SIR CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE 12-WEEK AND 36-WEEK PERIODS ENDED MAY 5, 2019

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TABLE OF CONTENTS

SIR CORP.
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Executive Summary

SIR Corp.'s ("SIR's") third quarter of Fiscal 2019 was from February 11, 2019 to May 5, 2019 inclusive. Highlights for SIR's 12-week and 36-week periods ended May 5, 2019 ("Q3 2019" and "YTD 2019", respectively) include:

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

- Food and beverage revenue from corporate restaurant operations for Q3 2019 totaled $67.6 million, compared to $72.1 million for the 12-week period ended May 6, 2018 ("Q3 2018"). Food and beverage revenue from corporate restaurant operations for YTD 2019 was $202.3 million, compared to $206.7 million for the 36-week period ended May 6, 2018 ("YTD 2018").
- Same Store Sales ("SSS")(1) declined 3.5% for Q3 2019 and 1.7% for YTD 2019.
- SIR's flagship Concept Restaurant brand, Jack Astor's®, which generated approximately 70% of Pooled Revenue in Q3 2019, had SSS(1) percentage declines of 3.9% and 1.9% for Q3 2019 and YTD 2019, respectively.
- Canyon Creek® had SSS(1) percentage declines of 6.7% and 4.2% for Q3 2019 and YTD 2019, respectively.
- Scaddabush Italian Kitchen & Bar® ("Scaddabush") had Same Store Sales Growth ("SSSG")(1) of 0.4% and 0.6% for Q3 2019 and YTD 2019, respectively.
- The Signature Restaurants had SSS(1) declines of 4.1% and 1.7% for Q3 2019 and YTD 2019, respectively.
- Please refer to page 11 for a discussion on the factors that impacted SSS(1) in Q3 2019 and YTD 2019.

Investment in new and existing restaurants and closed restaurants

- As part of SIR's focus on further strengthening its flagship Jack Astor's brand and driving SSSG(1), SIR completed one Jack Astor's renovation during Q3 2019 (the location at CF Shops at Don Mills in Toronto). SIR completed two Jack Astor's renovations during Q2 2019 (the location at the intersection of Yonge and Bloor streets in Toronto and the location near the Toronto Pearson International Airport in Etobicoke, Ontario). During Q1 2019, SIR completed renovations at two Jack Astor's locations (Kanata and Mississauga, Ontario).
- The Loose Moose® in downtown Toronto was closed for 10 days during Q3 2019 and four days at the end of Q2 2019 for a major renovation. SIR also completed major renovations at the Scaddabush location at the Square One shopping centre in Mississauga, Ontario. This location was closed for six days during Q3 2019.
- During Q2 2019, effective February 4, 2019, SIR permanently closed the Jack Astor's restaurant in the St. Lawrence Market neighbourhood of downtown Toronto. SIR is required to pay a Make-Whole Payment to the SIR Royalty Income Fund (the "Fund"), via the SIR Royalty Limited Partnership (the "Partnership"), for this location from the date of closure until it ceases to be part of Royalty Pooled Restaurants on January 1, 2020. Management is currently evaluating strategic options for the future use of this site.
- During Q2 2019, effective December 9, 2018, SIR permanently closed the Canyon Creek restaurant on Front Street in downtown Toronto. SIR was required to pay a Make-Whole Payment to the Fund, via the Partnership, for this location from the date of closure until it ceased to be a part of Royalty Pooled Restaurants on January 1, 2019.
- On January 1, 2019, the Scaddabush restaurant near the Sherway Gardens shopping centre in Etobicoke, Ontario (opened November 28, 2017) and the Reds® restaurant at the Square One shopping centre ("Reds Square One") in Mississauga, Ontario (opened December 11, 2017) were added to Royalty Pooled Restaurants.
- Following the 2018 summer season, SIR elected not to renew the lease on the property for the seasonal Abbey's Bakehouse® retail outlet in Port Carling, Ontario. SIR continues to operate the Abbey's Bakehouse location in Minnett, Ontario.

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

Net Loss and Comprehensive Loss and Adjusted Net Earnings (Loss)[1]

- Net loss and comprehensive loss and Adjusted Net Earnings (Loss)[1] for Fiscal 2018 were impacted by the adoption of International Financial Reporting Standard 15 ("IFRS 15"). Comparative figures presented in this report have been restated to reflect the impact of IFRS 15.
- Net loss was $11.2 million for Q3 2019, compared to $11.6 million for Q3 2018. Net loss and comprehensive loss was $18.0 million for YTD 2019, compared to $7.9 million for YTD 2018.
- Adjusted Net Earnings[1] were $1.2 million in Q3 2019, compared to $3.3 million in Q3 2018. Adjusted Net Earnings[1] were $2.2 million in YTD 2019, compared $4.1 million for YTD 2018.

EBITDA[1] and Adjusted EBITDA[1]

- EBITDA[1] and Adjusted EBITDA[1] were $4.8 million and $5.0 million in Q3 2019, respectively, compared to $7.0 million and $6.8 million, respectively, in Q3 2018.
- EBITDA[1] and Adjusted EBITDA[1] were $12.7 million and $13.0 million in YTD 2019, respectively, compared to $14.9 million and $15.8 million for YTD 2018, respectively.

Outlook

- Subsequent to Q3 2019, on June 2, 2019, SIR opened a new Scaddabush restaurant in the Mimico neighbourhood of Etobicoke, Ontario. There can be no assurance that this restaurant will become part of Royalty Pooled Restaurants.
- SIR continues to focus on sustaining and growing existing restaurant sales and profits while effectively managing costs. SIR carefully monitors economic conditions, competitive actions, and consumer confidence, and considers new restaurant developments and renovations to existing restaurants where appropriate. Based on its assessment of these conditions, the timing of new restaurant construction and renovations, as well as related opening schedules, will be reviewed regularly by SIR and adjusted as necessary.

Overview

SIR is a private company amalgamated under the Business Corporations Act of Ontario. As at May 5, 2019, SIR owned 59 Concept and Signature Restaurants in Canada (in Ontario, Quebec, Alberta, Nova Scotia, and Newfoundland). The Concept Restaurants include Jack Astor's, Canyon Creek and Scaddabush. The Signature group of restaurants include Reds Wine Tavern®, Reds Midtown Tavern®, Reds Square One, and the Loose Moose. SIR also owns a Duke's Refresher® & Bar in downtown Toronto and one seasonal restaurant, Abbey's Bakehouse, which are not part of Royalty Pooled Restaurants. SIR owns 100% of all its Canadian restaurants. As at May 5, 2019, 58 SIR Restaurants were included in Royalty Pooled Restaurants (57 operating restaurants and one closed restaurant).

Effective December 9, 2018, SIR closed the Canyon Creek restaurant on Front Street in downtown Toronto as the building is being demolished for redevelopment by the landlord. Under terms of the License and Royalty Agreement between SIR and the Partnership, SIR indirectly paid the Fund, via the Partnership, a "Make-Whole Payment", subject to certain terms, equal to $0.01 million which is the amount of the Royalty that otherwise would have been paid to the Partnership by SIR from the dates of closure until December 31, 2018.

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

Effective February 4, 2019, SIR closed the Jack Astor's restaurant in the St. Lawrence Market neighbourhood of downtown Toronto. Under terms of the License and Royalty Agreement between SIR and the Partnership, SIR is obligated to indirectly pay the Fund, via the Partnership, a "Make-Whole Payment", subject to certain terms, equal to $0.2 million which is the amount of the Royalty that otherwise would have been paid to the Partnership by SIR from the date of closure until December 31, 2019. On January 1, 2020, SIR will convert the same number of Class A GP units that it received for this restaurant when it was added to the Royalty Pooled restaurants at the time of the Fund's initial public offering in October 2004, into Class B GP units. This will have the net effect of increasing the Fund's share of the Partnership's earnings. Jack Astor's St. Lawrence Market will cease to be a part of Royalty Pooled Restaurants on January 1, 2020.

SIR believes that Duke's Refresher has multi-unit growth potential and has advised the Fund that Duke's Refresher should be considered as a potential New Concept Restaurant brand. As such, the earliest that any Duke's Refresher would be added to the Royalty pool would be the Adjustment Date following the earlier of: (i) the date that four Duke's Refresher restaurants are open for business at the same time, and (ii) 90 days following the end of the fiscal year in which revenues from all Duke's Refresher restaurants in Canada first exceed $12.0 million (the "Trigger Event"). As neither of these events are expected to occur in calendar year 2019, Duke's Refresher will not be added to the Royalty Pool on January 1, 2020. The Duke's Refresher brand is currently being managed and developed by SIR's Signature group. Accordingly, the current Duke's Refresher location in downtown Toronto is classified as a Signature restaurant for reporting purposes.

On October 1, 2004, the Fund filed a final prospectus for a public offering of Units of the Fund (the "Offering") and the Offering closed on October 12, 2004. The net proceeds of the Offering of $51.2 million were used by the Fund to acquire the SIR Loan and indirectly, through the SIR Holdings Trust (the "Trust"), the SIR Rights owned or licensed by SIR or its subsidiaries and used in connection with the operation of SIR's restaurants in Canada. In 2004, the Partnership granted SIR a 99-year license to use the SIR Rights in most of Canada in consideration for a Royalty, payable by SIR to the Partnership, equal to 6% of the revenue of the Royalty Pooled Restaurants. The Partnership also issued its own securities to SIR in return for the SIR Rights acquired.

SIR's fiscal year is comprised of 52 or 53-week periods ending on the last Sunday in August. Fiscal quarters of SIR consist of accounting periods of 12, 12, 12 and 16 (or 17) weeks, respectively. The fiscal years for 2019 and 2018 both consist of 52 weeks.

Seasonality

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

Selected Consolidated Historical Financial Information

The following tables set out selected financial information of SIR for the 12-week and 36-week periods ended May 5, 2019 and May 6, 2018, respectively. The unaudited interim consolidated financial statements of SIR are prepared in accordance with IFRS and are presented in Canadian dollars. This information should be read in conjunction with the annual audited consolidated financial statements of SIR, including the notes thereto.

Statements of Operations and Comprehensive Loss	12-Week Period Ended May 5, 2019	12-Week Period Ended May 6, 2018 (restated)	36-Week Period Ended May 5, 2019	36-Week Period Ended May 6, 2018 (restated)
	(in thousands of dollars) (unaudited)			
Corporate restaurant operations:				
Food and beverage revenue	67,713	72,226	202,593	207,109
Cost of corporate restaurant operations	62,126	64,970	187,189	189,599
Earnings from corporate restaurant operations	**5,587**	**7,256**	**15,404**	**17,510**
Net loss and comprehensive loss	**(11,198)**	**(11,586)**	**(17,974)**	**(7,858)**
Adjusted Net Earnings (Loss)[(1)]	**1,248**	**3,291**	**2,189**	**4,083**

Statement of Financial Position	May 5, 2019	August 26, 2018
	(in thousands of dollars) (unaudited)	
Total assets	76,324	75,250
Total non-current liabilities	209,490	190,649

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

Adjusted Net Earnings (Loss)[(1)], EBITDA[(1)] and Adjusted EBITDA[(1)] are financial measures that do not have standardized meanings prescribed by IFRS. They are used by SIR to supplement its reporting of net earnings (loss) and net cash flow. Adjusted Net Earnings (Loss)[(1)] consist of net earnings (loss) excluding the change in amortized cost of Ordinary LP Units and Class A LP Units of the Partnership. EBITDA[(1)] and Adjusted EBITDA[(1)] consist of net earnings (loss) excluding certain non-cash expenses and other expenses that SIR considers not to be of an operating nature. SIR believes that Adjusted Net Earnings (Loss)[(1)], EBITDA[(1)] and Adjusted EBITDA[(1)] are useful estimates of the core business' contribution to cash flow from operations and uses these measures as a supplemental measure of SIR's performance. Similarly, SIR believes that certain investors may also find these non-GAAP financial measures to be useful measures for their independent evaluation of SIR's performance.

The following table reconciles net loss and comprehensive loss for the 12-week and 36-week periods ended May 5, 2019 and May 6, 2018, respectively, to Adjusted Net Earnings (Loss)(1):

	12-Week Period Ended May 5, 2019	12-Week Period Ended May 6, 2018 (restated)	36-Week Period Ended May 5, 2019	36-Week Period Ended May 6, 2018 (restated)
	(in thousands of dollars) (unaudited)			
Net loss for the period	(11,198)	(11,586)	(17,974)	(7,858)
Change in amortized cost of Ordinary LP Units and Class A LP Units of the Partnership	12,446	14,877	20,163	11,941
Adjusted Net Earnings(1)	**1,248**	**3,291**	**2,189**	**4,083**

The following table reconciles net loss and comprehensive loss for the 12-week and 36-week periods ended May 5, 2019 and May 6, 2018, respectively, to EBITDA(1) and Adjusted EBITDA(1) :

	12-Week Period Ended May 5, 2019	12-Week Period Ended May 6, 2018 (restated)	36-Week Period Ended May 5, 2019	36-Week Period Ended May 6, 2018 (restated)
	(in thousands of dollars) (unaudited)			
Net loss and comprehensive loss for the period	(11,198)	(11,586)	(17,974)	(7,858)
Add (deduct):				
Provision for income taxes	8	3	9	3
Interest expense	429	386	1,177	993
Interest on loan payable to SIR Royalty Income Fund	712	710	2,106	2,103
Depreciation and amortization	2,442	2,597	7,174	7,696
Change in amortized cost of Ordinary LP Units and Class A LP Units of the Partnership	12,446	14,877	20,163	11,941
EBITDA(1)	**4,839**	**6,987**	**12,655**	**14,878**
Interest (income) and other expense (income) – net	(32)	(229)	(81)	(293)
Loss on disposal of property and equipment	18	35	52	125
Pre-opening costs	205	10	356	1,098
Adjusted EBITDA(1)	**5,030**	**6,803**	**12,982**	**15,808**
Income from Class A & B GP Units of the Partnership(2) (Not included in EBITDA(1) and Adjusted EBITDA(1) above)	812	779	2,428	2,150
6% Royalty obligations under License and Royalty Agreement(3)	4,018	4,146	12,040	11,721

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

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

Results of Operations

Reconciliation of Revenue from Consolidated Financial Statements to Pooled Revenue	12-Week Period Ended May 5, 2019	12-Week Period Ended May 6, 2018	36-Week Period Ended May 5, 2019	36-Week Period Ended May 6, 2018
	(in thousands of dollars) (unaudited)			
Food and beverage revenue reported in consolidated financial statements	67,616	72,121	202,323	206,679
Less: Revenue from corporate restaurant operations excluded from the Royalty pool	(642)	(3,028)	(5,224)	(12,450)
Revenue for Restaurants in Royalty pool (Pooled Revenue)	**66,974**	**69,093**	**197,099**	**194,229**

Reconciliation of Revenue from Consolidated Financial Statements to Same Store Sales(1)	12-Week Period Ended May 5, 2019	12-Week Period Ended May 6, 2018	36-Week Period Ended May 5, 2019	36-Week Period Ended May 6, 2018
	(in thousands of dollars) (unaudited)			
Food and beverage revenue reported in consolidated financial statements	67,616	72,121	202,323	206,679
Less: Revenue from corporate restaurant operations excluded from Same Store Sales(1)	(2,176)	(4,298)	(9,257)	(10,266)
Same Store Sales(1)	**65,440**	**67,823**	**193,066**	**196,413**

Same Store Sales(1) by Concept	12-Week Period Ended May 5, 2019	12-Week Period Ended May 6, 2018	% Fav./ (Unfav.)	36-Week Period Ended May 5, 2019	36-Week Period Ended May 6, 2018	% Fav./ (Unfav.)
	(in thousands of dollars) (unaudited)					
Jack Astor's	46,617	48,508	(3.9%)	136,960	139,630	(1.9%)
Canyon Creek	4,301	4,610	(6.7%)	13,186	13,760	(4.2%)
Scaddabush	9,291	9,252	0.4%	27,858	27,703	0.6%
Signature Restaurants	5,231	5,453	(4.1%)	15,062	15,320	(1.7%)
Same Store Sales(1)	**65,440**	**67,823**	**(3.5%)**	**193,066**	**196,413**	**(1.7%)**

Summary of Quarterly Results

Statement of Operations	3rd Quarter Ended May 5, 2019 (12 weeks)	2nd Quarter Ended February 10, 2019 (12 weeks)	1st Quarter Ended November 18, 2018 (12 weeks)	4th Quarter Ended August 26, 2018 (16 weeks) (restated)	3rd Quarter Ended May 6, 2018 (12 weeks) (restated)	2nd Quarter Ended February 11, 2018 (12 weeks) (restated)	1st Quarter Ended November 19, 2017 (12 weeks) (restated)	4th Quarter Ended August 27, 2017 (16 weeks) (restated)
	(in thousands of dollars) (unaudited)							
Corporate Restaurant Operations								
Revenue (restated for IFRS 15)	67,713	65,716	69,164	104,184	72,226	66,368	68,515	100,047
Cost of corporate restaurant operations (restated for IFRS 15)	62,126	61,374	63,689	94,203	64,970	62,073	62,556	91,252
Earnings from corporate restaurant operations	**5,587**	**4,342**	**5,475**	**9,981**	**7,256**	**4,295**	**5,959**	**8,795**
Net earnings (loss) and comprehensive income (loss)	**(11,198)**	**3,801**	**(10,577)**	**(1,814)**	**(11,586)**	**8,047**	**(4,319)**	**4,824**
Adjusted Net Earnings (Loss)(1)	**1,248**	**253**	**688**	**4,365**	**3,291**	**(391)**	**1,183**	**2,973**

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

	3rd Quarter Ended May 5, 2019 (12 weeks)	2nd Quarter Ended February 10, 2019 (12 weeks)	1st Quarter Ended November 18, 2018 (12 weeks)	4th Quarter Ended August 26, 2018 (16 weeks) (restated)	3rd Quarter Ended May 6, 2018 (12 weeks) (restated)	2nd Quarter Ended February 11, 2018 (12 weeks) (restated)	1st Quarter Ended November 19, 2017 (12 weeks) (restated)	4th Quarter Ended August 27, 2017 (16 weeks) (restated)
	(in thousands of dollars) (unaudited)							
Net earnings (loss) and comprehensive income (loss)	(11,198)	3,801	(10,577)	(1,814)	(11,586)	8,047	(4,319)	4,824
Change in amortized cost of the Ordinary LP Units and Class A LP Units of the Partnership	12,446	(3,548)	11,265	6,179	14,877	(8,438)	5,502	(1,851)
Adjusted Net Earnings (Loss)(1)	**1,248**	**253**	**688**	**4,365**	**3,291**	**(391)**	**1,183**	**2,973**

Selected Unaudited Consolidated Statement of Cash Flows Information:

	3rd Quarter Ended May 5, 2019 (12 weeks)	2nd Quarter Ended February 10, 2019 (12 weeks)	1st Quarter Ended November 18, 2018 (12 weeks)	4th Quarter Ended August 26, 2018 (16 weeks)	3rd Quarter Ended May 6, 2018 (12 weeks)	2nd Quarter Ended February 11, 2018 (12 weeks)	1st Quarter Ended November 19, 2017 (12 weeks)	4th Quarter Ended August 27, 2017 (16 weeks)
				(in thousands of dollars) (unaudited)				
Cash provided by (used in) operations	3,509	(2,757)	(3,491)	11,241	5,440	(501)	(434)	10,672
Cash used in investing activities	(3,523)	(1,650)	(1,706)	(1,507)	(1,962)	(5,528)	(3,814)	(5,194)
Cash provided by (used in) financing activities	(856)	3,460	4,558	(7,910)	(3,568)	4,837	3,939	(3,528)
Increase (decrease) in cash and cash equivalents during the period	(870)	(947)	(639)	1,824	(90)	(1,192)	(309)	1,950
Cash and cash equivalents – Beginning of period	3,197	4,144	4,783	2,959	3,049	4,241	4,550	2,600
Cash and cash equivalents – End of period	2,327	3,197	4,144	4,783	2,959	3,049	4,241	4,550

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 MD&A. The following definitions are provided for greater clarification of these groupings:

i. Revenue (per the SIR consolidated statements of operations and comprehensive income (loss)) – this is the total consolidated revenue of all restaurants for the period. The restaurants include all SIR Restaurants as well as Abbey's Bakehouse. For the 12-week and 36-week periods ended May 5, 2019, revenue was $67.6 million and $202.3 million, respectively.

ii. Same Store Sales(1) ("SSS") – this is a sub-set of Revenue used for tracking comparable year-over-year sales. For Q3 2019 and Q3 2018, SSS(1) includes all SIR Restaurants, except for those restaurants that were not open for the entire comparable periods in fiscal 2019 and fiscal 2018, and Abbey's Bakehouse as it is not a SIR Restaurant. The SSS(1) performance does not include the Jack Astor's location in the St. Lawrence Market neighbourhood of downtown Toronto, and the Canyon Creek locations in Etobicoke, Ontario and on Front Street in downtown Toronto, as their sales are excluded from the calculation of SSS(1) similar to any permanently closed location. The SSS(1) performance for Scaddabush includes seven Scaddabush restaurants (Mississauga, Richmond Hill, Scarborough, Oakville, Vaughan, Ontario, and Front Street as well as Yonge and Gerrard in downtown Toronto). The new Scaddabush location in Etobicoke, Ontario is excluded from the calculation of SSS(1) for the 12-week and 36-week periods ended May 5, 2019, since it was not open for the entire comparable periods in Fiscal 2019 and Fiscal 2018. For the 12-week and 36-week periods ended May 5, 2019, SSS(1) were $65.4 million and $193.1 million, respectively.

iii. Pooled Revenue – this is the revenue subject to the License and Royalty Agreement – this includes revenue from all Royalty Pooled Restaurants. The Royalty Pooled Restaurants are adjusted on January 1st of each year for New Additional Restaurants and New Closed Restaurants. As at May 5, 2019, there were 58 Royalty Pooled Restaurants (57 operating restaurants and one closed restaurant). For the 12-week and 36-week periods ended May 5, 2019, Pooled Revenue was $67.0 million and $197.1 million, respectively. The applicable Royalty payable to the Partnership on the Pooled Revenue for this period was $4.0 million and $12.0 million, respectively. The Royalty payable for the 36-week period ended May 5, 2019 includes the recognition of two Make-Whole payments totaling $0.2 million with respect to the closed Canyon Creek location on Front Street in downtown Toronto from its date of closure to December 31, 2018, and the closed Jack Astor's location in downtown Toronto from its date of closure to December 31, 2019.

Same Store Sales(1)

SIR reported SSS(1) declines of 3.5% and 1.7% for the SIR Restaurants in Q3 2019 and YTD 2019, respectively. SSS(1) are typically impacted by changes in guest traffic and average cheque amount. Other factors are identified below.

SIR believes that recent SSS(1) have been impacted by certain factors impacting consumer behaviour related to spending at full-service restaurants, especially in Ontario.

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

Effective December 18, 2018, Ontario introduced new impaired driving laws, including higher mandatory fines and/or imprisonment for many alcohol-impaired driving offences. In addition, the new legislation gives police officers the authority to demand roadside breathalyzer tests from any driver without reasonable grounds. While SIR supports the initiative to eliminate impaired driving and remains dedicated to responsible alcohol service, SIR believes that the introduction of stricter legislation has contributed to lower alcoholic beverage sales in full-service restaurants.

On January 1, 2018, minimum wage in Ontario increased by 23%. To help offset the increased labour costs, most Ontario restaurants increased their prices, which SIR believes has contributed to a decline in full-service restaurant visits.

Subsequent to these events, Ontario restaurant guests appear to be dining out less frequently. According to Restaurants Canada data, real commercial food service sales in Ontario declined 0.2% in 2018 and expected to rebound only slightly in 2019.

SIR also believes that growth in restaurant sales are correlated with consumer confidence, which declined in 2018, particularly in the last quarter. The Consumer Confidence Index recovered somewhat in the first five months of 2019.

Jack Astor's, SIR's flagship Concept Restaurant brand, which contributed approximately 70% of Q3 2019 Pooled Revenue, had SSS(1) declines of 3.9% and 1.9% in Q3 2019 and YTD 2019, respectively. SIR completed renovations at one Jack Astor's restaurant in Q3 2019 (the location at the CF Shops at Don Mills in Toronto), which resulted in the closure of this restaurant for 20 days during the quarter, compared to a partial renovation at one Jack Astor's location in Q3 2018 (Kingston, Ontario), which resulted in the closure of this restaurant for eight days in Q3 2018. Q3 2019 SSS(1) also reflect adverse winter weather conditions relative to the same quarter in the prior year, and a late start to the patio season in Q3 2019 relative to Q3 2018 due to cooler temperatures and higher amounts of precipitation. In addition to the aforementioned closures that impacted SSS(1) in Q3 2019, YTD 2019 SSS(1) were impacted by the closure of four Jack Astor's locations for renovations (Kanata and Mississauga, Ontario, the location at the intersection of Yonge and Bloor streets in downtown Toronto, and the location near Toronto Pearson International Airport in Etobicoke, Ontario), for a combined total of 38 days, compared to four Jack Astor's renovations completed in YTD 2018 resulting in the closure of these restaurants for a combined total of 36 days during the period. YTD 2019 SSS(1) were also negatively impacted by a tornado in the Ottawa area in September of 2018, which resulted in the closure of all three Ottawa area Jack Astor's restaurants for up to three days.

Canyon Creek had declines in SSS(1) of 6.7% and 4.2% in Q3 2019 and YTD 2019, respectively. The sales from the Canyon Creek location in Etobicoke, Ontario which was permanently closed in Q1 2018, and the Canyon Creek location on Front Street in downtown Toronto, which permanently closed in Q2 2019, have been excluded from the calculation of SSS(1) performance for Q3 2019 and YTD 2019. A new Scaddabush restaurant was opened in November of 2017 on the site of the closed Canyon Creek in Etobicoke. Management continues to evaluate options for the Canyon Creek portfolio to improve performance.

Scaddabush SSS(1) performance for Q3 2019 and YTD 2019 includes seven Scaddabush locations (Mississauga, Richmond Hill, Scarborough, Oakville, Vaughan, Ontario, as well as Front Street and Yonge and Gerrard in downtown Toronto). Scaddabush generated SSSG(1) of 0.4% in Q3 2019 and 0.6% in YTD 2019. The new Scaddabush restaurant in Etobicoke, Ontario is excluded from the calculation of Q3 2019 and YTD 2019 SSSG(1) as it was not in operation for the entire comparable periods a year ago. Scaddabush continues to build upon prior year periods of strong SSSG(1). During Q3 2019, SIR closed the Scaddabush location at the Square One shopping centre in Mississauga, Ontario for six days to complete a renovation. This location, which was the first Scaddabush location (opened in July 2013), received a décor refresh and a major menu update. The new food program implemented at this location was first tested at the Oakville, Ontario Scaddabush location and is expected to be rolled-out to the remainder of the Scaddabush locations in 2019 to drive SSSG(1). Subsequent to Q3 2019, SIR opened a new Scaddabush restaurant in the Mimico neighbourhood of Etobicoke, Ontario.

The downtown Toronto Signature Restaurants had SSS(1) declines of 4.1% and 1.7% in Q3 2019 and YTD 2019, respectively. The Loose Moose continues to be impacted by increased local competition and an overall decline of more than 20% in event attendance at major downtown Toronto sporting and entertainment venues in YTD 2019. During Q2 2019, SIR started a major renovation at The Loose Moose in downtown Toronto. The Loose Moose was closed for four days at the end of Q2 2019, and an additional 10 days in Q3 2019. The Q3 2019 and YTD 2019 SSS(1) for the Signature Restaurants does not include the new Reds Square One in Mississauga, Ontario, which opened during Q2 2018, on December 11, 2017.

Cost of Corporate Restaurant Operations

Costs of corporate restaurant operations as a percentage of revenue were 91.7% and 92.4% for Q3 2019 and YTD 2019, respectively, compared to 90.0% and 91.6% for Q3 2018 and YTD 2018.

Corporate Costs

Corporate costs were $3.2 million and $10.0 million for Q3 2019 and YTD 2019, respectively, compared to $3.1 million and $10.6 million for Q3 2018 and YTD 2018, respectively.

Interest Expense

Interest expense for Q3 2019 and YTD 2019 was $0.4 million and $1.2 million, respectively, compared to $0.4 million and $1.0 million for Q3 2018 and YTD 2018, respectively.

SIR Loan, Fund's Interest in the Partnership & Change in Amortized Cost of Ordinary LP and Class A LP Units

On October 12, 2004, the Fund completed its initial public offering and used the proceeds to acquire the SIR Loan and invest in the Ordinary LP Units of the Partnership. The Fund has also acquired Class A LP Units upon SIR's conversion of its Class A GP Units into Fund units (see the Liquidity and Capital Resources section). In accordance with IFRS, SIR has consolidated the Partnership. The Ordinary LP Units and Class A LP Units of the Partnership, which are held by the Fund, require SIR to pay distributions to the Fund when declared by the board of directors of SIR GP Inc. SIR GP Inc. is controlled by the Fund and, accordingly, SIR is unable to control the declaration of these distributions. As a result, the Ordinary LP Units and Class A LP Units of the Partnership have been classified as a financial liability in the consolidated statements of financial position. The Ordinary LP Units and Class A LP Units were initially recorded at fair value and subsequently at amortized cost, which requires updating the carrying amount of the financial liability to reflect actual and revised estimates in cash flows. The changes in the estimated cash flows are derived from changes in the value of the underlying Fund units adjusted for taxes and the SIR Loan.

Changes in amortized cost are recognized in the consolidated statements of operations and comprehensive income (loss). The change in the amortized cost is a non-cash transaction and accordingly, has no impact on cash flows. For Q3 2019, the change in amortized cost is an expense of $12.4 million and is due to an increase in the underlying Fund unit price compared to the end of Q2 2019. For YTD 2019, the change in amortized cost is an expense of $20.1 million and is due to an increase in the underlying Fund unit price compared to the end of Q4 2018. The change in amortized costs was an expense of $14.9 million and $11.9 million for Q3 2018 and YTD 2018, respectively.

Interest expense on the SIR Loan totaled $0.7 million and $2.1 million for Q3 2019 and YTD 2019, respectively, and $0.7 million and $2.1 million for Q3 2018 and YTD 2018, respectively.

EBITDA(1) and Adjusted EBITDA(1)

EBITDA(1) totaled $4.8 million and $12.7 million for Q3 2019 and YTD 2019, respectively, compared to $7.0 million and $14.9 million for Q3 2018 and YTD 2018, respectively. Adjusted EBITDA(1) totaled $5.0 million and $13.0 million for Q3 2019 and YTD 2019, respectively, compared to $6.8 million and $15.8 million for Q3 2018 and YTD 2018, respectively. (See Selected Consolidated Historical Financial Information – Reconciliation of net earnings (loss) and comprehensive income (loss) for the period to EBITDA(1) and Adjusted EBITDA(1)).

SIR Royalty Income Fund

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

(a) *SIR Loan*

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

The debt is "permitted indebtedness" within the meaning of the agreements between the Fund, the Partnership and SIR, and as a result the Fund and the Partnership have, as contemplated in the existing agreements, subordinated and postponed their claims against SIR to the claims of the lender. This subordination, which includes a subordination of the

Partnership's rights under the License and Royalty Agreement between the Partnership and SIR whereby the Partnership licenses to SIR the right to use the trademarks and related intellectual property in return for Royalty payments based on revenues, has been effected pursuant to the terms of the Intercreditor Agreement.

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

Interest expense on the SIR Loan was charged to the consolidated statements of operations and comprehensive income (loss) in the amount of $0.7 million and $2.1 million for Q3 2019 and YTD 2019, respectively, and $0.7 million and $2.1 million for Q3 2018 and YTD 2018, respectively.

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

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

	12-Week Period Ended May 5, 2019	12-Week Period Ended May 6, 2018	36-Week Period Ended May 5, 2019	36-Week Period Ended May 6, 2018
	(in thousands of dollars) (unaudited)			
Balance – Beginning of the period	139,440	122,033	137,864	130,807
Change in amortized cost of the Ordinary LP Units and Class A LP Units of the Partnership	12,446	14,877	20,163	11,941
Distributions paid to Ordinary LP and Class A LP unitholders	(2,841)	(2,556)	(8,982)	(8,394)
Balance – End of period	149,045	134,354	149,045	134,354
Less: Current portion of Ordinary LP Units and Class A LP Units of the Partnership	(11,358)	(10,674)	(11,358)	(10,674)
Ordinary LP Units and Class A LP Units of the Partnership	137,687	123,680	137,687	123,680

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

Pooled Revenue(4)	66,974	69,093	197,099	194,229
Partnership royalty income(5)	4,018	4,146	12,040	11,721
Other Income	6	6	17	17
Partnership expenses	(21)	(19)	(57)	(54)
Net earnings of the Partnership	4,003	4,133	12,000	11,684
SIR's residual interest in the earnings of the Partnership:				
Income from Class A & B GP Units of the Partnership	(812)	(779)	(2,428)	(2,150)
Income from Class C GP Units of the Partnership	(701)	(700)	(2,073)	(2,073)
	(1,513)	(1,479)	(4,501)	(4,223)
Fund's interest in the earnings of the Partnership	2,490	2,654	7,499	7,461

On October 12, 2004, the Partnership issued Ordinary LP and GP Units to the Fund for cash consideration of $11.2 million. The Fund has also acquired Class A LP Units upon SIR's conversion of its Class A GP Units into Fund units. The holders of the Ordinary LP Units and Class A LP Units are entitled to receive their pro rata share of all residual distributions of the Partnership. The distributions are declared by the board of directors of SIR GP Inc., which is controlled by the Fund. Accordingly, the Ordinary LP Units and Class A LP Units of the Partnership have been classified as a financial liability in the consolidated statements of financial position. The Ordinary LP Units and Class A LP Units of the Partnership are accounted for at amortized cost, with changes in the carrying value recorded in the consolidated statements of operations and comprehensive income (loss).

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

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

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

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

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

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

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

As a result of the permanent closure of two SIR Restaurants during the 36-week period ended May 5, 2019, Make-Whole Payments totaling $0.2 million were recognized by SIR for the 36-week period ended May 5, 2019.

SIR's residual interest in the Partnership is 20.91% as at May 5, 2019 (August 26, 2018 – 19.4%).

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

Liquidity and Capital Resources

Selected Consolidated Statement of Cash Flows Information	12-Week Period Ended May 5, 2019	12-Week Period Ended May 6, 2018	36-Week Period Ended May 5, 2019	36-Week Period Ended May 6, 2018
	(in thousands of dollars)			
	(unaudited)			
Cash provided by (used in) operations	3,509	5,442	(2,739)	4,507
Cash used in investing activities	(3,523)	(1,964)	(6,879)	(11,306)
Cash provided by (used in) financing activities	(856)	(3,568)	7,162	5,208
Decrease in cash and cash equivalents during the period	(870)	(90)	(2,456)	(1,591)
Cash and cash equivalents – Beginning of period	3,197	3,049	4,783	4,550
Cash and cash equivalents – End of period	2,327	2,959	2,327	2,959

Cash provided by operations decreased by $1.9 million for Q3 2019 compared to Q3 2018. The decrease is primarily attributable to a decrease in Adjusted Net Earnings(1) of $2.0 million, a decrease in leasehold and other inducements received of $1.5 million, and an increase in distributions paid to Ordinary LP and Class A LP unitholders of $0.3 million, partially offset by a favourable variance in the net change in working capital items of $1.9 million. Cash used in operations increased $7.2 million for YTD 2019 compared to YTD 2018. The increase is primarily attributable to a decrease in Adjusted Net Earnings(1) of $1.9 million, an unfavourable variance in the net change in working capital items of $2.7 million, a decrease in leasehold and other inducements received of $1.7 million, and an increase in distributions paid to the Ordinary LP and Class A LP unitholders of $0.6 million.

Investing activities used cash of $3.5 million and $6.8 million for Q3 2019 and YTD 2019, respectively, compared to $2.0 million and $11.3 million for Q3 2018 and YTD 2018, respectively. Purchases of property and equipment and other assets – net amounted to $3.7 million and $7.2 million in Q3 2019 and YTD 2019, respectively, compared to $2.0 million and $11.5 million in Q3 2018 and YTD 2018, respectively. The majority of the capital expenditures for Q3 2019 and YTD 2019 relate to: i) the renovations of five Jack Astor's locations in YTD 2019, including one in Q3 2019; ii) the major renovations at the Loose Moose and one Scaddabush location in Q3 2019; and iii) the construction of the new Scaddabush restaurant in the Mimico neighbourhood of Etobicoke, Ontario. The majority of the capital expenditures for Q3 2018 and YTD 2018 relate to: i) the renovations of five Jack Astor's locations in YTD 2018, including one partial renovation in Q3 2018; ii) the construction of the new Scaddabush restaurant in Etobicoke, Ontario that opened in Q2 2018; and iii) the construction of the new Reds restaurant in Mississauga, Ontario that opened in Q2 2018..

For Q3 2019, cash used in financing activities was $0.9 million, and cash provided by financing activities was $7.2 million for YTD 2019, compared cash used in financing activities of $3.6 million in Q3 2018 and cash provided by financing activities of $5.2 million in YTD 2018. Bank indebtedness decreased $2.9 million in Q3 2019 and increased $1.9 million in YTD 2019. Proceeds from issuance of long-term debt were $4.0 million and $20.0 million for Q3 2019 and YTD 2019, respectively, and $nil and $9.5 million, respectively, for the corresponding periods a year ago. Principal repayments on long-term debt were $0.4 million and $10.4 million for Q3 2019 and YTD 2019, respectively, and $0.5 million and $1.5 million for Q3 2018 and YTD 2018, respectively. Interest paid was $1.2 million and $3.3 million for Q3 2019 and YTD 2019, respectively, compared to $1.1 million and $3.0 million for Q3 2018 and YTD 2018, respectively. Dividends paid on the common shares of SIR were $0.3 million and $0.7 million in Q3 2019 and YTD 2019, respectively ($0.3 million and $0.6 million in Q3 2018 and YTD 2018, respectively)

The new Scaddabush restaurant near the Sherway Gardens shopping centre in Etobicoke, Ontario (opened November 28, 2017) and the new Reds restaurant at the Square One shopping centre in Mississauga, Ontario (opened December 11, 2017) were added to the Royalty Pooled Restaurants effective January 1, 2019. At that time, SIR received additional Class A GP Units in accordance with the formula for adjustment for New Additional Restaurants added to Royalty Pooled Restaurants. The amount of Class A GP Units received was adjusted for the Second Incremental Adjustment for the three New Additional Restaurants that were added to Royalty Pooled Restaurants on January 1, 2018 and was reduced by an adjustment for the permanent closure of one SIR Restaurant. Under the terms of the Exchange Agreement, SIR has the right to convert some or all of the Class A GP Units into Fund units on a one-for-one basis. After the net effect of the adjustments to Royalty Pooled Restaurants on January 1, 2019, SIR held 2,214,250 Class A GP Units.

As at May 5, 2019, SIR had current assets of $17.6 million (August 26, 2018 – $17.8 million) and current liabilities of $51.5 million (August 26, 2018 – $50.1 million) resulting in a working capital deficit of $33.9 million (August 26, 2018 – $32.3 million). Revenues in the restaurant business are largely paid by cash and credit cards whereas most suppliers offer credit terms for payment. Therefore, restaurants are able to pay their suppliers from the cash received on revenues in the following months, as the supplier payables are due. Cash balances are typically used to construct new restaurants or re-invest in existing restaurants to grow the business. As a result, SIR, like many other restaurant businesses, would anticipate having a negative working capital balance in the foreseeable future.

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

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

The Credit Agreement between SIR and the Lender, as amended on December 8, 2017 and July 6, 2018, provides for a maximum principal amount of $50.0 million consisting of a $20.0 million revolving term credit facility (Credit Facility 1), and a $30.0 million revolving term loan (Credit Facility 2). SIR and the Lender have also entered into a purchase card agreement providing credit of up to an additional $5.0 million.

Credit Facility 1 is for general corporate and operating purposes, including capital spending on new and renovated restaurants, bearing interest at the prime rate plus 2.25% and/or the bankers' acceptance rate plus 3.25%, principal repaid in one bullet repayment on July 6, 2021. A standby fee of 0.65% is charged on the undrawn balance of Credit Facility 1. Provided SIR is in compliance with the Credit Agreement, the principal amount of Credit Facility 1 can be repaid and reborrowed at any time during the term of the agreement. Credit Facility 2 bears interest at the prime rate plus 2.25% and/or the bankers' acceptance rate plus 3.25%. Under the Credit Agreement, subsequent advances on Credit Facility 2 may be requested (subject to availability and lender approval), in minimum multiples of $1.0 million, to finance capital spending on new and renovated restaurants. Each advance under Credit Facility 2 is repayable in equal quarterly instalments based on a seven year amortization, with the remaining outstanding principal balance due on July 6, 2021.

During the 36-week period ended May 5, 2019, the Company drew the remaining $0.2 million of the $2.2 million leasing facility. These advances are repayable in equal monthly instalments over 48 months.

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

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

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.

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.

During Q1 2018, effective October 15, 2017, SIR permanently closed the Canyon Creek restaurant in Etobicoke, Ontario and opened a new Scaddabush restaurant at this location on November 28, 2017. SIR elected, per its option, under the License and Royalty Agreement, to treat the closed Canyon Creek restaurant in Etobicoke, Ontario as a New Closed Restaurant and to treat the new Scaddabush restaurant in Etobicoke as a New Additional Restaurant. Therefore, SIR paid a Make-Whole Payment from the effective date of closure to December 31, 2017. The Canyon Creek in Etobicoke ceased to be part of Royalty Pooled Restaurants on January 1, 2018. The new Scaddabush restaurant in Etobicoke was added to Royalty Pooled Restaurants, as a New Additional Restaurant, on January 1, 2019.

During Q2 2019, SIR permanently closed two restaurants: the Canyon Creek restaurant on Front Street in downtown Toronto (effective December 9, 2018) and the Jack Astor's restaurant in the St. Lawrence Market neighbourhood of downtown Toronto (effective February 4, 2019). SIR is required to pay a Make-Whole Payment from the effective date of closure to December 31 in the year of closure for each of these locations. The Canyon Creek restaurant on Front Street ceased to be part of Royalty Pooled Restaurants on January 1, 2019. The Jack Astor's restaurant in downtown Toronto will cease to be part of Royalty Pooled Restaurants on January 1, 2020. At this date, SIR will reconvert the Class A GP Units received when this restaurant was added to Royalty Pooled Restaurants on January 1, 2013 into Class B GP Units.

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

As at May 5, 2019, $16.6 million and $13.8 million were outstanding on SIR's Credit Agreement for Credit Facility 1 and Credit Facility 2, respectively.

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	12-Week Period Ended May 5, 2019	12-Week Period Ended May 6, 2018	36-Week Period Ended May 5, 2019	36-Week Period Ended May 6, 2018
	(in thousands of dollars) (unaudited)			
Corporate costs				
Maintenance services provided by a shareholder of SIR	-	2	2	6
Consulting services provided by a company owned by a former director of SIR (resigned April 2019)	7	34	28	98
Design fees paid to a company owned by a shareholder of SIR	8	-	8	14
Direct costs of restaurant operations				
Occupancy costs provided by a company owned by a party related to a director and shareholder of SIR	-	-	6	-
Services provided by a shareholder of SIR	2	4	4	8
Property and equipment				
Fixtures purchased from a shareholder of SIR	22	-	45	28
Equipment purchased from a company owned by a director and shareholder of SIR, together with a member of executive management of SIR	5	18	82	102

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

	As at May 5, 2019	As at August 26, 2018
	(in thousands of dollars) (unaudited)	
Amounts due from related parties:		
Amounts due from U.S. S.I.R. L.L.C. and its subsidiary	1	6
Amounts due from a company owned by a party related to a director of SIR	-	53
Prepaid deposits		
Retainer for directors of SIR	11	-
Consulting services provided by a former director of SIR (resigned April 2019)	35	-
Consulting services provided by a director of SIR	8	2
Design fees provided by a company owned by a shareholder of SIR	28	-
Amounts due to related parties:		
Amounts due to companies owned by a shareholder or director of SIR	71	46
Amounts due to a company owned by a party related to a director of SIR	-	19
Dividends payable to shareholders	333	-

- Received repayment against loans and advances from U.S. S.I.R. L.L.C. of $0.1 million and $0.2 million for the 12-week and 36-week periods ended May 5, 2019, respectively (12-week and 36-week periods ended May 6, 2018 - $0.08 million and $0.2 million, respectively). SIR recognized interest income on those loans and advances of $0.03 million and $0.09 million for the 12-week and 36-week periods ended May 5, 2019, respectively (12-week and 36-week periods ended May 6, 2018 - $0.03 million and $0.08 million, respectively). As at May 5, 2019, SIR has loans and advances (net of a provision) of $0.8 million owing from U.S. S.I.R. L.L.C. (August 26, 2018 – $1.0 million).
- As at May 5, 2019, $0.01 million is due from a company owned by a shareholder and director, together with a member of executive management of SIR ($0.01 million as at August 26, 2018). This advance is non-interest bearing and is payable on demand.
- As of May 5, 2019, $0.2 million is receivable from a shareholder and director. SIR recognized interest income of $0.003 million and $0.008 million on this advance for the 12-week and 36-week periods ended May 5, 2019, respectively.
- Received repayment against a loan receivable from a company owned by a party related to a director of SIR of $nil and $0.2 million for the 12-week and 36-week periods ended May 5, 2019, respectively ($nil and $0.03 million for the 12-week and 36-week periods ended May 6, 2018, respectively). SIR recognized interest income on this loan of $nil for both the 12-week and 36-week periods ended May 5, 2019 ($0.003 million and $0.01 million for the 12-week and 36-week periods ended May 6, 2018, respectively). As at May 5, 2019 the balance of this loan receivable is $nil (August 26, 2018 – $0.2 million).

Transactions with the SIR Royalty Income Fund

Advances receivable from the Fund and its subsidiaries as at May 5, 2019 were $3.2 million (August 26, 2018 – $3.1 million). Advances receivable are non-interest bearing and due on demand and are recorded in trade and other receivables.

During Q3 2019 and YTD 2019, distributions of $2.5 million and $7.5 million, respectively, were declared to the Fund by the Partnership, compared to $2.7 million and $7.5 million for Q3 2018 and YTD 2018, respectively. The Fund, indirectly through the Trust, is entitled to receive a pro rata share of all residual distributions. Distributions previously declared, but unpaid as at May 5, 2019 were $3.8 million (August 26, 2018 – $5.3 million) and are included in Ordinary LP Units and Class A LP Units of the Partnership in the consolidated statements of financial position

The SIR Loan bears interest at 7.5% per annum. Interest expense on the SIR Loan totaled $0.7 million and $2.1 million for Q3 2019 and YTD 2019, respectively, and $0.7 million and $2.1 million for Q3 2018 and YTD 2018, respectively. Interest payable on the SIR Loan as at May 5, 2019 was $0.3 million (August 26, 2018 – $0.4 million).

SIR, through the Partnership, has entered into an arrangement with the Fund and the Trust whereby the Partnership will provide or arrange for the provision of services required in the administration of the Fund and the Trust. The Partnership has arranged for these services to be provided by SIR GP Inc., in its capacity as the managing general partner of the Partnership. The Partnership provided these services to the Fund and the Trust for consideration of $0.006 million and $0.017 million for Q3 2019 and YTD 2019, respectively ($0.006 million and $0.017 million for Q3 2018 and YTD 2018, respectively), which was the amount of consideration agreed to by the related parties.

Critical Accounting Estimates and Judgments

Management believes that there have been no substantial changes in the nature of critical accounting estimates since the year ended August 26, 2018. The reader will find this information in the MD&A for the fiscal year ended August 26, 2018.

Changes in Accounting Policies, Including Recently Issued Accounting Pronouncements

Changes in accounting policies

IFRS 9, Financial Instruments - Classification and Measurement

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

IFRS 15, Revenue from Contracts with Customers

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

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

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

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

Food and beverage revenue by Concept	12-Week Period Ended May 5, 2019	12-Week Period Ended May 6, 2018	36-Week Period Ended May 5, 2019	36-Week Period Ended May 6, 2018
Jack Astor's	46,618	49,292	138,435	141,908
Canyon Creek	4,301	5,741	14,421	17,235
Scaddabush	10,346	10,424	31,051	29,928
Signature Restaurants	6,351	6,664	18,416	17,608
	67,616	**72,121**	**202,323**	**206,679**

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

As at August 26, 2018 and August 28, 2017, the gift card liability decreased by $0.7 million and $0.5 million, respectively. Net loss for the 52-week period ended August 26, 2018 decreased by $0.2 million.

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

	As originally reported August 28, 2017 $	**IFRS 15 adjustments $**	**August 28, 2017 (restated) $**
Current portion of provisions and other long-term liabilities	3,797	(515)	3,282
Current liabilities	63,151	(515)	62,636
Deficit	(175,962)	515	(175,447)
Shareholders' Deficiency	(155,369)	515	(154,854)
Total liabilities and shareholders' deficiency	73,818	-	73,818

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

The impact on the interim consolidated statement of operations and comprehensive loss on the adoption of IFRS 15 is as follows:

	As originally reported 12-week period ended May 6, 2018 $	**IFRS 15 adjustments $**	**12-week period ended May 6, 2018 (restated) $**
Gift card income	-	105	105
Total revenue	72,121	105	72,226
Cost of corporate restaurant operations	64,905	65	64,970

	As originally reported 36-week period ended May 6, 2018 $	**IFRS 15 adjustments $**	**36-week period ended May 6, 2018 (restated) $**
Gift card income	-	430	430
Total revenue	206,679	430	207,109
Cost of corporate restaurant operations	189,289	310	189,599

IFRS issued but not yet effective

IFRS 16, Leases

In January 2016, the IASB issued IFRS 16, Leases, which will replace IAS 17, Leases and related Interpretations. The new standard will be effective for fiscal years beginning on or after January 1, 2019, with early adoption permitted provided the Company has adopted IFRS 15, Revenue from Contracts with Customers. The new standard requires lessees to recognize a lease liability reflecting future lease payments and a "right-of-use asset" for virtually all lease contracts, and record it on the statement of financial position, except with respect to lease contracts that meet limited exception criteria. Given that the Company has significant contractual obligations in the form of operating leases under IAS 17, there will be a material increase to both assets and liabilities on adoption of IFRS 16, and material changes to the timing of recognition of expenses associated with the lease arrangements.

Management will adopt IFRS 16 using the modified retrospective approach which requires that the adjustment be recorded in the opening deficit and comparatives are not restated. Management is implementing plans to have the infrastructure and data requirements for the implementation of IFRS 16 in place. Management is still evaluating how IFRS 16 will affect current business activities, lease and other restaurant contract negotiations, budgeting and controls. Management plans to adopt several of the practical expedients available under IFRS 16. Further evaluation is ongoing regarding the impacts on the consolidated financial statements.

Amendments to IFRS 9, Financial Instruments

This standard has been amended to enable companies to measure at amortized cost some prepayable financial assets with negative compensation. The assets affected, that include some loans and debt securities, would otherwise have been measured at fair value through profit or loss. Financial assets that would otherwise have contractual cash flows that are solely payments of principal and interest but do not meet that condition only as a result of a prepayment feature with negative compensation, may be measured at amortized cost or at fair value through other comprehensive income when eligibility conditions are met. The amendment to IFRS 9 also clarifies how to account for the modification of a financial liability. Most modifications of financial liabilities will result in immediate recognition of a gain or loss. The amendment is effective for annual periods beginning on or after January 1, 2019. The Company has not yet assessed the impact of the amendment on the consolidated financial statements.

IFRIC 23, Uncertainty over Tax Treatments

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

Financial Instruments

Management believes there have been no substantial changes in the financial instruments since the year ended August 26, 2018. The reader will find this information in the annual MD&A for the year ended August 26, 2018.

Risks and Uncertainties

The performance of SIR is dependent on many factors. The restaurant industry generally, and in particular, the casual and fine dining segment of this industry, is intensely competitive with respect to price, service, location, food quality and qualified staff. Increases in minimum wage rates and other labour legislation may affect the growth and profitability of SIR, as a significant portion of its restaurant employees are paid at wage rates related to minimum wage. SIR Restaurants are subject to laws that prohibit or limit smoking in enclosed workplaces and/or certain outdoor public places, such as restaurant patios. There are many well-established competitors with greater financial and other resources than SIR. Competitors include national and regional chains, as well as individually owned restaurants. Recently, competition has increased in the mid-price, full-service, casual and fine dining sectors in which many of the SIR Restaurants operate. Some of SIR's competitors have been in existence for a substantially longer period than SIR and may be better established in the markets where SIR Restaurants are or may be located.

In addition, factors such as business and economic conditions, changes in foreign exchange, availability of credit, inflation, increased food, labour and benefits costs, taxes, government regulations (including those governing alcoholic beverages and cannabis legislation), weather, seasonality, public safety issues and the availability and quality of food, services and products sold in the restaurants affect the restaurant industry in general and therefore SIR. Please refer to the Fund's March 12, 2019 Annual Information Form for further discussion on risks and uncertainties related to the Fund and SIR.

The Fund's distributions are subject to change based on a number of factors, including the cash reserves of the Fund, the Trust and the Partnership. The Trustees will continue their practice of regularly reviewing the Fund's distribution levels.

Outlook

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

The Canadian full-service category has become increasingly competitive in recent years. While SIR believes it is well positioned to compete in this category, it will continue monitoring the economy and consumer confidence and their effects on the full-service category.

SIR completed renovations of two Jack Astor's locations during Q1 2019, two Jack Astor's locations in Q2 2019, and one Jack Astor's location in Q3 2019. This brings the total number of Jack Astor's renovations to 21 since the commencement of the renovation program at the end of calendar 2015. SIR is pleased with the performance of the renovated Jack Astor's locations and intends to implement similar renovations at the other Jack Astor's locations as part of its ongoing focus on further strengthening its flagship brand and driving same store sales growth. Effective February 4, 2019, SIR permanently closed the Jack Astor's restaurant in the St. Lawrence Market area of downtown Toronto. SIR is evaluating strategic options for the future use of this site.

During Q3 2019, SIR completed a major renovation at The Loose Moose in downtown Toronto. The Loose Moose was closed for four days at the end of Q2 2019, and an additional 10 days in Q3 2019 and is expected to benefit from a full quarter of operations in Q4 2019.

During Q3 2019, SIR closed the Scaddabush location at the Square One shopping centre in Mississauga, Ontario for six days to complete a renovation. This location received a décor refresh and a major menu update. The new food program implemented at this location is expected to be rolled-out to the remainder of the Scaddabush locations throughout 2019 to further strengthen the Scaddabush brand and drive same stores 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.

Description of non-IFRS measures

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

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

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

SIR believes that SSS and SSSG are useful measures and provide investors with an indication of the change in year-over-year sales. SIR's method of calculating SSS and SSSG may differ from those of other issuers and, accordingly, SSS and SSSG may not be comparable to measures used by other issuers. SSSG is the percentage increase in SSS over the prior comparable period. SSS includes revenue from all SIR Restaurants except for those locations that were not open for the entire comparable periods in fiscal 2019 and fiscal 2018 and Abbey's Bakehouse as it is not a SIR Restaurant. When a SIR Restaurant is closed, the revenue for the closed restaurant is excluded from the calculation of SSS and SSSG for both the quarter in which the restaurant is closed and the current year-to-date. Please refer to the reconciliation of consolidated revenue to SSS on page 8 and to the definition of SSS in the Revenue section on page 10.

Adjusted Net Earnings (Loss)

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

EBITDA and Adjusted EBITDA

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

References to Adjusted EBITDA are to SIR's EBITDA plus or minus interest (income) and other expense (income) – net, goodwill impairment, impairment of non-financial assets, loss on disposal of property and equipment, and pre-opening costs. Pre-opening costs are added back to EBITDA because management views these costs as investments in new restaurants and not as on-going costs of operations. The opening costs associated with the new Scaddabush restaurants in Oakville, Vaughan, and Etobicoke, Ontario are included in pre-opening costs as SIR elected to treat these restaurants as New Additional Restaurants under the License and Royalty Agreement.

Management believes that, in addition to net earnings or loss, EBITDA and Adjusted EBITDA are useful supplemental measures in evaluating SIR's performance, as these are useful estimates of the core business' contribution to cash flow from operations and approximate the funds generated by SIR which are available to meet its financing obligations and capital expenditure requirements. Management interprets trends in EBITDA and Adjusted EBITDA as indicators of relative operating performance. EBITDA and Adjusted EBITDA are non-GAAP financial measures and do not have standardized meanings prescribed by IFRS. Management cautions investors that EBITDA and Adjusted EBITDA should not replace net earnings or loss or cash flows from operating, investing and financing activities (as determined in accordance with IFRS), as an indicator of SIR's performance. SIR's method of calculating EBITDA and Adjusted EBITDA may differ from the methods used by other issuers. Therefore, SIR's EBITDA and Adjusted EBITDA may not be comparable to similar measures presented by other issuers. Please refer to the reconciliation of net earnings (loss) and comprehensive income (loss) for the period to EBITDA and Adjusted EBITDA on page 7 of this document.

Forward Looking Information

Certain statements contained in this report, or incorporated herein by reference, including the information set forth as to the future financial or operating performance of the Fund or SIR, that are not current or historical factual statements may constitute forward-looking information within the meaning of applicable securities laws ("forward-looking statements"). Statements concerning the objectives, goals, strategies, intentions, plans, beliefs, expectations and estimates, and the business, operations, financial performance and condition of the Fund, the Trust, the Partnership, SIR, the SIR Restaurants or industry results, are forward-looking statements. The words "may", "will", "should", "would", "expect", "believe", "plan", "anticipate", "intend", "estimate" and other similar terminology and the negative of such expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of Fund, the Trust, the Partnership, SIR, the SIR Restaurants or industry results, to differ materially from the anticipated results, performance, achievements or developments expressed or implied by such forward-looking statements. These statements reflect Management's current expectations, estimates and projections regarding future events and operating performance and speak only as of the date of this document. Readers should not place undue importance on forward-looking statements and should not rely upon this information as of any other date. Risks related to forward-looking statements include, among other things, challenges presented by a number of factors, including: market conditions at the time of this filing; competition; changes in demographic trends; weather; changing consumer preferences and discretionary spending patterns; changes in consumer confidence; changes in national and local business and economic conditions; changes in tariffs and international trade; changes in foreign exchange; changes in availability of credit; legal proceedings and challenges to intellectual property rights; dependence of the Fund on the financial condition of SIR; legislation and governmental regulation including the cost and/or availability of labour as it relates to changes in minimum wage rates or other changes to labour legislation; laws affecting the sale and use of alcohol (including availability and enforcement); changes in cannabis laws; accounting policies and practices; and the results of operations and financial condition of SIR. The foregoing list of factors is not exhaustive. Many of these issues can affect the Fund's or SIR's actual results and could cause their actual results to differ materially from those expressed or implied in any forward-looking statements made by, or on behalf of, the Fund or SIR. There can be no assurance that SIR will remain compliant in the future with all of its financial covenants under the Credit Agreement and imposed by the lender. Given these uncertainties, readers are cautioned that forward-looking statements are not guarantees of future performance, and should not place undue reliance on them. The Fund and SIR expressly disclaim any obligation or undertaking to publicly disclose or release any updates or revisions to any forward looking statements, except as required by securities legislation**.** Forward-looking statements are based on Management's current plans, estimates, projections, beliefs and opinions, and the Fund and SIR do not undertake any obligation to update forward-looking statements should assumptions related to these plans, estimates, projections, beliefs and opinions change, except as expressly required by applicable securities laws. This Management's Discussion and Analysis is provided as of June 18, 2019.

In formulating the forward-looking statements contained herein, Management has assumed that business and economic conditions affecting SIR's restaurants and the Fund will continue substantially in the ordinary course, including without limitation with respect to general industry conditions, competition, general levels of economic activity (including in downtown Toronto), regulations (including those regarding employees, food safety, tobacco, cannabis, and alcohol), weather and the potential effects of variations and climate change, taxes, foreign exchange rates and interest rates, that there will be no pandemics or other material outbreaks of disease or safety issues affecting humans or animals or food products, and that there will be no unplanned material changes in its facilities, equipment, customer and employee relations, or credit arrangements. Recent changes in employment law, including announced increases in minimum wage, are factored into management's assumptions. These assumptions, although considered reasonable by Management at the time of preparation, may prove to be incorrect. In addition, Management has assumed that the tax effects on distributions will remain consistent with current regulations or pronouncements, and also in estimating the revenue for new restaurants, Management has assumed that they will operate consistent with other similar SIR restaurants, and has assumed that SIR will remain compliant in the future with all of its financial covenants under the Credit Agreement and imposed by the lender. For more information concerning the Fund's risks and uncertainties, please refer to the March 12, 2019 Annual Information Form, for the period ended December 31, 2018, which is available under the Fund's profile at www.sedar.com**.**

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

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