# SIR CORP.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## FOR THE 16-WEEK AND 52-WEEK PERIODS ENDED AUGUST 28, 2016

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## *Executive Summary*

SIR Corp.'s ("SIR's") fourth quarter of fiscal 2016 was from May 9, 2016 to August 28, 2016 inclusive.

Highlights for SIR's 16-week and 52-week periods ended August 28, 2016 ("Q4 2016" and "fiscal 2016", respectively) include:

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

- Food and beverage revenue from corporate restaurant operations for Q4 2016 was $92.0 million, up 3.7% from $88.7 million for the 16-week period ended August 30, 2015 ("Q4 2015"). Food and beverage revenue from corporate restaurant operations for fiscal 2016 was $280.8 million, up 4.1% from $269.8 million for the 52-week period ended August 30, 2015 ("fiscal 2015"). SIR generated Same Store Sales Growth ("SSSG")[(1)] of 2.2% and 2.0% for Q4 2016 and fiscal 2016, respectively.
- SIR's flagship Concept Restaurant brand, Jack Astor's®, which generated approximately 77% of Pooled Revenue in Q4 2016, had SSSG[(1)] of 0.7% in Q4 2016 and a decline in Same Store Sales ("SSS")[(1)] of 0.1% for fiscal 2016. Canyon Creek® had a decline in SSS[(1)] of 1.4% for Q4 2016, but experienced SSSG[(1)] of 1.7% for fiscal 2016. Scaddabush Italian Kitchen & Bar® ("Scaddabush"), together with Alice Fazooli's®, had SSSG[(1)] of 12.5% and 11.6% for Q4 2016 and fiscal 2016, respectively. The downtown Toronto Signature Restaurants had SSSG[(1)] of 11.9% and 12.5% for Q4 2016 and fiscal 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 Q4 2016, on July 12, 2016, SIR opened a new Scaddabush restaurant in Scarborough, Ontario in the extra space that was created after renovating the existing Jack Astor's restaurant at that location. This restaurant will be added to Royalty Pooled Restaurants on January 1, 2017.
- 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 and Q4 2016, SIR completed major renovations of the Jack Astor's in Scarborough, Ontario and the Jack Astor's in Halifax, Nova Scotia, respectively. These locations were closed for 16 days and 11 days, respectively, and reopened on December 16, 2015 and June 7, 2016, respectively.
- Subsequent to year-end, on November 3, 2016, SIR opened a new Scaddabush restaurant on Front Street in downtown Toronto. This restaurant is expected to be added to Royalty Pooled Restaurants on January 1, 2018. SIR also completed renovations at four Jack Astor's locations subsequent to year-end.
- During Q1 2015, SIR completed the renovation of one Canyon Creek restaurant. During 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 9 and to the definition of SSS in the Revenue section on page 11.*

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

- Net loss and comprehensive loss was $15.6 million in Q4 2016, compared to a net earnings and comprehensive income of $4.2 million in Q4 2015. Net loss and comprehensive loss for fiscal 2016 was $23.7 million, compared to a net loss and comprehensive loss of $4.1 million in the same period in the prior year.
- SIR's Adjusted Net Earnings[(2)] were $0.5 million and $1.6 million in Q4 2016 and fiscal 2016, respectively, compared to is $0.02 million and $2.5 million in Q4 2015 and fiscal 2015, respectively.

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

- EBITDA[(3)] was $5.6 million in Q4 2016, up from $5.5 million in Q4 2015, and Adjusted EBITDA[(3)] was $7.9 million in Q4 2016, up from $7.7 million in Q4 2015.
- EBITDA[(3)] was $17.8 million for fiscal 2016, down from $19.5 million in fiscal 2015. Adjusted EBITDA[(3)] was $20.7 million, down from $22.3 million in fiscal 2015.

***Fund unit transaction***

- On August 24, 2016, SIR exchanged 750,000 Class A GP Units of the SIR Royalty Limited Partnership (the "Partnership") into SIR Royalty Income Fund (the "Fund") units and sold these units for total net proceeds of $10.3 million.
- The Class A GP Units received by the Fund in exchange for the Fund units issued were converted to Class A LP Units of the Partnership, which are entitled to a pro rata share of the residual income of the Partnership. Accordingly, this transaction did not have a dilutive effect on the Fund. SIR's residual interest in the Partnership was affected by the conversion of the Class A GP Units into Fund units and accordingly SIR's residual interest in the Partnership decreased by 7.1% and is currently at 19.8%. The Class A LP Units have been accounted for as a financial liability consistent with the Ordinary LP Units (Refer to page 18 of the Liquidity and Capital Resources section).

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

*(3) References to EBITDA are to the net earnings (loss) for the period before provision for (recovery of) income taxes, interest expense, interest on loan payable to SIR Royalty Income Fund, depreciation and amortization, and change in amortized cost of Ordinary LP Units and Class A LP Units of the Partnership. 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 8 of this document.*

***Outlook***

- As at November 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.
- Subsequent to year-end, 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. SIR is required to pay a Make-Whole Payment for this location from its date of closure until it ceases to be part of Royalty Pooled Restaurants on January 1, 2017.
- 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, and another new Scaddabush restaurant in Scarborough, Ontario during 2016. Subsequent to year-end, a new Scaddabush restaurant was opened in downtown Toronto on Front Street. The new Scaddabush restaurants in Scarborough 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 the two renovations completed during fiscal 2016, and the four additional renovations completed subsequent to year-end, 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 continues to monitor 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 August 28, 2016, SIR owned 60 Concept and Signature Restaurants in Canada (in Ontario, Quebec, Alberta, Nova Scotia, and Newfoundland). The Concept Restaurants include Jack Astor's, Canyon Creek and Scaddabush/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 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 did not open either of the Abbey's locations during the 2016 season. SIR owns 100% of all its Canadian restaurants. As at August 28, 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.

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.

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, 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. 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 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 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's (the "Trust") investment in the Partnership, 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 16-week and 52-week periods ended August 28, 2016 and August 30, 2015, respectively. The annual audited 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)* | 16-Week Period Ended August 28, 2016 | 16-Week Period Ended August 30, 2015 | 52-Week Period Ended August 28, 2016 | 52-Week Period Ended August 30, 2015 |
|---|---|---|---|---|
| | (in thousands of dollars) (unaudited) | | | |
| **Corporate restaurant operations:** | | | | |
| Food and beverage revenue | 92,043 | 88,734 | 280,818 | 269,750 |
| Cost of corporate restaurant operations | 85,441 | 83,651 | 260,219 | 249,846 |
| **Earnings from corporate restaurant operations** | **6,602** | **5,083** | **20,599** | **19,904** |
| **Net earnings (loss) and comprehensive income (loss)** | **(15,572)** | **4,167** | **(23,673)** | **(4,102)** |
| **Adjusted Net Earnings(2)** | **517** | **20** | **1,610** | **2,520** |

| *Statement of Financial Position* | August 28, 2016 | August 30, 2015 |
|---|---|---|
| | (in thousands of dollars) (unaudited) | |
| Total assets | 71,071 | 78,234 |
| Total non-current liabilities | 166,287 | 147,730 |

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

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

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

| **Reconciliation of net earnings (loss) and comprehensive income (loss) for the period to Adjusted Net Earnings(2)** | 16-Week Period Ended August 28, 2016 | 16-Week Period Ended August 30, 2015 | 52-Week Period Ended August 28, 2016 | 52-Week Period Ended August 30, 2015 |
|---|---|---|---|---|
| | (in thousands of dollars) (unaudited) | | | |
| Net earnings (loss) and comprehensive income (loss) | (15,572) | 4,167 | (23,673) | (4,102) |
| Change in amortized cost of Ordinary LP Units and Class A LP Units of the Partnership | 16,089 | (4,147) | 25,283 | 6,622 |
| **Adjusted Net Earnings(2)** | **517** | **20** | **1,610** | **2,520** |

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

| **Reconciliation of net earnings (loss) and comprehensive income (loss) for the period to EBITDA[3] and Adjusted EBITDA[3]** | 16-Week Period Ended August 28, 2016 | 16-Week Period Ended August 30, 2015[3] | 52-Week Period Ended August 28, 2016 | 52-Week Period Ended August 30, 2015[3] |
|---|---|---|---|---|
| | (in thousands of dollars) (unaudited) | | | |
| Net earnings (loss) and comprehensive income (loss) for the period | (15,572) | 4,167 | (23,673) | (4,102) |
| Add (deduct): | | | | |
| Provision for income taxes | 129 | 48 | 271 | 184 |
| Interest expense | 538 | 1,084 | 1,587 | 2,680 |
| Interest on loan payable to SIR Royalty Income Fund | 931 | 922 | 3,029 | 3,026 |
| Depreciation and amortization | 3,478 | 3,379 | 11,263 | 11,132 |
| Change in amortized cost of Ordinary LP Units and Class A LP Units of the Partnership | 16,089 | (4,147) | 25,283 | 6,622 |
| **EBITDA[3]** | 5,593 | 5,453 | 17,760 | 19,542 |
| Interest (income) and other expense (income) – net | 277 | (493) | 612 | (710) |
| Impairment of goodwill | 165 | 200 | 165 | 200 |
| Impairment of non-financial assets | 1,295 | 2,020 | 1,295 | 2,020 |
| Loss (gain) on disposal of property and equipment | 31 | 124 | 97 | 150 |
| Pre-opening costs | 564 | 357 | 806 | 1,127 |
| **Adjusted EBITDA[3]** | **7,925** | **7,661** | **20,735** | **22,329** |
| Income from Class A & B GP Units of the Partnership[4] (Not included in EBITDA[3] and Adjusted EBITDA[3] above) | 1,408 | 1,243 | 4,275 | 3,735 |
| 6% Royalty obligations under License and Royalty Agreement[5] | 5,443 | 5,197 | 16,537 | 15,716 |

*(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** | 16-Week Period Ended August 28, 2016 | 16-Week Period Ended August 30, 2015 | 52-Week Period Ended August 28, 2016 | 52-Week Period Ended August 30, 2015 |
|---|---|---|---|---|
| | (in thousands of dollars) (unaudited) | | | |
| Revenue reported in consolidated financial statements | 92,043 | 88,734 | 280,818 | 269,750 |
| Less: Revenue from corporate restaurant operations excluded from the Royalty pool | (1,335) | (2,120) | (5,209) | (7,814) |
| Revenue for Restaurants in the Royalty pool | **90,708** | **86,614** | **275,609** | **261,936** |

| **Reconciliation of Revenue from Consolidated Financial Statements to Same Store Sales(1)** | 16-Week Period Ended August 28, 2016 | 16-Week Period Ended August 30, 2015 | 52-Week Period Ended August 28, 2016 | 52-Week Period Ended August 30, 2015 |
|---|---|---|---|---|
| | (in thousands of dollars) (unaudited) | | | |
| Revenue reported in consolidated financial statements | 92,043 | 88,734 | 280,818 | 269,750 |
| Less: Revenue from corporate restaurant operations excluded from Same Store Sales(1) | (2,909) | (1,494) | (7,687) | (1,854) |
| Same Store Sales(1) | **89,134** | **87,240** | **273,131** | **267,896** |

| **Same Store Sales(1) by Segment** | 16-Week Period Ended August 28, 2016 | 16-Week Period Ended August 30, 2015 | % Fav. / (Unfav.) | 52-Week Period Ended August 28, 2016 | 52-Week Period Ended August 30, 2015 | % Fav. / (Unfav.) |
|---|---|---|---|---|---|---|
| | (in thousands of dollars) (unaudited) | | | | | |
| Jack Astor's | 67,333 | 66,878 | 0.7% | 199,043 | 199,298 | (0.1%) |
| Canyon Creek | 7,528 | 7,634 | (1.4%) | 27,611 | 27,141 | 1.7% |
| Scaddabush/Alice Fazooli's | 6,478 | 5,760 | 12.5% | 20,136 | 18,039 | 11.6% |
| Signature Restaurants | 7,795 | 6,968 | 11.9% | 26,341 | 23,418 | 12.5% |
| **Same Store Sales(1)** | **89,134** | **87,240** | **2.2%** | **273,131** | **267,896** | **2.0%** |

### *Summary of Quarterly Results*

| **Statement of Operations** | 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) | 1st Quarter Ended November 23, 2014 (12 weeks) |
|---|---|---|---|---|---|---|---|---|
| | (in thousands of dollars) (unaudited) | | | | | | | |
| **Corporate Restaurant Operations** | | | | | | | | |
| Food and beverage revenue | 92,043 | 64,438 | 61,198 | 63,139 | 88,734 | 62,051 | 58,778 | 60,187 |
| Cost of corporate restaurant operations | 85,441 | 58,171 | 57,106 | 59,501 | 83,651 | 56,973 | 54,253 | 54,969 |
| **Earnings from corporate restaurant operations** | **6,602** | **6,267** | **4,092** | **3,638** | **5,083** | **5,078** | **4,525** | **5,218** |
| **Net earnings (loss) and comprehensive income (loss)** | **(15,572)** | **(13,442)** | **9,122** | **(3,781)** | **4,167** | **(3,664)** | **(4,645)** | **40** |
| **Adjusted Net Earnings (Loss)(2)** | **517** | **1,772** | **(29)** | **(650)** | **20** | **557** | **923** | **1,020** |

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)** | 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) | 1st Quarter Ended November 23, 2014 (12 weeks) |
|---|---|---|---|---|---|---|---|---|
| | (in thousands of dollars) (unaudited) | | | | | | | |
| Net earnings (loss) and comprehensive income (loss) | (15,572) | (13,442) | 9,122 | (3,781) | 4,167 | (3,664) | (4,645) | 40 |
| Change in amortized cost of the Ordinary LP Units and Class A LP Units of the Partnership | 16,089 | 15,214 | (9,151) | 3,131 | (4,147) | 4,221 | 5,568 | 980 |
| **Adjusted Net Earnings (Loss)(2)** | **517** | **1,772** | **(29)** | **(650)** | **20** | **557** | **923** | **1,020** |

***Selected Unaudited Consolidated Statement of Cash Flows Information:***

| | 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) | 1st Quarter Ended November 23, 2014 (12 weeks) |
|---|---|---|---|---|---|---|---|---|
| | (in thousands of dollars) (unaudited) | | | | | | | |
| **Cash provided by (used in) operations** | 8,313 | 3,110 | 3,182 | (2,645) | 6,020 | 2,821 | 534 | 7,004 |
| **Cash provided by (used in) investing activities** | (3,611) | (2,092) | (1,634) | (2,323) | (3,106) | (829) | 740 | 76 |
| **Cash provided by (used in) financing activities** | (3,725) | (1,463) | (1,948) | 855 | (3,426) | (1,950) | (2,422) | (2,235) |
| Increase (decrease) in cash and cash equivalents during the period | 977 | (445) | (400) | (4,113) | (512) | 42 | (1,148) | 4,845 |
| Cash and cash equivalents – Beginning of period | 2,911 | 3,356 | 3,756 | 7,869 | 8,381 | 8,339 | 9,487 | 4,642 |
| **Cash and cash equivalents – End of period** | 3,888 | 2,911 | 3,356 | 3,756 | 7,869 | 8,381 | 8,339 | 9,487 |

***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 16-week and 52-week periods ended August 28, 2016, revenue was $92.0 million and $280.8 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 Q4 2016 and Q4 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 16-week and 52-week periods ended August 28, 2016, SSS[(1)] were $89.1 million and $273.1 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 16-week and 52-week periods ended August 28, 2016, Pooled Revenue was $90.7 million and $275.6 million, respectively. The applicable Royalty payable to the Partnership on the Pooled Revenue for these periods was $5.4 million and $16.5 million, respectively.

***Same Store Sales[(1)]***

SIR generated SSSG[(1)] of 2.2% and 2.0% for the 16-week and 52-week periods ended August 28, 2016, respectively.

Jack Astor's, SIR's flagship Concept Restaurant brand, which contributed approximately 77% of Q4 2016 Pooled Revenue, had SSSG[(1)] of 0.7% in Q4 2016 and SSS[(1)] declines of 0.1% for fiscal 2016. Jack Astor's sales in Q4 2016 benefited from a heightened interest in the Toronto Blue Jays and an increase in average attendance for the 2016 regular season, which started during Q3 2016, compared to the same period a year ago, particularly at the Jack Astor's locations near the Rogers Centre. This favourable impact was slightly offset by sales declines in two restaurants affected by their weakened local economies (Jack Astor's in Calgary, Alberta, and Jack Astor's in St. John's, Newfoundland) and a decline in beverage sales. During Q4 2016, SIR management made revisions to its beverage programs, including the launch of its new summer beverage menu, which helped mitigate the decline in beverage sales. In addition to the factors impacting Q4 2016 SSS[(1)], Jack Astor's fiscal 2016 SSS[(1)] benefitted from the Toronto Raptors' 2016 playoff run during Q3 2016, particularly at locations near the Air Canada Centre. Jack Astor's fiscal 2016 SSS[(1)] were negatively impacted by the late start to the patio season due to cooler temperatures in April and the temporary closures of two restaurants for renovations in Q2 2016 and Q4 2016, for 16 days and 11 days, respectively.

Canyon Creek experienced a decline in SSS[(1)] of 1.4% during the 16-week period ended August 28, 2016, but generated SSSG[(1)] of 1.7% for the 52-week period ended August 28, 2016. The Q4 2016 SSS[(1)] decline is primarily due to the impact of recent significant competitive intrusion at one of the eight Canyon Creek locations, which had a decline in SSS[(1)] of 18.5%. Canyon Creek's fiscal 2016 SSSG[(1)] 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 fiscal 2016 sales growth.

Scaddabush/Alice Fazooli's generated SSSG[(1)] of 12.5% and 11.6% for the 16-week and 52-week periods ended August 28, 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 three new Scaddabush restaurants, one at the intersection of Yonge Street and Gerrard Street in downtown Toronto, one in Scarborough, Ontario, and, subsequent to year end, one on Front Street in downtown Toronto. The strong combined Scaddabush/Alice Fazooli's SSSG[(1)] for Q4 2016 and fiscal 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 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 11.9% and 12.5% for the 16-week and 52-week periods ended August 28, 2016, respectively. The Loose Moose continues to post strong SSSG[(1)] due in part to the previously mentioned impact of favourable guest traffic driven by the strong performance of the Toronto Raptors and the Toronto Blue Jays. In addition, Dukes Refresher & Bar continue to demonstrate improved sales performance. The strong SSSG[(1)] of the Signature Restaurants also reflects a full year 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 92.8% and 92.7% for the 16-week and 52-week periods ended August 28, 2016, respectively, compared to 94.3% and 92.6% for the 16-week and 52-week periods ended August 30, 2015, respectively. Lower costs as a percentage of revenue for the 16-week period ended August 28, 2016 are attributable to lower impairment of non-financial assets and goodwill and lower food costs due in part to menu engineering and a reduction in food waste, offset by higher repairs and maintenance costs and higher pre-opening and operating expenses in the quarter, related to one new restaurant. Pre-opening expenses and higher operating expenses are typical for new restaurant openings. Higher costs of corporate restaurant operations as a percentage of revenue for the 52-week period ended August 28, 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 two new restaurants in Q1 2016 and Q4 2016, compared to one in fiscal 2015, resulting in higher operating expenses; iii) the closure of the Jack Astor's restaurants in Scarborough, Ontario and Halifax, Nova Scotia for renovations in Q2 2016 and Q4 2016, respectively; and iv) higher repairs and maintenance costs compared to the same period in the prior year. These factors were offset by the lower impairment of non-financial assets and goodwill compared to the same period in the prior year.

***Corporate Costs***

Corporate costs increased $0.7 million and $1.3 million for Q4 2016 and fiscal 2016, respectively. Corporate costs are higher for Q4 2016 and fiscal 2016 as a result of higher compensation and professional fees.

***Interest Expense***

Interest expense for Q4 2016 and fiscal 2016 was $0.5 million and $1.6 million, respectively, a decrease of $0.5 million and $1.1 million from the corresponding periods in fiscal 2015. The decrease is primarily 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, 2015 and Q4 2016 (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 expense and accordingly, has no impact on cash flows. The change in amortized cost is an expense of $16.1 million and $25.3 million for Q4 2016 and fiscal 2016, respectively. These changes are due to an increase in the underlying unit price of the Fund compared to the end of Q3 2016 and Q4 2015, respectively, offset by an increase in the number of Class A LP Units held by the Fund compared to the end of Q3 2016 and Q4 2015, respectively, due to the Fund unit sale in Q4 2016. The change in amortized cost was income of $4.1 million and an expense of $6.6 million for the 16-week and 52-week periods ended August 30, 2015.

Interest on the SIR Loan totaled $0.9 million and $3.0 million for the 16-week and 52-week periods ended August 28, 2016, respectively, and $0.9 million and $3.0 million for the 16-week and 52-week periods ended August 30, 2015, respectively.

***EBITDA(3) and Adjusted EBITDA(3)***

EBITDA(3) was $5.6 million and $17.8 million for Q4 2016 and fiscal 2016, respectively, up from $5.5 million in Q4 2015 and down from $19.5 million in fiscal 2015, respectively. Adjusted EBITDA(3) was $7.9 million and $20.7 million for Q4 2016 and fiscal 2016, respectively, up from $7.7 million in Q4 2015 and down from $22.3 million in fiscal 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)).

The fiscal 2016 declines in EBITDA(3) and Adjusted EBITDA(3) are primarily the result of an increase in corporate costs, resulting from higher compensation costs and professional fees. Q1 2016 and Q2 2016 had unfavourable variances in EBITDA(3) and Adjusted EBITDA(3), which were partially offset by favourable variances in Q3 2016 and Q4 2016, compared to the same periods in the prior year. The unfavourable variances in Q1 2016 and Q2 2016 were mainly attributable to the increase in corporate costs, but also the unfavourable cost of restaurant operations as a percentage of sales. Costs of corporate restaurant operations were negatively impacted by the high costs associated with the launch of a more extensive than normal new menu in the Jack Astor's concept, an increase in labour costs due to the increase in minimum wage in Ontario in October 2015, the conversion of one Alice Fazooli's restaurant into a Scaddabush restaurant, and the opening of one new restaurant in Q1 2016. EBITDA(3) and Adjusted EBITDA(3) in Q3 2016 and Q4 2016 were favourable compared to the same periods in the prior year due to lower costs of corporate restaurant operations in these quarters. This is mainly attributable to lower food and labour costs as a percentage of sales, resulting, in part, to menu engineering, a reduction in food waste and improved labour administration.

## *SIR Royalty Income Fund*

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

*(a) SIR Loan*

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

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

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

Interest expense on the SIR Loan was charged to the consolidated statements of operations and comprehensive income (loss) in the amount of $0.9 million and $3.0 million for the 16-week and 52-week periods ended August 28, 2016, respectively, and $0.9 million and $3.0 million for the 16-week and 52-week periods ended August 30, 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*

| | 16-Week Period Ended August 28, 2016 | 16-Week Period Ended August 30, 2015 | 52-Week Period Ended August 28, 2016 | 52-Week Period Ended August 30, 2015 |
|---|---|---|---|---|
| | (in thousands of dollars) (unaudited) | | | |
| Balance – Beginning of the period | 99,327 | 103,287 | 96,196 | 94,060 |
| Conversion of Class A GP Units | 10,613 | - | 10,613 | 4,410 |
| Change in amortized cost of the Ordinary LP Units and Class A LP Units of the Partnership | 16,089 | (4,147) | 25,283 | 6,622 |
| Distributions paid to Ordinary LP and Class A LP unitholders | (2,208) | (2,944) | (8,271) | (8,896) |
| Balance – End of period | 123,821 | 96,196 | 123,821 | 96,196 |
| Less: Current portion of Ordinary LP Units and Class A LP Units of the Partnership | (9,991) | (8,827) | (9,991) | (8,827) |
| Ordinary LP Units and Class A LP Units of the Partnership | 113,830 | 87,369 | 113,830 | 87,369 |
| The following is a summary of the results of operations of the Partnership: | | | | |
| Pooled Revenue(6) | 90,708 | 86,614 | 275,609 | 261,936 |
| Partnership royalty income(7) | 5,443 | 5,197 | 16,537 | 15,716 |
| Other Income | 7 | 8 | 24 | 32 |
| Partnership expenses | (24) | (25) | (72) | (68) |
| Net earnings of the Partnership | 5,426 | 5,180 | 16,489 | 15,680 |
| SIR's residual interest in the earnings of the Partnership: | | | | |
| Income from Class A & B GP Units of the Partnership | (1,408) | (1,243) | (4,275) | (3,735) |
| Income from Class C GP Units of the Partnership | (920) | (911) | (2,992) | (2,992) |
| | (2,328) | (2,154) | (7,267) | (6,727) |
| Fund's interest in the earnings of the Partnership | 3,098 | 3,026 | 9,222 | 8,953 |

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, 2015 and 2016 (refer to page 17 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 loss.

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*(6) Includes revenue from the SIR Restaurants subject to the License and Royalty Agreement. The Partnership owns the SIR Rights formerly owned or licensed by SIR or its subsidiaries and used in connection with the operation of the majority of SIR's restaurants in Canada.*

*(7) Partnership royalty income is 6% of Pooled Revenue in accordance with the License and Royalty Agreement, plus a Make-Whole Payment for closed restaurants, if applicable.*

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 was 26.9%. The subsequent Fund unit transaction on August 24, 2016 reduced SIR's residual interest in the Partnership to 19.8% as at August 28, 2016 (August 30, 2015 – 24.6%) (refer to page 15 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*** | 16-Week Period Ended August 28, 2016 | 16-Week Period Ended August 30, 2015 | 52-Week Period Ended August 28, 2016 | 52-Week Period Ended August 30, 2015 |
|---|---|---|---|---|
| | | (in thousands of dollars) (unaudited) | | |
| Cash provided by operations | 8,313 | 6,020 | 11,960 | 16,379 |
| Cash used in investing activities | (3,611) | (3,106) | (9,660) | (3,119) |
| Cash used in financing activities | (3,725) | (3,426) | (6,281) | (10,033) |
| Increase (decrease) in cash and cash equivalents during the period | 977 | (512) | (3,981) | 3,227 |
| Cash and cash equivalents – Beginning of period | 2,911 | 8,381 | 7,869 | 4,642 |
| Cash and cash equivalents – End of period | 3,888 | 7,869 | 3,888 | 7,869 |

Cash provided by operations increased by $2.3 million for Q4 2016 compared to Q4 2015. The increase is attributable to an increase in Adjusted Net Earnings[(2)] of $0.5 million, a favourable variance in the net change in working capital items of $1.3 million, and a decrease in distributions paid of $0.7 million, offset by a decrease in landlord and other inducements received of $0.2 million. Cash provided by operations decreased by $4.4 million for fiscal 2016 compared to fiscal 2015. The decrease in cash provided by operations is attributable to the decrease in Adjusted Net Earnings[(2)] of $0.9 million and an unfavourable variance in the net change in working capital items of $4.5 million, offset by an increase in landlord and other inducements received of $0.4 million and a decrease in distributions paid of $0.6 million.

Investing activities used cash of $3.6 million and $9.7 million for Q4 2016 and fiscal 2016, respectively. Investing activities used cash of $3.1 million for both Q4 2015 and fiscal 2015. Purchases of property and equipment and other assets amounted to $3.8 million and $10.0 million for the 16-week and 52-week periods ended August 28, 2016, respectively, and $3.5 million and $7.8 million for the 16-week and 52-week periods ended August 30, 2015, respectively. The majority of the capital expenditures for the 16-week and 52-week periods ended August 28, 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 renovations of the Jack Astor's in Scarborough, Ontario and Halifax, Nova Scotia that were completed in Q2 2016 and Q4 2016, respectively; iv) the construction of the new Scaddabush location in Scarborough, Ontario that opened during Q4 2016; v) the ongoing construction of a new Scaddabush location in downtown Toronto, which opened in the first quarter of fiscal 2017. The majority of the capital expenditures for the 16-week and 52-week periods ended August 30, 2015 related to the renovation of one Canyon Creek restaurant and two Jack Astor's restaurants, and the construction of two new Jack Astor's restaurants in Ottawa, Ontario. 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 were accounted for as a non-cash transaction in the consolidated statements of cash flows. Net cash proceeds received from restricted funds, to fund new construction and renovations activities for the 16-week and 52-week periods ended August 30, 2015 were $nil and $4.3 million, respectively.

For Q4 2016 and fiscal 2016, cash used in financing activities was $3.7 million and $6.3 million, respectively. Cash used in financing activities was $3.4 million and $10.0 million for Q4 2015 and fiscal 2015, respectively. Bank indebtedness decreased $13.2 million and $11.6 million in the 16-week and 52-week periods ended August 28, 2016, respectively, primarily due to the proceeds received on the sale of Fund units of $10.3 million. Principal repayments on long-term debt were $6.5 million and $8.0 million for the 16-week and 52-week periods ended August 28, 2016, respectively, compared to $25.5 million and $28.7 million for the 16-week and 52-week periods ended August 30, 2015, respectively, as a result of repaying SIR's previous term debt in fiscal 2015. Interest paid was $1.0 million and $3.7 million for Q4 2016 and fiscal 2016, respectively, compared to $1.6 million and $4.9 million for Q4 2015 and fiscal 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 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 17).

As at August 28, 2016, SIR had current assets of $15.0 million (August 30, 2015 – $19.2 million) and current liabilities of $47.0 million (August 30, 2015 – $49.1 million) resulting in a working capital deficit of $32.0 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 currently remains the majority shareholder of SIR holding 55.97% 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 of $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 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%.

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).

The Q1 2015 disposition of Fund units has been accounted for as a non-cash transaction in the consolidated statements of cash flows. In Q1 2015, 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 16-week and 52-week periods ended August 28, 2016, $nil (16-week and 52-week periods ended August 30, 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 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.

Subsequent to August 28, 2016, SIR completed the construction of one restaurant for which it incurred costs of approximately $1.2 million during the subsequent period. 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 $0.05 million is included in property and equipment as at August 28, 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 August 28, 2016, $2.0 million and $8.0 million were outstanding on SIR's Credit Agreement for Credit Facility 1 and Credit Facility 2, respectively.

SIR has the following contractual obligations as of August 28, 2016 (in thousands of dollars):

| | 1 Year | 2 – 3 Years | 4 – 5 Years | Thereafter | Total |
|---|---|---|---|---|---|
| Operating leases | 15,507 | 30,238 | 24,853 | 42,349 | 112,947 |
| Long-term debt principal repayments | 2,000 | 8,000 | - | - | 10,000 |
| SIR Loan principal repayment | - | - | - | 40,000 | 40,000 |
| | **17,507** | **38,238** | **24,853** | **82,349** | **162,947** |

## *Off-Balance Sheet Arrangements*

SIR has off-balance sheet arrangements with respect to its operating leases relating to its head office and restaurant locations with minimum annual payments. (See Contractual Obligations section).

## *Transactions with Related Parties*

SIR has entered into related party transactions with shareholders and directors or companies controlled by shareholders and directors of SIR. The transactions are in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Significant transactions with related parties include:

| ***Transactions with Related Parties*** | 16-Week Period Ended August 28, 2016 | 16-Week Period Ended August 30, 2015 | 52-Week Period Ended August 28, 2016 | 52-Week Period Ended August 30, 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 | 21 | 22 | 68 | 69 |
| Maintenance services provided by a shareholder of SIR | 2 | 1 | 26 | 10 |
| Maintenance services provided by a company owned by a shareholder of SIR | - | - | - | 8 |
| Consulting services provided by a company owned by a director and shareholder of SIR | - | - | - | 56 |
| **Direct costs of restaurant operations** | | | | |
| Occupancy costs provided by a company owned by a party related to a director of SIR | 11 | 17 | 12 | 17 |
| Maintenance services provided by a company owned by a party related to a shareholder of SIR | 21 | 20 | 90 | 126 |
| Maintenance services provided by a shareholder of SIR | 6 | 5 | 9 | 22 |
| Consulting services provided by a company owned by a director and shareholder of SIR | - | 55 | - | 55 |
| **Property and equipment** | | | | |
| Design and construction management fees and fixtures provided by a company owned by a shareholder of SIR | 24 | 38 | 316 | 145 |
| Construction management fees and fixtures provided by a company owned by a party related to a shareholder of SIR | 55 | 517 | 521 | 1,128 |
| Fixtures provided by a shareholder of SIR | 15 | 8 | 33 | 8 |
| **Capital Stock** | | | | |
| Consulting fees on share purchase transaction provided by a director and shareholder of SIR | - | 83 | - | 83 |

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

| | As at August 28, 2016 | As at 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 | 6 | 7 |
| Amounts due from a company owned by a party related to a director of SIR | 24 | 7 |
| **Amounts due to related parties:** | | |
| Amounts due to companies owned by a shareholder or director of SIR | 150 | 63 |
| Amounts due to a company owned by a party related to a shareholder of SIR | 30 | 223 |
| Amounts due to a company owned by a party related to a director of SIR | 4 | 17 |

- Received repayment against loans and advances from U.S. S.I.R. L.L.C. of $0.05 million and $0.3 million for the 16-week and 52-week periods ended August 28, 2016, respectively ($0.1 million and $0.4 million for the 16-week and 52-week periods ended August 30, 2015, respectively). SIR recognized interest income on those loans and advances of $.04 million and $0.2 million for the 16-week and 52-week periods ended August 28, 2016, respectively ($0.07 million and $0.2 million for the 16-week and 52-week periods ended August 30, 2015, respectively). As at August 28, 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). During fiscal 2015, certain liabilities totaling $0.7 million owed by SIR to U.S.S.I.R. L.L.C. were settled against the outstanding loans and advances.
- Received repayment against a loan receivable from a company owned by a party related to a director of SIR of $.03 million and $0.08 million for the 16-week and 52-week periods ended August 28, 2016, respectively ($nil for both the 16-week and 52-week periods ended August 30, 2015). SIR recognized interest income on this loan of $0.01 million and $0.02 million for the 16-week and 52-week periods ended August 28, 2016, respectively ($0.01 million for both the 16-week and 52-week periods ended August 30, 2015). As at August 28, 2016 the balance of this loan receivable is $0.3 million (August 30, 2015 – $0.4 million).
- SIR advanced $0.1 million to a shareholder of SIR during the 52-week period ended August 28, 2016 ($0.3 million for the 52-week period ended August 30, 2015). These advances were to different shareholders and, in each case, were repaid prior to the end of the fiscal year in which they were advanced. SIR recognized interest income on these advances of $0.01 million for the 16-week and 52-week periods ended August 28, 2016 ($0.01 million for the 16-week and 52-week periods ended August 30, 2015).
- A company owned by the majority shareholder of SIR had guaranteed SIR's obligations under the its previous credit agreement and a guarantee fee of $0.02 million and $0.2 million were charged to the consolidated statements of operations and comprehensive income (loss) for the 16-week and 52-week periods ended August 30, 2015, respectively. There is no guarantee on the current credit facility.
- 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 August 28, 2016 were $3.2 million (August 30, 2015 – $2.7 million). Advances receivable are non-interest bearing and due on demand.

During the 16-week and 52-week periods ended August 28, 2016, distributions of $3.1 million and $9.2 million were declared to the Fund by the Partnership, respectively ($3.01 million and $9.0 million for the 16-week and 52-week periods ended August 30, 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 August 28, 2016 were $4.3 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 $0.9 million and $3.0 million for Q4 2016 and fiscal 2016, respectively, and $0.9 million and $3.0 million for Q4 2015 and fiscal 2015, respectively. Interest payable on the SIR Loan as at August 28, 2016 was $0.5 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 $0.007 million and $0.024 million for the 16-week and 52-week periods ended August 28, 2016, respectively ($0.007 million and $0.024 million for the 16-week and 52-week periods ended August 30, 2015), which was the amount of consideration agreed to by the related parties.

## *Critical Accounting Estimates and Judgments*

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

**Impairment of non-financial assets**

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

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

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

During the 52-week period ended August 28, 2016, a $0.2 million impairment of goodwill was recognized by SIR (52-week period ended August 30, 2015 – $0.2). The impairment is the result of declining sales and earnings of one restaurant. The recoverable amount was based on value-in-use. Significant assumptions used in the discounted cash flow model included estimated cash flows for the restaurant, the duration of the estimated cash flows, the discount rate of 13% and the estimated proceeds to dispose of the assets at the end of the lease term. Management has performed sensitivity testing and has determined that a reasonable change in the assumptions would not result in a material change to the goodwill impairment.

As a result of a decline in sales and earnings from certain restaurants, SIR conducted an impairment analysis of certain restaurants' non-financial assets. The analysis indicated that the estimated recoverable amounts for three restaurants (2015 – five restaurants) was less than the carrying value of the restaurants' non-financial assets (property and equipment). In fiscal 2016, the recoverable amount for the impairment of one Signature restaurant (2015 – one Jack Astor's restaurant and one Signature restaurant) was based on fair value, less costs to sell. The fair value less costs to sell for the Signature restaurant was estimated using a depreciated replacement cost methodology. In fiscal 2015, the fair value less costs to sell for the Jack Astor's restaurant was estimated using a real estate appraisal and depreciated replacement cost, and the fair value less costs to sell for the Signature restaurant was estimated using a depreciated replacement cost methodology. The recoverable amount for the fiscal 2016 impairment of the remaining restaurants (two Jack Astor's restaurants) (fiscal 2015 – one Alice Fazooli's/Scaddabush and two Signature restaurants) was based on value-in-use, which was estimated using a discounted cash flow model. Significant assumptions used in the model include the estimate of cash flows and a discount rate of 13% (2015 – 18%). Management has performed sensitivity testing on the estimates and determined that a reasonable change in assumptions would not result in a material change in the impairment of the property and equipment.

In fiscal 2016 and fiscal 2015, certain costs for design of new restaurants were abandoned. Accordingly, these costs were written off during the 52-week periods ended August 28, 2016 and August 30, 2015, respectively.

Accordingly, in total, an impairment loss of non-financial assets of $1.3 million for the 52-week period ended August 28, 2016 (52-week period ended August 30, 2015 - $2.0 million) was recognized in the consolidated statements of operations and comprehensive loss.

**Loans and advances**

Loans and advances are recorded at amortized cost and are written down to their estimated realizable amount when there is evidence of an impairment. As at August 28, 2016, SIR evaluated its loans and advances to U.S. S.I.R. L.L.C. for impairment. SIR determined the estimated recoverable amounts by using a discounted cash flow model. Significant assumptions used in the discounted cash flow model include the expected future cash payments and a discount rate of 15%. Based on the analysis completed, a provision of $0.5 million for the 52-week period ended August 28, 2016 (52-week period ended August 30, 2015 – recovery of $1.2 million) was recognized in the consolidated statements of operations and comprehensive loss.

**Consolidation of the Partnership**

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

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

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

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

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

**Income Taxes**

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

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

**IFRS 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*

Financial assets and liabilities have been classified into categories that determine their basis of measurement and, for items measured at fair value, whether changes in fair value are recognized in the consolidated statements of operations or in comprehensive loss. SIR's financial instruments consist of cash and cash equivalents, trade and other receivables, loans and advances, bank indebtedness, trade and other payables, long-term debt, loan payable to the Fund, and Ordinary LP Units and Class A LP Units of the Partnership. The fair values of cash and cash equivalents, trade and other receivables, bank indebtedness, and trade and other payables approximate their carrying amounts due to their short-term maturity. The carrying value of the loans and advances approximates fair values as the effective interest rate approximates current market rates. The fair value of the long-term debt as at August 28, 2016 is $10.0 million and is determined based on the estimated contractual schedule of payments as the interest rate varies with the current market rates. The fair value of the loan payable to the Fund and the Ordinary LP Units and Class A LP Units of the Partnership could only be determined through the valuation of the financial instruments. The loan payable to the Fund is due to a related party and there is no active market for the debt. SIR intends to hold the loan payable to the Fund until its maturity on October 12, 2044. The Ordinary LP Units and Class A LP Units of the Partnership are also held by the Fund and there is no active market for the Ordinary LP Units and Class A LP Units. As a result, the determination of its fair value is not practicable within the constraints of timeliness and cost.

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

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

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

## *Risks and Uncertainties*

The performance of SIR is dependent on many factors. The restaurant industry generally, and in particular, the casual and fine dining segment of this industry, is intensely competitive with respect to price, service, location, food quality and qualified staff. 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 November 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 subsequent to year-end, 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, two completed during Fiscal 2016, and four additional renovations completed subsequent to year-end, and therefore plans to continue to implement similar renovations at additional Jack Astor's locations in the future.

Subsequent to year-end, during SIR's fiscal 2017 first quarter, 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 November 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.