SIR CORP.

REVISED AND RE-FILED

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE REVISED AND RE-FILED
INTERNATIONAL FINANCIAL REPORTING STANDARDS
UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE 12-WEEK PERIOD ENDED NOVEMBER 18, 2012

SIR CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS
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Executive Summary

SIR Corp.'s ("SIR's") first quarter of fiscal 2013 ("Q1") was from August 27, 2012 to November 18, 2012 inclusive. Highlights for SIR's first quarter include:

- ***Consolidated revenue and Same Store Sales(1) ("SSS") (unaudited):***
  - Food and beverage revenue from corporate restaurant operations for Q1 was $50.4 million. This represents a $1.2 million or 2.4% increase over the prior year for the quarter.
  - SIR experienced a SSS(1) decline of 0.8% for the 12-week period ended November 18, 2012.
  - SIR's flagship Concept Restaurant brand, Jack Astor's®, that generates approximately 73% of YTD Pooled Revenue, had same store sales growth(1) ("SSSG") of 1.4% for Q1. Canyon Creek®, Alice Fazooli's® and the downtown Toronto Signature Restaurants had SSS(1) declines of 1.8%, 7.1% and 14.0% for Q1, respectively. SSS(1) for the quarter were negatively impacted by the National Hockey League (the "NHL") lock-out and by the closure of Reds® for a major renovation and repositioning.
- ***Investment in new and existing restaurants***
  - During Q1, SIR opened two new Jack Astor's restaurants, one in Laval, Quebec and one in Kingston, Ontario. During fiscal 2012, SIR opened two Jack Astor's restaurants, one in Q1 and one in Q4. These four restaurants were added to Royalty Pooled Restaurants on January 1, 2013.
  - During Q4 of fiscal 2012, SIR also opened two new seasonal Signature Restaurants: Duke's Refresher™ and Abbey's Bakehouse™. These restaurants are not currently part of the Royalty Pooled Restaurants.
  - During Q1, SIR closed Reds for 32 days to complete a renovation and reposition this core Signature restaurant as Reds® Wine Tavern. SIR also completed a renovation of one Jack Astor's restaurant in Q1. Subsequent to Q1, SIR completed a renovation of the Loose Moose Tap & Grill® and another Jack Astor's restaurant.
  - During fiscal 2012, SIR completed three Jack Astor's restaurant renovations during Q1 and one Jack Astor's restaurant renovation during Q4.
  - During fiscal 2012, SIR closed the Alice Fazooli's restaurant in Toronto, Ontario and the Jack Astor's restaurant in Kitchener, Ontario, on January 27, 2012 and February 13, 2012, respectively. SIR was required to pay a Make-Whole Payment for these locations from their date of closure until they ceased to be part of Royalty Pooled Restaurants on January 1, 2013.
  - At the current date, SIR has five commitments to lease properties upon which it plans to build seven new restaurants. It is expected that four of these restaurants will open in fiscal year 2013, with the remaining three restaurants expected to open in fiscal year 2014.
  - The Jack Astor's that opened in London, Ontario on May 2, 2011, was added to Royalty Pooled Restaurants on January 1, 2012.

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(1) *Same store sales include revenue from all SIR restaurants except for those restaurants that were not open for the entire comparable periods in fiscal 2013 and fiscal 2012. Same store sales growth ("SSSG") is the percentage increase in SSS over the prior comparable period. SSS and SSSG are non GAAP financial measures and do not have standardized meanings prescribed by 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. Please refer to the reconciliation of consolidated revenue to SSS on page 7 and to the definition of SSS in the Revenue section on page 8.*

- ***Net Loss and Comprehensive Loss and Adjusted Net Loss*[2]**

  - The net loss and comprehensive loss for Q1 of $2.0 million is $5.8 million favourable to the same period in the prior year. The Adjusted Net Loss[2] for Q1 of $1.4 million is $1.4 million unfavourable to the same period in the prior year.

  - The favourable variance in net loss and comprehensive loss in Q1 is primarily due to the favourable change in the amortized cost of Ordinary LP Units and Class A LP Units of the Partnership. Under IFRS, the Ordinary LP Units and Class A LP Units of the Partnership are treated as a financial liability requiring adjustments to the amortized cost to be recorded in the consolidated statements of operations and comprehensive loss. The change in the amortized cost is a non-cash transaction and accordingly, has no impact on cash flows. This change is lower in Q1 2013 compared to Q1 2012, primarily due to the larger increase in the underlying Fund unit price during Q1 2012 as compared to Q1 2013. The unfavourable Adjusted Net Loss in Q1 is primarily due to the unfavourable earnings from corporate restaurant operations. This is largely a result of relatively flat SSSG[1] and additional restaurant operation costs associated with opening two new restaurants in the quarter and the impact of closing Reds for a major renovation and repositioning.

- ***EBITDA*[3]**

  - EBITDA[3] for Q1 is $2.3 million and $3.1 million in fiscal 2013 and fiscal 2012, respectively.

- ***Other***

  - Effective August 29, 2011, SIR adopted International Financial Reporting Standards ("IFRS"). Information for the current and prior year comparatives have been presented under IFRS.

- ***Outlook***

  - During Q1, SIR converted 0.5 million Class A GP Units into Fund units and subsequently sold the Fund units for net proceeds of $6.6 million and as at November 18, 2012, $5.1 million of this amount was held in an account that is restricted by the lender. The proceeds from the sale of Fund units must be used to fund costs associated with constructing new restaurants and renovating existing restaurants. This transaction does not have a dilutive effect on the Fund unitholders. In addition, the number of outstanding Fund units increased by 0.5 million or 9.8%, from 5.4 million units to 5.9 million units.

  - SIR continues to focus on sustaining and growing existing restaurant sales and profits while managing costs. SIR continues to carefully monitor the current economic environment. SIR considers new restaurant growth and renovations, when appropriate and subject to acceptable long-term financing or other available funds.

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[2] *Adjusted Net Earnings (Loss) is calculated by subtracting the change in amortized cost of the Ordinary LP Units and Class A LP Units of the Partnership from the net earnings (loss) and comprehensive income (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) and comprehensive income (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. 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. Therefore, SIR's Adjusted Net Earnings (Loss) may not be comparable to similar measures presented by other issuers. Please refer to the reconciliations of net earnings (loss) for the period to Adjusted Net Earnings (Loss) on page 6 and page 8 of this document.*

[3] *References to EBITDA are to the net earnings (loss) for the period attributable to shareholders of SIR before provision for (recovery of) income taxes, interest and other expense (income) - net, impairment of non-financial assets, goodwill impairment, loss on disposal of property and equipment, interest expense, interest on loan payable to SIR Royalty Income Fund, change in amortized cost of Ordinary LP Units and Class A LP Units of the Partnership, loss from discontinued operation, depreciation and amortization. References to Adjusted EBITDA are to SIR's EBITDA plus pre-opening costs. Pre-opening costs are added back to EBITDA because Management views these costs as investments in new restaurants and not as on-going costs of operations. Management believes that, in addition to net earnings or loss, EBITDA and Adjusted EBITDA are useful supplemental measures in evaluating SIR's performance. 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) for the period to EBITDA and Adjusted EBITDA on page 6 of this document.*

Overview

SIR is a private company amalgamated under the Business Corporations Act of Ontario. As at November 18, 2012, SIR operates 51 Concept and Signature Restaurants in Canada (in Ontario, Quebec, Alberta and Nova Scotia). The Concept Restaurants are Jack Astor's, Canyon Creek and Alice Fazooli's. The Signature Restaurants are Reds® Wine Tavern, Far Niente®/FOUR®/Petit Four®, the Loose Moose Tap & Grill®, Dukes Refresher™ and Abbey's Bakehouse™. The latter two Signature Restaurants are not part of Royalty Pooled Restaurants. As at November 18, 2012, 47 SIR Restaurants were included in SIR Royalty Pooled Restaurants, consisting of 45 operating and two closed restaurants. SIR owns 100% of all its Canadian restaurants.

The new Jack Astor's restaurant in London, Ontario, that opened in fiscal 2011, on May 2, 2011, was added to Royalty Pooled Restaurants on January 1, 2012. The two new Jack Astor's restaurants that opened in fiscal year 2012 and the two new Jack Astor's that opened in Q1 of fiscal 2013, were added to the Royalty Pooled Restaurants on January 1, 2013.

During fiscal year 2012, SIR closed the Alice Fazooli's restaurant in Toronto, Ontario and the Jack Astor's restaurant in Kitchener, Ontario. These restaurants ceased to be part of Royalty Pooled Restaurants on January 1, 2013.

On October 1, 2004, the SIR Royalty Income Fund (the "Fund") filed a final prospectus for a public Offering of Units of the Fund 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 2013 and 2012 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 period ended November 18, 2012. The unaudited consolidated financial statements of SIR are prepared in accordance with International Financial Reporting Standards ("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 November 18, 2012	12-Week Period Ended November 20, 2011
	(in thousands of dollars) (unaudited)	
Corporate restaurant operations:		
Food and beverage revenue	50,380	49,213
Cost of corporate restaurant operations	47,565	45,314
Earnings from corporate restaurant operations	**2,815**	**3,899**
Net loss and comprehensive loss for the period	**(1,952)**	**(7,720)**
Adjusted Net Loss[(2)]	**(1,366)**	**(14)**

Statement of Financial Position	November 18, 2012	August 26, 2012
	(in thousands of dollars) (unaudited)	
Total assets	76,480	73,559
Total non-current liabilities	130,670	126,027

[(2)] *See footnote [(2)] on page 4*

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

Adjusted Net Earnings (Loss)[(2)], EDITDA[(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) and comprehensive income (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) and comprehensive income (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 (loss)[(2)]	12-Week Period Ended November 18, 2012	12-Week Period Ended November 20, 2011
	(in thousands of dollars) (unaudited)	
Net loss and comprehensive loss for the period	(1,952)	(7,720)
Change in amortized cost of Ordinary LP Units and Class A LP Units of the Partnership	586	7,706
Adjusted Net Loss[(2)]	**(1,366)**	**(14)**

The following table reconciles net loss and comprehensive 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)]	12-Week Period Ended November 18, 2012	12-Week Period Ended November 20, 2011
	(in thousands of dollars) (unaudited)	
Net loss and comprehensive loss for the period	(1,952)	(7,720)
Add (deduct):		
Recovery of income taxes	(12)	(2)
Interest and other expense (income) - net	244	(4)
Loss on disposal of property and equipment	101	76
Interest expense	576	499
Interest on loan payable to SIR Royalty Income Fund	697	696
Change in amortized cost of Ordinary LP Units and Class A LP Units of the Partnership	586	7,706
Depreciation and amortization	2,055	1,887
EBITDA[(3)]	**2,295**	**3,138**
Pre-opening costs	729	394
Adjusted EBITDA[(3)]	**3,024**	**3,532**
Income from Class A & B GP Units of the Partnership [(4)] (Not included in EBITDA[(3)] and Adjusted EBITDA[(3)] above)	1,096	1,023
6% Royalty obligations under License and Royalty Agreement [(5)]	2,950	2,873

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(1) See footnote (1) on page 3
(2) See footnote (2) on page 4
(3) See footnote (3) on page 4
(4) Includes the additional distribution paid to Class B GP Unitholders in December of each year, if any. There was no additional distribution in the 12-week periods ended November 18, 2012 and November 20, 2011, respectively.
(5) See the SIR Royalty Income Fund section of this document for the Royalty calculation. Pooled Revenue includes revenue from all restaurants included in Royalty Pooled Restaurants. On January 1st of each year, New Additional Restaurants are added and New Closed Restaurants are removed from Royalty Pooled Restaurants. Royalty obligations equal 6% of Pooled Revenue plus any Make-Whole Payments.

Results of Operations

Reconciliation of Revenue from Consolidated Financial Statements to Pooled Revenue	12-Week Period Ended November 18, 2012	12-Week Period Ended November 20, 2011
	(in thousands of dollars) (unaudited)	
Revenue reported in consolidated financial statements	50,380	49,213
Less: Revenue from corporate restaurant operations excluded from the Royalty Pool	(2,624)	(1,325)
Revenue for Restaurants in the Royalty pool	**47,756**	**47,888**

Reconciliation of Revenue from Consolidated Financial Statements to Same Store Sales[1]	12-Week Period Ended November 18, 2012	12-Week Period Ended November 20, 2011
	(in thousands of dollars) (unaudited)	
Revenue reported in consolidated financial statements	50,380	49,213
Less: Revenue from corporate restaurant operations excluded from same store sales[1]	(2,624)	(1,050)
Same store sales[1]	**47,756**	**48,163**

Same Store Sales[1] by Segment	12-Week Period Ended November 18, 2012	12-Week Period Ended November 20, 2011	% Fav. / (Unfav.)
	(in thousands of dollars) (unaudited)		
Jack Astor's	34,997	34,518	1.4%
Canyon Creek	6,275	6,388	(1.8%)
Alice Fazooli's	3,276	3,528	(7.1%)
Signature Restaurants	3,208	3,729	(14.0%)
Same store sales[1]	**47,756**	**48,163**	**(0.8%)**

Summary of Quarterly Results

Statement of Operations	1st Quarter Ended November 18, 2012 (12 weeks)	4th Quarter Ended August 26, 2012 (16 weeks)	3rd Quarter Ended May 6, 2012 (12 weeks)	2nd Quarter Ended February 12, 2012 (12 weeks)	1st Quarter Ended November 20, 2011 (12 weeks)	4th Quarter Ended August 28, 2011 (16 weeks)	3rd Quarter Ended May 8, 2011 (12 weeks)	2nd Quarter Ended February 13, 2011 (12 weeks)
Corporate Restaurant Operations					(in thousands of dollars) (unaudited)			
Food and beverage revenue	50,380	71,405	50,932	50,084	49,213	67,813	47,962	46,100
Cost of corporate restaurant operations	47,565	65,149	46,514	45,257	45,314	63,057	43,236	41,339
Earnings from corporate restaurant operations	**2,815**	**6,256**	**4,418**	**4,827**	**3,899**	**4,756**	**4,726**	**4,761**
Net earnings (loss) from continuing operations for the period	**(1,952)**	**(15,429)**	**(4,868)**	**(6,763)**	**(7,720)**	**15,462**	**8,002**	**(15,659)**
Net earnings (loss) for the period	(1,952)	(15,429)	(4,868)	(6,763)	(7,720)	15,181	7,929	(15,765)
Non-controlling interest	-	-	-	-	-	(78)	21	29
Net earnings (loss) and comprehensive income (loss) for the period attributable to shareholders' of SIR	**(1,952)**	**(15,429)**	**(4,868)**	**(6,763)**	**(7,720)**	**15,103**	**7,950**	**(15,736)**
Adjusted Net Earnings (Loss)[2]	**(1,366)**	**1,432**	**555**	**888**	**(14)**	**217**	**894**	**838**

[1] *See footnote [1] on page 3*
[2] *See footnote [2] on page 4*

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

Reconciliation of net earnings (loss) and comprehensive income (loss) for the period to Adjusted Net Earnings (Loss)[(2)]	1st Quarter Ended November 18, 2012 (12 weeks)	4th Quarter Ended August 26, 2012 (16 weeks)	3rd Quarter Ended May 6, 2012 (12 weeks)	2nd Quarter Ended February 12, 2012 (12 weeks)	1st Quarter Ended November 20, 2011 (12 weeks)	4th Quarter Ended August 28, 2011 (16 weeks)	3rd Quarter Ended May 8, 2011 (12 weeks)	2nd Quarter Ended February 13, 2011 (12 weeks)
Net loss and comprehensive loss	(1,952)	(15,429)	(4,868)	(6,763)	(7,720)	15,103	7,950	(15,736)
Change in amortized cost of the Ordinary LP Units and Class A LP Units of the Partnership	586	16,861	5,423	7,651	7,706	(14,886)	(7,056)	16,574
Adjusted Net Earnings (Loss)[(2)]	(1,366)	1,432	555	888	(14)	217	894	838

Selected Unaudited Consolidated Statement of Cash Flows Information	1st Quarter Ended November 18, 2012 (12 weeks)	4th Quarter Ended August 26, 2012 (16 weeks)	3rd Quarter Ended May 6, 2012 (12 weeks)	2nd Quarter Ended February 12, 2012 (12 weeks)	1st Quarter Ended November 20, 2011 (12 weeks)	4th Quarter Ended August 28, 2011 (16 weeks)	3rd Quarter Ended May 8, 2011 (12 weeks)	2nd Quarter Ended February 13, 2011 (12 weeks)
				(in thousands of dollars) (unaudited)				
Cash provided by (used in) continuing operations	31	6,603	1,210	3,567	970	5,556	3,350	1,902
Cash used in continuing investing activities	(3,494)	(4,515)	(1,767)	(2,957)	(1,865)	(3,784)	(915)	(1,362)
Cash provided by (used in) continuing financing activities	(2,030)	4,490	(1,092)	(1,049)	1,609	(2,056)	(1,808)	(1,529)
Increase (decrease) in cash and cash equivalents during the period	(5,493)	6,578	(1,649)	(439)	772	187	550	(1,110)
Cash and cash equivalents – Beginning of period	10,495	3,917	5,566	6,005	5,233	5,046	4,496	5,606
Cash and cash equivalents – End of period	5,002	10,495	3,917	5,566	6,005	5,233	5,046	4,496

Revenue

There are a number of references to different revenue groupings used in the consolidated financial statements, the notes to the consolidated financial statements and the Management's Discussion and Analysis ("MD&A"). The following definitions are provided for greater clarification of these groupings:

i. Revenue (per the SIR consolidated statements of operations and comprehensive loss) – this is the total consolidated revenue of all restaurants for the period. The restaurants include all SIR restaurants. For the 12-week period ended November 18, 2012, revenue was $50.4 million.

ii. Same Store Sales[(1)] – this is a sub-set of i above used for tracking comparable year-over-year sales. For Q1 fiscal 2013 and 2012, SSS[(1)] includes all SIR Restaurants, except for those restaurants that were not open for the entire comparable periods in fiscal 2013 and fiscal 2012. For the 12–week period ended November 18, 2012, this revenue was $47.8 million**.**

iii. Pooled Revenue – this is the revenue subject to the License and Royalty Agreement – this includes revenue from all Royalty Pooled Restaurants. The Royalty Pooled Restaurants are adjusted on January 1st of each year for New Additional Restaurants and New Closed Restaurants. Currently, there are 47 Royalty Pooled Restaurants, consisting of 45 operating and two closed restaurants. For the 12-week period ended November 18, 2012, Pooled Revenue was $47.8 million. The applicable Royalty payable to the Partnership on the Pooled Revenue for the same period was $3.0 million and includes a Make-Whole Payment with respect to the closed Alice Fazooli's location in Toronto, Ontario and the closed Jack Astor's location in Kitchener, Ontario, for the quarter.

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(1) *See footnote (1) on page 3*
(2) *See footnote (2) on page 4*

Same Store Sales[1]

SIR had a SSS[1] decline of 0.8% for the 12-week period ended November 18, 2012. Jack Astor's, SIR's flagship Concept Restaurant brand, which generates approximately 73% of YTD Pooled Revenue, experienced a SSSG[1] of 1.4% for the 12-week period ended November 18, 2012. Canyon Creek, Alice Fazooli's and the downtown Toronto Signature Restaurants had SSS[1] declines of 1.8%, 7.1% and 14.0% for the 12-week period ended November 18, 2012, respectively. Sales in Q1 were negatively impacted by the National Hockey League (the "NHL") lock-out which has generally impacted all Jack Astor's locations, but the effect is most significant at the seven SIR Restaurants located in close proximity to NHL venues (four Jack Astor's, one Canyon Creek and three Signature restaurants). In addition, a major portion of the Signature Restaurants' decline is attributed to Reds having been closed for 32 days in the quarter for a now completed major renovation and repositioning. Management is currently reviewing initiatives to enhance value at Canyon Creek and Alice Fazooli's.

The Canadian Restaurant and Foodservice Association ("CRFA") estimates that sales in the full-service category will grow by 4.1% in calendar 2012 and by 3.9% in calendar 2013. The CRFA estimates that growth in the full-service category will then average 4.0% over the next three years. SIR will continue monitoring the economy and consumer confidence and their effects on the full-service restaurant category.

Cost of Corporate Restaurant Operations

As a percentage of revenue, costs of corporate restaurant operations was 94.4% for the 12-week period ended November 18, 2012 compared to 92.1% for the 12-week period ended November 20, 2011. Higher labour costs are the main reason for this increase and is primarily due to the added labour and training costs associated with opening two new restaurants in the period versus only one new restaurant in the same period of the prior year. Costs associated with Reds during its closure for renovations also added to costs as a percentage of sales.

Corporate costs

Corporate costs decreased $0.05 million for the 12-week period ended November 18, 2012 compared to the 12-week period ended November 20, 2011. SIR is continually managing corporate costs to obtain efficiencies while revenues grow.

Interest expense

Interest expense increased $0.08 million for the 12-week period ended November 18, 2012 compared to the 12-week period ended November 20, 2011.

SIR Loan & Fund's interest in the Partnership

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. In accordance with IAS-27, SIR has consolidated the Partnership. The Ordinary 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 of the Partnership have been classified as a liability in the consolidated statements of financial position. The Ordinary 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.

Interest on the SIR Loan totalled $0.7 million for both the 12-week period ended November 18, 2012 and the 12-week period ended November 20, 2011, respectively.

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[1] *See footnote [1] on page 3*

Recovery of impairment of loans and advances

Prior to fiscal 2008, advances were made to U.S. S.I.R. L.L.C. and its subsidiaries to facilitate ongoing operations and the closure of certain restaurant operations. These advances are non-interest bearing, non-secured and due on demand. SIR has determined that these advances are impaired based on estimated future cash flows of the one remaining U.S. operation owned by U.S. S.I.R. L.L.C. Accordingly, the loan and advances receivable are written down to their recoverable amount of $1.3 million at November 18, 2012 (August 26, 2012 - $1.2 million). During the 12-week period ended November 18, 2012, $0.01 million of these advances were repaid to SIR ($0.1 million for the 12-week period ended November 20, 2011). While SIR has no obligation to fund the U.S. operation and is not expecting to do so, it may do so if it considers that it would be in the interest of SIR, subject to the restrictions contained in its arrangements with the Fund (see Liquidity and Capital Resources section).

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

EBITDA[(3)] is $2.3 million and $3.1 million for the 12-week periods ended November 18, 2012 and November 20, 2011, respectively. Adjusted EBITDA[(3)] is $3.0 million and $3.5 million for the 12-week periods ended November 18, 2012 and November 20, 2011, respectively (See Selected Consolidated Historical Financial Information - Reconciliation of net earnings (loss) and comprehensive income (loss) for the period to EBITDA[(3)] and Adjusted EBITDA[(3)]).

SIR Royalty Income Fund

The following is a summary of the accounting implications of the SIR Loan and non-controlling interest of the Partnership:

(a) SIR Loan

The $40.0 million SIR Loan bears interest at 7.5% per annum and is due October 12, 2044. On November 13, 2009, the Fund entered into an agreement to subordinate and postpone its claims against SIR in favour of the lender. This agreement was amended on August 26, 2011 to incorporate the Development Loan under SIR's Amended Credit Agreement. The Partnership and the Fund have not guaranteed the Amended Credit Agreement (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 senior 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 Subordination and Postponement Agreement.

Under the Subordination and Postponement Agreement, absent a default or event of default under the Amended Credit Agreement, ordinary payments to the Partnership and the Fund 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, then payments to the Fund and the Partnership could cease and the related rights of the Fund and the Partnership could be subject to a "standstill" obligation for a period of up to 120 days (which may be extended if the senior lender is pursuing remedies). The Subordination and Postponement Agreement also contains various other typical covenants of the Fund and the Partnership.

Interest expense on the SIR Loan of $0.7 million was charged to the unaudited consolidated statements of operations and comprehensive loss for the 12-week period ended November 18, 2012, ($0.7 million for the 12-week period ended November 20, 2011).

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.

[(3)] See footnote [(3)] on page 4

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

	12-Week Period Ended November 18, 2012	12-Week Period Ended November 20, 2011
	(in thousands of dollars) (unaudited)	
Balance - Beginning of the period	58,328	25,579
Conversion of Class A GP Units	6,811	-
Change in amortized cost of the Ordinary LP Units and Class A LP Units of the Partnership	586	7,706
Distributions paid to Ordinary LP and Class A LP unitholders	(1,099)	(1,099)
Balance – End of period	64,626	32,186
Less: Current portion of Ordinary LP Units and Class A LP Units of the Partnership	(5,449)	(4,259)
Ordinary LP Units and Class A LP Units of the Partnership	59,177	27,927
Pooled Revenue [6]	47,756	47,888
Partnership royalty income [7]	2,950	2,873
Other income	8	8
Partnership expenses	(18)	(18)
Net earnings of the Partnership	2,940	2,863
SIR's interest in the earnings of the Partnership:		
Income from Class A & B GP Units of the Partnership	(1,096)	(1,023)
Income from Class C GP Units of the Partnership	(690)	(690)
	(1,786)	(1,713)
Fund's interest in the earnings of the Partnership	1,154	1,150

On October 12, 2004, the Partnership issued Ordinary LP and GP Units to the Fund for cash consideration of $11.2 million. The holders of the Ordinary LP Units are entitled to receive their pro rata share of all residual distributions of the Partnership. The Ordinary LP Units and Class A LP Units are accounted for as a financial liability in SIR's consolidated financial statements. 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 amounts expected to be paid in the next fiscal year have been classified as current liabilities and the remaining balance as non-current. The Ordinary LP Units and Class A LP Units of the Partnership have been accounted for at amortized cost, with changes in the carrying value recorded in the consolidated statements of operations.

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").

[6] *Includes revenue from the Royalty Pooled Restaurants. 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] *6% of Pooled Revenue plus a Make-Whole Payment for closed locations, if applicable, included in Royalty Pooled Restaurants.*

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, 2013, four (January 1, 2012 - one) new SIR Restaurants, were added to the Royalty Pooled Restaurants in accordance with the Partnership Agreement. As consideration for the additional Royalty associated with the addition of four new SIR Restaurants on January 1, 2013 (January 1, 2012 – one), as well as the Second Incremental Adjustment for the one new SIR Restaurant added to Royalty Pooled Restaurants on January 1, 2012 (January 1, 2011 – one), SIR converted its Class B GP Units into Class A GP Units based on the formula defined in the Partnership Agreement. The number of Class B GP Units that SIR converted into Class A GP Units was reduced by an adjustment for the permanent closure of two (January 1, 2012 – nil) SIR Restaurants during the prior year. The net effect of these adjustments to the Royalty Pooled Restaurants was that SIR converted 296,000 (January 1, 2012 – 204,000) Class B GP Units into 296,000 (January 1, 2012 – 204,000) Class A GP Units on January 1, 2013 at an estimated fair value of $4.3 million (January 1, 2012 - $1.9 million). As a result of this exchange, SIR's interest in the Partnership increased to 34.4% effective January 1, 2013. In addition, the revenues of one new SIR Restaurant added to Royalty Pooled Restaurants on January 1, 2012 (January 1, 2011 – one) exceeded 80% of the Initial Adjustment's estimated revenues and, as a result, an additional distribution of $0.02 million was declared in December 2012 (December 2011 - $0.03 million) and paid the following January.

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

Liquidity and Capital Resources

Selected Consolidated Statement of Cash Flows Information	12-Week Period Ended November 18, 2012	12-Week Period Ended November 20, 2011
	(in thousand of dollars) (unaudited)	
Cash provided by continuing operations	31	970
Cash used in continuing investing activities	(3,494)	(1,865)
Cash provided by (used in) continuing financing activities	(2,030)	1,609
Increase (decrease) in cash and cash equivalents during the period	(5,493)	772
Cash and cash equivalents – Beginning of period	10,495	5,233
Cash and cash equivalents – End of period	5,002	6,005

Cash provided by continuing operations decreased by $0.9 million for the 12-week period ended November 18, 2012 as compared to the 12-week period ended November 20, 2011. The decrease is primarily due to the increase in Adjusted Net Loss(2) for the period of $1.4 million.

(2) See footnote (2) on page 4

Cash used in continuing investing activities was $3.5 million and $1.9 million for the 12-week periods ended November 18, 2012 and November 20, 2011, respectively. Purchases of property and equipment and other assets - net amounted to $5.1 million and $2.0 million for the 12-week periods ended November 18, 2012 and November 20, 2011, respectively. The majority of the capital expenditures in Q1 relate to the construction costs incurred for the two new Jack Astor's restaurants that opened in Q1 and the renovation costs for Reds Wine Tavern and one Jack Astor's restaurant. The majority of the capital expenditures in Q1 of fiscal 2012 related to the new Jack Astor's that opened in Q1 of fiscal 2012 and the three Jack Astor's renovations that occurred in Q1 of fiscal 2012. Management expects that the investments in new and existing restaurants and other profit enhancing initiatives (such as new patios and patio expansions) and maintenance capital expenditures, will help position SIR favourably in the market. Cash provided by continuing investing activities for the 12-week period ended November 18, 2012, includes net cash proceeds received from restricted funds of $1.6 million, related to the conversion of Class A GP Units to Fund units and their subsequent sale.

Cash used in continuing financing activities was $2.0 million for the 12-week period ended November 18, 2012. Cash provided by continuing financing activities was $1.6 million for the 12-week period ended November 20, 2011. Proceeds received from the Development Loan were $3.6 million for the 12-week period ended November 20, 2011. Principal repayments on long-term debt were $0.8 million and $0.4 million for the 12-week periods ended November 18, 2012 and November 20, 2011, respectively. Interest paid during the 12-week period ended November 18, 2012 was $1.2 million (12-week period ended November 20, 2011 - $1.3 million). Financing fees of $0.04 million and $0.3 million were paid during the 12-week periods ended November 18, 2012 and November 20, 2011, respectively.

The two new Jack Astor's that opened in fiscal 2012 and the two new Jack Astor's that opened in Q1 of fiscal 2013 were added to the Royalty Pooled Restaurants effective January 1, 2013. The new Jack Astor's that opened in Q3 of fiscal 2011 was added to the Royalty Pooled Restaurants effective January 1, 2012. At those times, 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 in each year was adjusted for the Second Incremental Adjustment for the one (2011 – one) New Additional Restaurant that was added to Royalty Pooled Restaurants on January 1, 2012. Under the terms of the Exchange Agreement, SIR has the right to convert some or all of the net additional Class A GP Units into Fund units on a one-for-one basis.

As at November 18, 2012, SIR had current assets of $20.7 million (August 26, 2012 - $20.8 million) and current liabilities of $36.8 million (August 26, 2012 - $36.6 million) resulting in a working capital deficit of $16.1 million (August 26, 2012 - $15.8 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 to fund its working capital requirements.

SIR's existing credit facility (the Amended Credit Agreement) consists of a term loan (the Term Loan) and a development loan (the Development Loan). Both the Term Loan and the Development Loan are due on November 14, 2016 and have a variable interest rate of the greater of 6.0% per annum and three-month Canadian dollar bankers' acceptance rate plus 5.75% per annum, which on November 18, 2012 totalled 6.94%. SIR can also elect to fix the interest rate. The amortization period for the Term Loan and the Development Loan are 10 years and 7 years, respectively. The Development Loan is a non-revolving credit facility and any repayments in whole or in part of the Development Loan may not be re-borrowed or utilized again hereunder and shall not entitle SIR to obtain further Advances in respect of such amounts repaid. The lender has made available the Development Loan to SIR only for the purpose of financing: (a) costs incurred in connection with the acquisition of furniture, fixtures, equipment and leasehold improvements relating to new locations; and (b) renovations and capital expenditure costs relating to existing locations. The Development Loan has been fully drawn and no further advances are permitted.

Under the Amended Credit Agreement, certain financial covenants apply to SIR, including a minimum fixed charge coverage ratio and a senior leverage ratio that SIR is in compliance with as at its last reporting date to the lender. The loan 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 Amended Credit Agreement. The Amended Credit Agreement qualifies as "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. The terms of the subordination are as contemplated in the previous agreements between the Fund, the Partnership and SIR. This subordination 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 trademarks and related intellectual property in return for royalty payments based on revenues and is effected pursuant to the terms of a Subordination and Postponement Agreement, a copy of which was filed on SEDAR. In addition, the original five year restrictions on repurchases of shares by SIR contained in the agreements between the Fund, the Partnership and SIR have expired.

A Company owned by the majority shareholder of SIR has guaranteed SIR's obligations under the Amended Credit Agreement and a guarantee fee of $0.05 million was charged to the consolidated statement of operations and comprehensive loss for the 12-week period ended November 18, 2012 ($0.05 million for the 12-week period ended November 20, 2011). SIR also issued warrants to the majority shareholder, which would, if exercised, represent a controlling voting interest in SIR. The warrants have an exercise price of $1.00, expire on November 11, 2020 and can only be exercised upon an event of default by SIR with respect to the Amended Credit Agreement. The warrants have also been pledged to the senior lender.

During Q1, SIR converted 0.5 million Class A GP Units into Fund units and subsequently sold these Fund units, generating net proceeds of $6.6 million, of which $5.1 million is held in an account that is restricted by SIR's lender as at November 18, 2012. Accordingly, this has been classified as restricted cash in the consolidated statements of financial position. Under an Amendment to the Amended Credit Agreement, the lender released the security it held on a portion of the Class A GP Units in the Partnership (and any Fund units received upon conversion of Class A GP Units in the Partnership) and provided that all sale proceeds received from the sale of the Fund units must be used to fund the costs associated with constructing new restaurants and renovating existing restaurants.

As a result of SIR exercising its right to convert these Class A GP Units into Fund units, the Fund issued 0.5 million Fund units to SIR in exchange for an increased interest in the Partnership. Accordingly, this transaction does not have a dilutive effect on the Fund unitholders. In addition, the number of outstanding Fund units increased by 0.5 million or 9.8%, from 5.4 million units to 5.9 million units.

Under the Subordination and Postponement Agreement, absent a default or event of default under the Amended Credit Agreement, ordinary payments to the Partnership and the Fund are permitted. However, if a default or an event of default were to occur, payments to the Fund and the Partnership are likely to cease and the related rights of the Fund and the Partnership will be subject to a "standstill" obligation for a period of up to 120 days (which may be extended if the senior lender is pursuing remedies). The Subordination and Postponement Agreement also contains various other typical covenants of the Fund and the Partnership. In addition, SIR provided an undertaking to the Fund and the Partnership to restrict the amount of additional debt that SIR can incur without the consent of the Fund and the Partnership (which consent shall not be unreasonably withheld). The Subordination and Postponement Agreement was amended on August 26, 2011 to incorporate the Development Loan under SIR's Amended Credit Agreement.

Management continues to monitor the economy and evaluate its potential impact on the Canadian business environment, particularly in relation to consumer confidence and unemployment rates.

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 November 13, 2009 (amended on August 26, 2011), the Fund entered into an agreement to subordinate and postpone its claims against SIR in favour of the senior lender. The Partnership and the Fund have not guaranteed this credit facility (Please refer to SIR Royalty Income Fund section).

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

The Alice Fazooli's in Toronto, Ontario and the Jack Astor's in Kitchener, Ontario were closed on January 27, 2012 and February 13, 2012, respectively. Under the terms of the License and Royalty Agreement, SIR is required to pay a Make-Whole Payment for these locations from their date of closure until December 31, 2012. In accordance with the License and Royalty Agreement, on January 1, 2013, the revenue of these closed restaurants 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 was 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. SIR has five commitments to lease new properties, in which it plans to build seven new restaurants. SIR has begun the early stages of construction of six of these restaurants to be built. During Q1, SIR incurred costs of $0.3 million related to these restaurants and has further purchase commitments for the construction of these restaurants of $6.2 million. At the current date, SIR has not entered into any construction contracts for the other restaurant to be built, but expects to do so in the future**.** Final costs of construction are subject to uncertainties as to their amounts and timing. Such items as finalization of design and final construction quotations could change the total cost of these projects. As at November 18, 2012, $20.4 million and $11.3 million was outstanding on SIR's Amended Credit Agreement for the Term Loan and the Development Loan, respectively (see Liquidity and Capital Resources section).

Off-Balance Sheet Arrangements

SIR has off-balance sheet arrangements with respect to its operating leases. (See Contractual Obligations section).

Transactions with Related Parties

SIR has entered into related party transactions with shareholders or companies controlled by shareholders of SIR 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:

- Payment for operational services provided by two shareholders and directors of SIR in the amount of $0.1 million for the 12-week period ended November 18, 2012, respectively ($0.1 million for the 12-week period ended November 20, 2011).
- Payment for design and construction management fees and fixtures, charged to property and equipment, provided by one shareholder of SIR in the amount of $0.2 million for the 12-week period ended November 18, 2012 ($0.2 million for the 12-week period ended November 20, 2011).
- Payment for construction management fees and fixtures, charged to property and equipment, provided by a company owned by a related party to a shareholder, in the amount of $0.5 million for the 12-week period ended November 18, 2012 ($nil for the 12-week period ended November 20, 2011).
- Payment for occupancy costs and maintenance services, provided by a company owned by a related party to a shareholder, in the amount of $0.03 million for the 12-week period ended November 18, 2012 ($nil for the 12-week period ended November 20, 2011).
- Received repayment against loans and advances from U.S. S.I.R. L.L.C. of $0.01 million for the 12-week period ended November 18, 2012 ($0.1 million for the 12-week period ended November 20, 2011). SIR recognized interest income on those loans and advances of $0.04 million for the 12-week period ended November 18, 2012 ($0.05 million for the 12-week period ended November 20, 2011). As at November 18, 2012, SIR has loans and advances of $1.3 million owing from U.S. S.I.R. L.L.C. (August 26, 2012 - $1.2 million).
- Net loss from two trial seasonal restaurant operations operated by SIR for companies owned by a related party to a director of SIR was $nil for the 12-week period ended November 18, 2012 ($0.05 million for the 12-week period ended November 20, 2011). SIR had sales to these related companies of $nil for the 12-week period ended November 18, 2012 ($0.008 million for the 12-week period ended November 20, 2011). As at November 18, 2012, SIR has trade accounts receivable and advances of $0.04 million (August 26, 2012 - $0.04 million) and accounts payable of $0.04 million (August 26, 2012 - $0.03 million) recorded in its consolidated statements of financial position from these restaurant operations.
- During the 52-week period ended August 26, 2012, SIR entered into two lease agreements with a company that is owned by a related party to a director of SIR. Rent is payable under these lease agreements based on a percentage of the revenues of the related restaurant. Rent paid under these lease agreements for both the 12-week periods ended November 18, 2012 and November 20, 2011 was $nil.
- During the 52-week period ended August 26, 2012, SIR acquired an investment in common shares of a company owned by a party related to a shareholder of SIR for a nominal amount. 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).

In addition, included in accounts receivable are amounts due from two related parties (one a subsidiary of U.S. S.I.R. L.L.C. and one a company owned by a party related to a shareholder) of SIR of $0.3 million (August 26, 2012 - $0.1 million). Included in accounts payable and accrued liabilities are amounts due to two related parties (one shareholder and one company owned by a party related to a shareholder) of SIR for design and construction management fees and fixtures provided to SIR as at November 18, 2012 of $0.1 million (August 26, 2012 - $0.1 million).

Transactions with the SIR Royalty Income Fund

Advances receivable from the Fund as at November 18, 2012 were $2.9 million (August 26, 2012 - $2.8 million). Advances receivable are non-interest bearing and due on demand.

During the 12-week period ended November 18, 2012, distributions of $1.2 million were declared to the Fund by the Partnership, ($1.2 million for the 12-week period ended November 20, 2011, respectively). The Fund, indirectly through the Trust, is entitled to receive a pro rata share of all residual distributions. Distributions payable to the Fund as at November 18, 2012 were $3.9 million (August 26, 2012 -$3.8 million).

The SIR Loan bears interest at 7.5% per annum. Interest expense on the SIR Loan totalled $0.7 million for the 12-week period ended November 18, 2012 ($0.7 million for the 12-week period ended November 20, 2011, respectively). Interest payable on the SIR Loan as at November 18, 2012 was $0.4 million (August 26, 2012 - $0.5 million).

SIR, through the Partnership, has entered into an arrangement with the Fund and the Trust whereby the Partnership will provide or arrange for the provision of services required in the administration of the Fund and the Trust. The Partnership has arranged for these services to be provided by SIR GP Inc., in its capacity as the managing general partner of the Partnership. The Partnership provided these services to the Fund and the Trust for consideration of $0.006 million for the 12-week period ended November 18, 2012, ($0.006 million for the 12-week ended November 20, 2011) which was the amount of consideration agreed to by the related parties.

Critical Accounting Estimates and Judgements

Management believes that there have been no substantial changes in the nature of critical accounting estimates and judgment since the year ended August 26, 2012. The reader will find this information in the annual MD&A for the year ended August 26, 2012.

Changes in Accounting Policies, Including Initial Adoption and Recently Issued Accounting Pronouncements

There have been no changes to accounting policies or any recently issued accounting pronouncements effecting SIR in the current fiscal year. Readers should refer to the annual consolidated financial statements and MD&A for changes in accounting policies impacting SIR for the 52-week period ended August 26, 2012.

Financial Instruments

Management believes that there have been no substantial changes in financial instruments since the year ended August 26, 2012. The reader will find this information in the annual MD&A for the year ended August 26, 2012.

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. Recently, competition has increased in the mid-price, full-service, casual and fine dining sectors in which many of the SIR Restaurants operate. In addition, factors such as business and economic conditions, 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 30, 2012 Annual Information Form for further discussion on risks and uncertainties related to 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.

As a result of certain legislative changes to the tax treatment of income trusts, commonly referred to as Specified Investment Flow Through ("SIFT") entities, effective January 1, 2011, corporate income taxes are applicable to the taxable income of the Fund. This SIFT tax applies to the Fund at the estimated prevailing corporate tax rate of approximately 26.5% (2011 - 28.25%) and, as a result, cash available for the Fund to distribute to Unitholders is effectively reduced by that amount. The Fund's distributions are subject to change based on a number of factors, including the cash reserves of the Fund, the SIR Holdings Trust and the SIR Royalty Limited Partnership. The Trustees will continue their practice of regularly reviewing the Fund's distribution levels.

Effective fiscal 2011, taxable income of the Fund allocated to Unitholders is classified as eligible dividends. Unitholders who are Canadian residents and hold their Units in a non-tax deferred account may claim the dividend tax credit for eligible dividends, which would if applicable reduce the after tax impact of the SIFT Tax. Unitholders of the Fund have been advised to consult their own tax advisors to determine the impact of this change in tax laws on the distributions from their investment in the Fund.

These rules may adversely affect SIR, as the holder of partnership interests which are convertible into units of the Fund, as well as the Fund and its Unitholders. SIR intends to continue to assess and plan for their expected impact. Changes may prove necessary to seek to adapt to any new tax laws with a view to attempting, where practicable, to minimize their overall adverse effects.

Outlook

The Canadian Restaurant and Foodservice Association ("CRFA") estimates that sales in the full-service category will grow by 4.1% in calendar 2012 and by 3.9% in calendar 2013. The CRFA estimates that growth in the full-service category will then average 4.0% over the next three years. SIR will continue monitoring the economy and consumer confidence and their effects on the full-service category.

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

During Q1, SIR converted 0.5 million Class A GP Units into Fund units and subsequently sold the Fund units for proceeds of $6.6 million, of which $5.1 million is held in an account that is restricted by SIR's lender as at November 18, 2012. The proceeds from the sale of Fund units must be used to fund costs associated with constructing new restaurants and renovating existing restaurants. As a result of SIR exercising its rights to convert these Class A GP Units into Fund units, the Fund issued 0.5 million Fund units to SIR in exchange for an increased interest in the Partnership. Accordingly, this transaction does not have a dilutive effect on the Fund unitholders and SIR's interest in the Partnership decreased from 38.2% to 32.2%. SIR still maintains control of the Partnership and therefore the transaction has been accounted for as an equity transaction.

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

Forward Looking Information

Certain statements contained in this report, or incorporated herein by reference, including the information set forth as to the future financial or operating performance of the Fund or SIR, that are not current or historical factual statements may constitute forward-looking information within the meaning of applicable securities laws ("forward-looking statements"). Statements concerning the objectives, goals, strategies, intentions, plans, beliefs, expectations and estimates, and the business, operations, financial performance and condition of the Fund, the Trust, the Partnership, SIR, the SIR Restaurants or industry results, are forward-looking statements. The words "may", "will", "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: competition; changes in demographic trends; changing consumer preferences and discretionary spending patterns; changes in consumer confidence; changes in national and local business and economic conditions; 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. 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 release any updates or revisions to any forward looking statements. 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 February 19, 2013.

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, 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 the tax effects on distributions will remain consistent with current regulations or pronouncements, and also in estimating the revenue for the new Jack Astor's restaurant added to Royalty Pooled Restaurants on January 1, 2012, Management has assumed that it will operate consistent with other Jack Astor's restaurants. For more information concerning the Fund's risks and uncertainties, please refer to the March 30, 2012 Annual Information Form, all of which are 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 SIR, the Partnership and the Fund can be found at www.sedar.com and on SIR's website at www.sircorp.com