for the 36-week period ended May 10, 2015 ("YTD 2015"). SIR generated Same Store Sales Growth ("SSSG")(1) of 1.6% and 1.8% for Q3 2016 and YTD, respectively.
- SIR's flagship Concept Restaurant brand, Jack Astor's®, which generated approximately 73% of Pooled Revenue in Q3 2016, had a decline in SSS(1) of 2.1% in Q3 2016 and 0.5% for YTD 2016. Canyon Creek® had SSSG(1) of 4.0% and 3.0% for Q3 2016 and YTD 2016, respectively. Scaddabush Italian Kitchen & Bar® ("Scaddabush"), together with Alice Fazooli's®, had SSSG(1) of 13.9% and 11.2% for Q3 2016 and YTD 2016, respectively. The downtown Toronto Signature Restaurants had SSSG(1) of 22.8% and 12.7% for Q3 2016 and YTD 2016, respectively.

Investment in new and existing restaurants

- On September 8, 2015, during SIR's fiscal 2016 first quarter ("Q1 2016"), SIR opened its third Jack Astor's restaurant in the Ottawa market. SIR opened its second Jack Astor's restaurant in the Ottawa market on March 24, 2015 during SIR's fiscal 2015 third quarter ("Q3 2015"). These two restaurants increased SIR's footprint in the nation's capital and were 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 eight days and reopened on October 6, 2015. During Q2 2016, SIR completed a major renovation of the Jack Astor's in Scarborough, Ontario. This location was closed for 16 days and reopened on December 16, 2015. SIR is currently building a new Scaddabush restaurant in the extra space that was created after renovating this Jack Astor's location. Subsequent to Q3 2016, SIR completed a major renovation of the Jack Astor's in Halifax, Nova Scotia. This location was closed for 11 days and reopened on June 7, 2016.
- During Q1 2015, SIR completed the renovation of one Canyon Creek restaurant. During SIR's fiscal 2015 fourth quarter ("Q4 2015") SIR undertook 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.

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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, Abbey's Bakehouse and Abbey's Bakehouse retail outlet, all located in Muskoka, Ontario. SSS for Scaddabush/Alice Fazooli's 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 9.

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

- Net loss and comprehensive loss was $13.4 million in Q3 2016, compared to a net loss and comprehensive loss of $3.7 million in Q3 2015. Net loss and comprehensive loss for YTD 2016 was $8.1 million, compared to a net loss and comprehensive loss of $8.3 million in the same period in the prior year.
- SIR's Adjusted Net Earnings[(2)] were $1.8 million and $1.1 million in Q3 2016 and YTD 2016, respectively, compared to is $0.6 million and $2.5 million in Q3 2015 and YTD 2015, respectively. The variances reflect increased earnings from corporate restaurant operations in Q3 2016, and a decrease in earnings from corporate restaurant operations in YTD 2016.

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

- EBITDA[(3)] was $5.6 million in Q3 2016, up from $4.4 million in Q3 2015, and Adjusted EBITDA[(3)] was $5.8 million in Q3 2016, up from $4.7 million in Q3 2015.
- EBITDA[(3)] was $12.2 million for YTD 2016, down from $14.1 million in YTD 2015. Adjusted EBITDA[(3)] was $12.8 million, down from $14.7 million in YTD 2015.

Outlook

- As at June 20, 2016, the date of this report, SIR has three commitments to lease properties upon which it plans to build one new Scaddabush restaurant, one new Reds restaurant, and one new Jack Astor's restaurant. It is expected that the Scaddabush restaurant will open in the first quarter of fiscal 2017, the Reds restaurant will open during calendar year 2017, and the Jack Astor's restaurant will open during calendar year 2018. SIR is also currently building a new Scaddabush restaurant in the extra space that was created after renovating its Jack Astor's restaurant in Scarborough. SIR expects to open this new Scaddabush in this fiscal year. There can be no assurance that these restaurants will be opened or will become part of Royalty Pooled Restaurants.

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(2) *Adjusted Net Earnings (Loss) is calculated by removing the change in amortized cost of the Ordinary LP Units and Class A LP Units of the Partnership from the net earnings (loss) for the period. Adjusted Net Earnings (Loss) is a non-GAAP financial measure and does not have a standardized meaning prescribed by IFRS. Management believes that in addition to net earnings (loss), Adjusted Net Earnings (Loss) is a useful supplemental measure to evaluate SIR's performance. Changes in the amortized cost of the Ordinary LP Units and Class A LP Units of the Partnership is a non-cash transaction and varies with changes in the market price of the Fund units. The exclusion of the change in amortized cost of the Ordinary LP Units and Class A LP Units of the Partnership eliminates this non-cash impact. Management cautions investors that Adjusted Net Earnings (Loss) should not replace net earnings or loss or cash flows from operating, investing and financing activities (as determined in accordance with IFRS), as an indicator of SIR's performance. SIR's method of calculating Adjusted Net Earnings (Loss) may differ from the methods used by other issuers. Please refer to the reconciliations of net earnings (loss) for the period to Adjusted Net Earnings (Loss) on page 6 of this document.*

(3) *References to EBITDA are to the net earnings (loss) for the period before provision for (recovery of) income taxes, interest expense, interest on loan payable to SIR Royalty Income Fund, depreciation and amortization, and change in amortized cost of Ordinary LP Units and Class A LP Units of the Partnership. This EBITDA definition has changed from our previous filings to conform to the new release, dated January 14, 2016, of the Canadian Securities Administrators Staff Notice 52-306 (revised) which provides guidance to issuers that disclose non-GAAP financial measures and includes more stringent guidelines on the reconciliation of net earnings (loss) to EBITDA. As such, prior period reconciliations have been revised to comply with this Notice and current period presentation.*

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.

- 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 Scaddabush. To date, SIR has converted two Alice Fazooli's locations into Scaddabush locations (Mississauga and Richmond Hill, Ontario). SIR now plans to convert its remaining two Alice Fazooli's restaurants by the end of calendar year 2017. SIR has also opened one new Scaddabush restaurant in Toronto, Ontario during 2014. SIR plans to open a new Scaddabush restaurant on Front Street in downtown Toronto, and is currently building 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. Both of these new Scaddabush restaurants are expected to open in calendar 2016 and will be considered New Additional Restaurants for purposes of Royalty Pooled Restaurants.
- SIR continues to focus on sustaining and growing existing restaurant sales and profits while effectively managing costs. SIR continues to monitor economic conditions 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 May 8, 2016, 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 May 8, 2016, 57 SIR Restaurants were included in SIR Royalty Pooled Restaurants.

On January 1, 2016, two restaurants were 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 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 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 and 36-week periods ended May 8, 2016 and May 10, 2015, 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 May 8, 2016	12-Week Period Ended May 10, 2015	36-Week Period Ended May 8, 2016	36-Week Period Ended May 10, 2015
	(in thousands of dollars) (unaudited)			
Corporate restaurant operations:				
Food and beverage revenue	64,438	62,051	188,775	181,016
Cost of corporate restaurant operations	58,171	56,973	174,778	166,195
Earnings from corporate restaurant operations	**6.267**	**5,078**	**13,997**	**14,821**
Net loss and comprehensive loss	**(13,442)**	**(3,664)**	**(8,101)**	**(8,269)**
Adjusted Net Earnings(2)	**1,772**	**557**	**1,093**	**2,500**

Statement of Financial Position	May 8, 2016	August 30, 2015
	(in thousands of dollars) (unaudited)	
Total assets	73,458	78,234
Total non-current liabilities	153,974	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 loss and comprehensive loss for the period to Adjusted Net Earnings (Loss)(2):

Reconciliation of net loss and comprehensive loss for the period to Adjusted Net Earnings(2)	12-Week Period Ended May 8, 2016	12-Week Period Ended May 10, 2015	36-Week Period Ended May 8, 2016	36-Week Period Ended May 10, 2015
	(in thousands of dollars) (unaudited)			
Net loss and comprehensive loss	(13,442)	(3,664)	(8,101)	(8,269)
Change in amortized cost of Ordinary LP Units and Class A LP Units of the Partnership	15,214	4,221	9,194	10,769
Adjusted Net Earnings(2)	**1,772**	**557**	**1,093**	**2,500**

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

Reconciliation of net loss and comprehensive income for the period to EBITDA(3) and Adjusted EBITDA(3)	12-Week Period Ended May 8, 2016	12-Week Period Ended May 10, 2015(3)	36-Week Period Ended May 8, 2016	36-Week Period Ended May 10, 2015(3)
	(in thousands of dollars) (unaudited)			
Net loss and comprehensive loss for the period	(13,442)	(3,664)	(8,101)	(8,269)
Add (deduct):				
Provision for income taxes	95	36	142	136
Interest expense	361	520	1,049	1,596
Interest on loan payable to SIR Royalty Income Fund	702	707	2,098	2,104
Depreciation and amortization	2,627	2,557	7,785	7,753
Change in amortized cost of Ordinary LP Units and Class A LP Units of the Partnership	15,214	4,221	9,194	10,769
EBITDA(3)	**5,557**	**4,377**	**12,167**	**14,089**
Interest (income) and other expense (income) – net	105	(23)	335	(217)
Loss (gain) on disposal of property and equipment	25	(27)	66	26
Pre-opening costs	93	375	242	770
Adjusted EBITDA(3)	**5,780**	**4,702**	**12,810**	**14,668**
Income from Class A & B GP Units of the Partnership(4) (Not included in EBITDA(3) and Adjusted EBITDA(3) above)	1,002	878	2,867	2,492
6% Royalty obligations under License and Royalty Agreement(5)	3,830	3,670	11,094	10,519

(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 May 8, 2016	12-Week Period Ended May 10, 2015	36-Week Period Ended May 8, 2016	36-Week Period Ended May 10, 2015
	(in thousands of dollars) (unaudited)			
Revenue reported in consolidated financial statements	64,438	62,051	188,775	181,016
Less: Revenue from corporate restaurant operations excluded from the Royalty pool	(598)	(871)	(3,874)	(5,694)
Revenue for Restaurants in the Royalty pool	**63,840**	**61,180**	**184,901**	**175,322**

Reconciliation of Revenue from Consolidated Financial Statements to Same Store Sales(1)	12-Week Period Ended May 8, 2016	12-Week Period Ended May 10, 2015	36-Week Period Ended May 8, 2016	36-Week Period Ended May 10, 2015
	(in thousands of dollars) (unaudited)			
Revenue reported in consolidated financial statements	64,438	62,051	188,775	181,016
Less: Revenue from corporate restaurant operations excluded from Same Store Sales(1)	(1,723)	(354)	(4,778)	(360)
Same Store Sales(1)	**62,715**	**61,697**	**183,997**	**180,656**

Same Store Sales(1) by Segment	12-Week Period Ended May 8, 2016	12-Week Period Ended May 10, 2015	% Fav. / (Unfav.)	36-Week Period Ended May 8, 2016	36-Week Period Ended May 10, 2015	% Fav. / (Unfav.)
	(in thousands of dollars) (unaudited)					
Jack Astor's	45,058	46,045	(2.1%)	131,710	132,420	(0.5%)
Canyon Creek	6,625	6,372	4.0%	20,083	19,507	3.0%
Scaddabush/Alice Fazooli's	4,640	4,075	13.9%	13,658	12,279	11.2%
Signature Restaurants	6,392	5,205	22.8%	18,546	16,450	12.7%
Same Store Sales(1)	**62,715**	**61,697**	**1.6%**	**183,997**	**180,656**	**1.8%**

Summary of Quarterly Results

Statement of Operations	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)	1st Quarter Ended November 23, 2014 (12 weeks)	4th Quarter Ended August 31, 2014 (17 weeks)
	(in thousands of dollars) (unaudited)							
Corporate Restaurant Operations								
Food and beverage revenue	64,438	61,198	63,139	88,734	62,051	58,778	60,187	95,786
Cost of corporate restaurant operations	58,171	57,106	59,501	83,651	56,973	54,253	54,969	89,031
Earnings from corporate restaurant operations	**6,267**	**4,092**	**3,638**	**5,083**	**5,078**	**4,525**	**5,218**	**6,755**
Net earnings (loss) and comprehensive income (loss)	**(13,442)**	**9,122**	**(3,781)**	**4,167**	**(3,664)**	**(4,645)**	**40**	**1,522**
Adjusted Net Earnings (Loss)(2)	**1,772**	**(29)**	**(650)**	**20**	**557**	**923**	**1,020**	**1,215**

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)]	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)	1st Quarter Ended November 23, 2014 (12 weeks)	4th Quarter Ended August 31, 2014 (17 weeks)
	(in thousands of dollars) (unaudited)							
Net earnings (loss) and comprehensive income (loss)	(13,442)	9,122	(3,781)	4,167	(3,664)	(4,645)	40	1,522
Change in amortized cost of the Ordinary LP Units and Class A LP Units of the Partnership	15,214	(9,151)	3,131	(4,147)	4,221	5,568	980	(307)
Adjusted Net Earnings (Loss)[(2)]	**1,772**	**(29)**	**(650)**	**20**	**557**	**923**	**1,020**	**1,215**

Selected Unaudited Consolidated Statement of Cash Flows Information:

	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)	1st Quarter Ended November 23, 2014 (12 weeks)	4th Quarter Ended August 31, 2014 (17 weeks)
	(in thousands of dollars) (unaudited)							
Cash provided by (used in) operations	3,110	3,182	(2,645)	6,020	2,821	534	7,004	4,877
Cash provided by (used in) investing activities	(2,092)	(1,634)	(2,323)	(3,106)	(829)	740	76	(2,575)
Cash provided by (used in) financing activities	(1,463)	(1,948)	855	(3,426)	(1,950)	(2,422)	(2,235)	(3,281)
Increase (decrease) in cash and cash equivalents during the period	(445)	(400)	(4,113)	(512)	42	(1,148)	4,845	(979)
Cash and cash equivalents – Beginning of period	3,356	3,756	7,869	8,381	8,339	9,487	4,642	5,621
Cash and cash equivalents – End of period	2,911	3,356	3,756	7,869	8,381	8,339	9,487	4,642

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)) – represents the total consolidated revenue of all restaurants for the period. The restaurants include all SIR Restaurants. For the 12-week and 36-week periods ended May 8, 2016, revenue was $64.4 million and $188.8 million, respectively.

ii. Same Store Sales[(1)] ("SSS") – this is a sub-set of (i) above used for tracking comparable year-over-year sales. For Q3 2016 and Q3 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 three Scaddabush restaurants and two Alice Fazooli's restaurants. For the 12-week and 36-week periods ended May 8, 2016, SSS[(1)] were $62.7 million and $184.0 million, respectively.

iii. Pooled Revenue – represents 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. For the 12-week and 36-week periods ended May 8, 2016, Pooled Revenue was $63.8 million and $184.9 million, respectively. The applicable Royalty payable to the Partnership on the Pooled Revenue for these periods was $3.8 million and $11.1 million, respectively.

Same Store Sales[(1)]

SIR generated SSSG[(1)] of 1.6% and 1.8% for the 12-week and 36-week periods ended May 8, 2016.

Jack Astor's, SIR's flagship Concept Restaurant brand, which contributed approximately 73% of Q3 2016 Pooled Revenue, had SSS[(1)] declines of 2.1% in Q3 2016 and 0.5% for YTD 2016. The Toronto Raptors' 2016 playoff run favourably impacted sales in Q3 2016 and was especially prominent at the Jack Astor's restaurants located near the Air Canada Centre. This favourable impact was offset by the negative sales impact resulting from the late start to the patio season in Q3 2016 relative to Q3 2015, due to cooler temperatures in April 2016, and sales declines in two restaurants affected by their weak local economies (Jack Astor's in Calgary, Alberta and Jack Astor's in St. John's, Newfoundland). In addition to the aforementioned Toronto Raptors playoff run in Q3 2016, YTD SSS[(1)] at the Jack Astor's locations near the Rogers Centre and Air Canada Centre were favourably impacted by the strong regular season finish to the Toronto Blue Jays' 2015 regular season and subsequent playoff run during Q1 2016. This was, again, offset by the negative impact to YTD sales performance resulting from the aforementioned late start to the patio season in Q3 2016, as well as the temporary 16-day closure of the Jack Astor's location in Scarborough, Ontario for renovations during Q2 2016, and a decline in overall beverage sales compared to the corresponding period a year ago. SIR management has made revisions to its beverage programs, including the recent launch of its new summer beverage menu, to mitigate the decline in beverage sales.

Canyon Creek generated SSSG[(1)] of 4.0% and 3.0% for the 12-week and 36-week periods ended May 8, 2016, respectively. Q3 2016 marks the third consecutive quarter of SSSG[(1)] for Canyon Creek. This growth has resulted from SIR's concerted effort to improve performance at its Canyon Creek locations by strengthening leadership and execution from the top down. These operational improvements continue to be fine-tuned and positive results are evident in Canyon Creek's increasing sales.

Scaddabush/Alice Fazooli's generated SSSG[(1)] of 13.9% and 11.2% for the 12-week and 36-week periods ended May 8, 2016, respectively, primarily due to SIR's continuation of its program to evolve the Alice Fazooli's concept into the more 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 one new Scaddabush restaurant at the intersection of Yonge Street and Gerrard Street in downtown Toronto. The strong combined Scaddabush/Alice Fazooli's SSSG[(1)] for Q3 2016 and YTD 2016 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 now intends to convert these two restaurants during calendar year 2017. SIR plans to open a new Scaddabush restaurant in Scarborough, Ontario in this fiscal year. In addition, SIR plans to open its fifth Scaddabush location on Front Street in downtown Toronto, in the first quarter of fiscal 2017.

The downtown Toronto Signature Restaurants generated SSSG[(1)] of 22.8% and 12.7% for the 12-week and 36-week periods ended May 8, 2016, respectively. The Loose Moose posted strong SSSG[(1)] due in part to the previously mentioned impact of favourable guest traffic driven by the strong performance of the Toronto Blue Jays and Toronto Raptors in Q1 2016 and Q3 2016, respectively. In addition, both Reds Midtown Tavern and Dukes Refresher & Bar continue to demonstrate improved sales performance. The strong SSSG[(1)] of the Signature Restaurants in Q3 2016 also reflects a full quarter contribution from Far Niente®/FOUR®/Petit Four®. During Q3 2015, Far Niente®/FOUR®/Petit Four® was closed for a 40-day period in order to repair water damage caused by a burst pipe.

Cost of Corporate Restaurant Operations

As a percentage of revenue, costs of corporate restaurant operations were 90.3% and 92.6% for the 12-week and 36-week periods ended May 8, 2016, respectively, compared to 91.8% for both the 12-week and 36-week periods ended May 10, 2015. Lower pre-opening costs in Q3 2016 compared to Q3 2015 resulted in lower costs of corporate restaurant operations as a percentage of revenue in Q3 2016. In addition, one new restaurant opened at the beginning of Q3 2015 and costs as a percentage of sales are typically higher at the beginning of a new restaurant opening. Higher costs of corporate restaurant operations as a percentage of revenue for the 36-week period ended May 8, 2016 are attributable to: i) increased marketing costs and other costs associated with the system-wide launch of a new menu at Jack Astor's which affected food, employee training and operating costs in Q1 2016; ii) the opening of one new restaurant in Q1 2016; and iii) the 16-day closure of Jack Astor's Scarborough for renovations in Q2 2016. The increase in the minimum wage in Ontario, effective October 1, 2015, also negatively impacted labour costs for YTD 2016, although management was successful in limiting the impact with improved labour administration.

Corporate Costs

Corporate costs decreased $0.05 million for Q3 2016 and increased $0.6 million for YTD 2016. Corporate costs are higher YTD 2016 as a result of higher compensation and travel costs.

Interest Expense

Interest expense for Q3 2016 and YTD 2016 was $0.4 million and $1.0 million, respectively, a decrease of $0.2 million and $0.5 million from the corresponding periods 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 and 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 loss. The change in the amortized cost is a non-cash transaction and accordingly, has no impact on cash flows. The change in amortized cost is an expense of $15.2 million and $9.2 million for Q3 2016 and YTD 2016, respectively. These changes are due to a decrease in the underlying Fund unit price compared to Q2 2016 and the end of Q4 2015, respectively. The change in amortized cost was an expense of $4.2 million and $10.8 million for the 12-week and 36-week periods ended May 10, 2015.

Interest on the SIR Loan totaled $0.7 million and $2.1 million for the 12-week and 36-week periods ended May 8, 2016, respectively, and $0.7 million and $2.1 million for the 12-week and 36-week periods ended May 10, 2015.

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

EBITDA[(3)] was $5.6 million and $12.2 million for Q3 2016 and YTD 2016, respectively, up from $4.4 million in Q3 2015 and down from $14.1 million in YTD 2015, respectively. Adjusted EBITDA[(3)] was $5.8 million and $12.8 million for Q3 2016 and YTD 2016, respectively, up from $4.7 million in Q3 2015 and down from $14.7 million in YTD 2015, respectively. (See Selected Consolidated Historical Financial Information – Reconciliation of net earnings (loss) and comprehensive income (loss) for the period to EBITDA[(3)] and Adjusted EBITDA[(3)]).

SIR Royalty Income Fund

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

(a) SIR Loan

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

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

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

Interest expense on the SIR Loan was charged to the consolidated statements of operations and comprehensive income (loss) in the amount of $0.7 million and $2.1 million for the 12-week and 36-week periods ended May 8, 2016, respectively, and $0.7 million and $2.1 million for the 12-week and 36-week periods ended May 10, 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 May 8, 2016	12-Week Period Ended May 10, 2015	36-Week Period Ended May 8, 2016	36-Week Period Ended May 10, 2015
	(in thousands of dollars) (unaudited)			
Balance – Beginning of the period	86,321	101,274	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	15,214	4,221	9,194	10,769
Distributions paid to Ordinary LP and Class A LP unitholders	(2,208)	(2,208)	(6,063)	(5,952)
Balance – End of period	99,327	103,287	99,327	103,287
Less: Current portion of Ordinary LP Units and Class A LP Units of the Partnership	(8,827)	(8,827)	(8,827)	(8,827)
Ordinary LP Units and Class A LP Units of the Partnership	90,500	94,460	90,500	94,460
The following is a summary of the results of operations of the Partnership:				
Pooled Revenue(6)	63,840	61,180	184,901	175,322
Partnership royalty income(7)	3,830	3,670	11,094	10,519
Other Income	6	7	17	24
Partnership expenses	(11)	(15)	(48)	(43)
Net earnings of the Partnership	3,825	3,662	11,063	10,500
SIR's residual interest in the earnings of the Partnership:				
Income from Class A & B GP Units of the Partnership	(1,002)	(878)	(2,867)	(2,492)
Income from Class C GP Units of the Partnership	(693)	(700)	(2,072)	(2,081)
	1,695	(1,578)	(4,939)	(4,573)
Fund's interest in the earnings of the Partnership	2,130	2,084	6,124	5,927

(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.

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 through a series of transactions taking place in fiscal years 2013, 2014 and 2015. 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 loss.

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

In 2004, the Partnership granted SIR a 99-year license to use the SIR Rights in most of Canada in consideration for a Royalty, payable by SIR to the Partnership, equal to 6% of the revenue of the Royalty Pooled Restaurants (the "License and Royalty Agreement").

Under the terms of the License and Royalty Agreement, SIR may be required to pay a Make-Whole Payment in respect of the reduction in revenues for restaurants permanently closed during a reporting period. SIR is not required to pay any Make-Whole Payments in respect of a permanently closed restaurant following the date on which the number of Royalty Pooled Restaurants is equal to or greater than 68 or following October 12, 2019, whichever occurs first. On January 1 of each year (the "Adjustment Date"), the restaurants subject to the License and Royalty Agreement are adjusted for new SIR Restaurants opened for at least 60 days preceding such Adjustment Date. At each Adjustment Date, SIR will be entitled to convert its Class B GP Units to Class A GP Units based on the formula defined in the Partnership Agreement. Additional Class B GP Units may be converted to Class A GP Units in respect of these new SIR Restaurants if actual revenues of the new SIR Restaurants exceeded 80% of the initial estimated revenues and the formula defined in the Partnership Agreement. Conversely, converted Class A GP Units will be returned by SIR if the actual revenues of the new SIR Restaurants are less than 80% of the initial estimated revenues. In December of each year, an additional distribution will be payable to the Class B GP unitholders based on actual revenues of the new SIR Restaurants exceeding 80% of the initial estimated revenues or there will be a reduction in the distributions to the Class A GP unitholders if revenues are less than 80% of the initial estimated revenues.

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).

After the net effect of the adjustments to Royalty Pooled Restaurants on January 1, 2016, SIR's residual interest in the Partnership is 26.9% (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 May 8, 2016	12-Week Period Ended May 10, 2015	36-Week Period Ended May 8, 2016	36-Week Period Ended May 10, 2015
	(in thousands of dollars) (unaudited)			
Cash provided by operations	3,110	2,821	3,647	10,359
Cash used in investing activities	(2,092)	(829)	(6,049)	(13)
Cash used in financing activities	(1,463)	(1,950)	(2,556)	(6,607)
Increase (decrease) in cash and cash equivalents during the period	(445)	42	(4,958)	3,739
Cash and cash equivalents – Beginning of period	3,356	8,339	7,869	4,642
Cash and cash equivalents – End of period	2,911	8,381	2,911	8,381

Cash provided by operations increased by $0.3 million for Q3 2016 compared to Q3 2015. Cash provided by operations decreased by $6.7 million for YTD 2016 compared to YTD 2015. The decrease in cash provided by operations is primarily attributable to an unfavourable variance in the net change in working capital items of $5.9 million.

Investing activities used cash of $2.1 million and $6.1 million for Q3 2016 and YTD 2016, respectively. Investing activities used cash of $0.8 million and $0.01 million for Q3 2015 and YTD 2015, respectively. Purchases of property and equipment and other assets amounted to $2.1 million and $6.2 million for the 12-week and 36-week periods ended May 8, 2016, respectively, and $1.0 million and $4.4 million for the 12-week and 36-week periods ended May 10, 2015, respectively. The majority of the capital expenditures for the 12-week and 36-week periods ended May 8, 2016 relate to: i) the construction of the new Jack Astor's restaurant in Ottawa, Ontario that opened during Q1 2016; ii) the conversion of one Alice Fazooli's location into a new Scaddabush restaurant that re-opened during Q1 2016; iii) the major renovation of the Jack Astor's in Scarborough, Ontario that was completed in Q2 2016; and iv) the ongoing construction of two new Scaddabush locations, one in downtown Toronto and the other in Scarborough, Ontario. The majority of the capital expenditures for the 12-week and 36-week periods ended May 10, 2015 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 more 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 a non-cash transaction in the consolidated statements of cash flows. Net cash proceeds received from restricted funds for the 12-week and 36-week periods ended May 10, 2015 were $nil and $4.3 million, respectively.

For Q3 2016 and YTD 2016, cash used in financing activities was $1.5 million and $2.6 million, respectively. Cash used in financing activities was $2.0 million and $6.6 million for Q3 2015 and YTD 2015, respectively. Bank indebtedness and long term debt decreased $0.03 million in the 12-week period ended May 8, 2016 and increased $1.6 million in the 36-week period ended May 8, 2016. Principal repayments on long-term debt were $0.5 million and $1.5 million for the 12-week and 36-week periods ended May 8, 2016, respectively, compared to $0.8 million and $3.1 million for the 12-week and 36-week periods ended May 10, 2015, respectively. Interest paid was $1.0 million and $2.7 million for Q3 2016 and YTD 2016, respectively, compared to $1.0 million and $3.3 million for Q3 2015 and YTD 2015, respectively. The reduction in interest paid is due to the lower interest rates on the new credit facility.

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, SIR held 2,811,097 Class A GP Units.

As at May 8, 2016, SIR had current assets of $16.5 million (August 30, 2015 – $19.2 million) and current liabilities of $46.1 million (August 30, 2015 – $49.1 million) resulting in a working capital deficit of $29.6 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 there are currently 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 Credit Agreement with a Schedule I Canadian chartered bank (the Lender) to refinance its credit facility at the time. A copy of the 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 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 entered into a purchase card agreement providing credit of up to an additional $5.0 million. 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. 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.

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.

The 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. At the time, this represented 26.46% of SIR on a fully diluted basis (29.90% of the 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 still remains the majority shareholder of SIR holding 56.54% of SIR on a fully diluted basis (56.10% 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 proceeds of $0.05 million. SIR also issued 2.9 million common shares to CFC for cash proceeds of $14.2 million, immediately repurchased 2.9 million common shares from certain minority common shareholders for cash proceeds of $14.2 million and incurred transaction costs $0.3 million. The excess proceeds paid to repurchase the 2.9 million common shares over the weighted average carrying 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.

During Q1 2015, 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 decreased by 3.6% as a result of this conversion.

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 both the 12-week and 36-week periods ended May 8, 2016, $nil (12-week and 36-week periods ended May 10, 2015 - $nil and $4.3 million, respectively) 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 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 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.

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 three commitments to lease properties, on which it plans to build one new Scaddabush restaurant, one new Reds restaurant, and one new Jack Astor's restaurant. SIR has begun the construction of one of these restaurants and has committed to approximately $2.7 million in additional costs to complete it. As at the current date, SIR has not entered into any construction contracts for the other two restaurants, but expects to do so in the future. In addition, SIR has approximately $1.8 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 May 8, 2016, $16.3 million and $8.5 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 May 8, 2016	12-Week Period Ended May 10, 2015	36-Week Period Ended May 8, 2016	36-Week Period Ended May 10, 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	20	14	48	47
Maintenance services provided by a shareholder of SIR	2	3	24	8
Maintenance services provided by a company owned by a shareholder of SIR	-	-	-	8
Consulting fees provided by a company owned by a director and shareholder of SIR	-	54	-	124
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	12	46	69	105
Maintenance services provided by a shareholder of SIR	2	5	4	16
Property and equipment				
Design and construction management fees and fixtures provided by a company owned by a shareholder of SIR	63	32	292	107
Construction management fees and fixtures provided by a company owned by a party related to a shareholder of SIR	45	184	467	610
Fixtures provided by a shareholder of SIR	3	-	18	-

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

	36-week Period Ended May 8, 2016	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	7	7
Amounts due from a company owned by a party related to a director of SIR	18	7
Amounts due to related parties:		
Amounts due to companies owned by a shareholder of SIR	13	63
Amounts due to a company owned by a party related to a shareholder of SIR	13	223
Amounts due to a company owned by a party related to a director of SIR	11	17

- Received repayment against loans and advances from U.S. S.I.R. L.L.C. of $0.05 million and $0.2 million for the 12-week and 36-week periods ended May 8, 2016, respectively ($0.1 million and $0.3 million for the 12-week and 36-week periods ended May 10, 2015, respectively). SIR recognized interest income on those loans and advances of $0.04 million and $0.15 million for the 12-week and 36-week periods ended May 8, 2016, respectively ($0.05 million and $0.15 million for the 12-week and 36-week periods ended May 10, 2015, respectively). As at May 8, 2016, SIR has loans and advances of $1.0 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 $nil and $0.05 million for the 12-week and 36-week periods ended May 8, 2016, respectively ($nil for both the 12-week and 36-week periods ended May 10, 2015). SIR recognized interest income on this loan of $0.004 million and $0.01 million for the 12-week and 36-week periods ended May 8, 2016, respectively ($nil for both the 12-week and 36-week periods ended February 15, 2015). As at May 8, 2016 the balance of this loan receivable is $0.35 million (August 30, 2015 – $0.4 million).
- Loans and advances at May 8, 2016 includes an advance of $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 August 31, 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 May 8, 2016 were $2.8 million (August 30, 2015 – $2.7 million). Advances receivable are non-interest bearing and due on demand.

During the 12-week and 36-week periods ended May 8, 2016, distributions of $2.1 million and $6.1 million were declared to the Fund by the Partnership, respectively ($2.1 million and $5.9 million for the 12-week and 36-week periods ended May 10, 2015, respectively). The Fund, indirectly through the Trust, is entitled to receive a pro rata share of all residual distributions. Distributions previously declared, but unpaid as at May 8, 2016 were $3.4 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 totalled $0.7 million and $2.1 million for Q3 2016 and YTD 2016, respectively, and $0.7 million and $2.1 million for Q3 2015 and YTD 2015, respectively. Interest payable on the SIR Loan as at May 8, 2016 was $0.3 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 and $0.017 million for the 12-week and 36-week periods ended May 8, 2016, respectively ($0.006 million and $0.017 million for the 12-week and 36-week periods ended May 10, 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 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.

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.

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 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**.**

As at June 20, 2016, the date of this report, SIR has three commitments to lease properties, upon which it plans to build three new restaurants. One of these restaurants is a new Scaddabush restaurant in downtown Toronto, Ontario, which is expected to open in the first quarter of fiscal 2017. The second 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 third restaurant is a new Jack Astor's restaurant 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.

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 now 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. SIR plans to open the new Scaddabush restaurant in Scarborough, Ontario in this fiscal year. SIR plans to open its fifth Scaddabush location on Front Street in downtown Toronto in the first quarter of fiscal 2017. These latter two Scaddabush restaurants will be considered New Additional Restaurants for purposes of Royalty Pooled Restaurants.

In addition, SIR's management is currently evaluating the two most recent Jack Astor's renovations in Scarborough, Ontario and Halifax, Nova Scotia, and is now considering 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 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 June 20, 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