SIR CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE 12-WEEK AND 24-WEEK PERIODS ENDED FEBRUARY 15, 2015

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FOR THE 12-WEEK AND 24-WEEK PERIODS ENDED FEBRUARY 15, 2015

Executive Summary

SIR Corp.'s ("SIR's") second quarter of fiscal 2015 ("Q2 2015") was from November 24, 2014 to February 15, 2015 inclusive.

Highlights for SIR's fiscal 2015 second quarter include:

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

- Food and beverage revenue from corporate restaurant operations for Q2 2015 was $58.8 million and $119.0 million for year to date (YTD). This represents a $3.6 million increase, or 6.4% increase over the prior year for the quarter and a $7.7 million or 6.9% increase over the prior year for YTD.
- SIR generated Same Store Sales Growth ("SSSG")[(1)] of 2.2% and 1.5% for Q2 2015 and YTD, respectively.
- For SIR's flagship Concept Restaurant brand, Jack Astor's®, which generated approximately 72% of Pooled Revenue in Q2 2015, SSSG[(1)] was 1.4% and 0.7% for Q2 2015 and YTD, respectively. Canyon Creek® had SSSG[(1)] of 3.8% and 3.3% for Q2 2015 and YTD, respectively. Alice Fazooli's®/Scaddabush Italian Kitchen & Bar® ("Scaddabush") had SSSG[(1)] of 4.3% and 2.6% for Q2 2015 and YTD, respectively and the downtown Toronto Signature Restaurants had SSSG[(1)] of 4.9% and 6.6% for Q2 2015 and YTD, respectively.

Investment in new and existing restaurants

- Subsequent to Q2 2015, SIR opened one new Jack Astor's restaurant, on March 24, 2015, in Ottawa, Ontario. During the first quarter of fiscal 2014 ("Q1 2014"), SIR opened Reds® Midtown Tavern, a second location of the original Reds® Signature Restaurant. This restaurant was added to Royalty Pooled Restaurants on January 1, 2014. During the second quarter of fiscal 2014 ("Q2 2014"), SIR opened a second location of Duke's Refresher™ called Duke's Refresher™ & Bar. Please see the Overview section on page 5, where it explains that Duke's Refresher should be considered a New Concept Restaurant. During the third quarter of fiscal 2014 ("Q3 2014"), SIR opened one new Scaddabush restaurant. During the fourth quarter of fiscal 2014 ("Q4 2014"), SIR opened one new Jack Astor's restaurant and a new seasonal Signature retail outlet.
- Two restaurants were added to Royalty Pooled Restaurants on January 1, 2015, consisting of the new Jack Astor's restaurant opened during the Q4 2014, and the new Scaddabush restaurant, which opened in Q3 2014.
- During Q1 2015, SIR completed the renovation of one Canyon Creek restaurant and SIR is encouraged by its initial sales growth and guest feedback. Four Jack Astor's restaurants were renovated during fiscal 2014 (three in Q1 2014 and one in Q2 2014). SIR also completed upgrades and expansions to two Jack Astor's patios during Q4 2014.

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

- Net loss and comprehensive loss was $4.6 million in Q2 2015, and is $4.8 million unfavourable compared to Q2 2014. The net loss and comprehensive loss for YTD was $4.6 million and is $7.0 million favourable to the same period in the prior year.

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(1) *Same store sales ("SSS") and same store sales growth ("SSSG") are non-GAAP financial measures and do not have standardized meanings prescribed by International Financial Reporting Standards ("IFRS"). However, SIR believes that SSS and SSSG are useful measures and provide investors with an indication of the change in year-over-year sales. SIR's method of calculating SSS and SSSG may differ from those of other issuers and accordingly, SSS and SSSG may not be comparable to measures used by other issuers. SSSG is the percentage increase in SSS over the prior comparable period. SSS includes revenue from all SIR Restaurants except for those locations that were not open for the entire comparable periods in fiscal 2015 and fiscal 2014, the seasonal Duke's Refresher and Abbey's Bakehouse, which are both located in Muskoka, Ontario, and the seasonal Abbey's Bakehouse retail outlet. SSS for Alice Fazooli's includes three Alice Fazooli's restaurants and one Scaddabush restaurant, representing the Square One location in Mississauga, Ontario. Please refer to the reconciliation of consolidated revenue to SSS on page 8 and to the definition of SSS in the Revenue section on page 9.*

(2) *Adjusted Net Earnings (Loss) is calculated by removing the change in amortized cost of the Ordinary LP Units and Class A LP Units of the Partnership from the net earnings (loss) 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. 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. 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 9 of this document.*

    - Earnings from corporate restaurant operations has increased $0.8 million and $2.4 million for Q2 2015 and YTD, respectively, as compared to the same periods of the prior year and has contributed favourably to the net earnings (loss) and comprehensive earnings (loss) for these periods. For Q2 2015, the main reason for the unfavourable variance in net loss and comprehensive loss compared to the same period of the prior year is the unfavourable variance of $5.9 million in the non-cash change in amortized cost of Ordinary LP Units and Class A LP Units of the Limited Partnership (the "Partnership"). For YTD, the variance in this item is favourable $4.3 million, and therefore has contributed to the favourable variance in net loss and comprehensive loss for YTD, along with the increased earnings from restaurant operations.

  - Adjusted Net Earnings(2) of $0.9 million and $1.9 million in Q2 2015 and YTD, respectively is $1.1 million and $2.7 million favourable to the same periods in the prior year and is primarily the result of the aforementioned increased earnings from corporate restaurant operations of $0.8 million and $2.4 million for Q2 2015 and YTD.

- ***EBITDA**(3)*

  - EBITDA(3) is $4.5 million and $3.5 million for Q2 2015 and Q2 2014, respectively.

  - YTD EBITDA is $9.6 million and $6.7 million for fiscal 2015 and fiscal 2014, respectively

Credit facility and Fund unit transaction

- On June 23, 2014, SIR entered into a Third Amended and Restated Loan Agreement (the "Credit Agreement"), which provided contemplated financing of $6.0 million (the "Tranche C Development Loan") in addition to the existing term loan (the "Term Loan") and two development loans (the "Tranche A Development Loan" and the "Tranche B Development Loan"). The Tranche A Development Loan and the Tranche B Development Loan have been fully drawn and no further advances are permitted. The Tranche C Development Loan was not to exceed $6.0 million. No draws were made on the Tranche C Development Loan and the draw down date has expired.

- On November 19, 2014, SIR exchanged 350,000 Class A GP Units of the Partnership into Fund units and sold these units for total estimated net proceeds of $4.3 million. The net proceeds were deposited into SIR's restricted account. SIR has drawn $2.3 million and $4.3 million from this account, during Q2 2015 and YTD, respectively to finance capital expenditures.

- The Class A GP Units received by the Fund in exchange for the Fund units issued were converted to Class A LP Units of the Partnership, which are entitled to a pro rata share of the residual income of the Partnership. Accordingly, this transaction did not have a dilutive effect on the Fund. SIR's residual interest in the Partnership was affected by the conversion of the Class A GP Units into Fund units and accordingly SIR's residual interest in the Partnership decreased by 3.6%. The Class A LP Units have been accounted for as a financial liability consistent with the Ordinary LP Units (Refer to page 15 of the Liquidity and Capital Resources section).

Outlook

- At the current date, SIR has three commitments to lease properties, upon which it plans to build two new Jack Astor's restaurants and one new Scaddabush restaurant, which are expected to open in fiscal 2015 and fiscal 2016. There can be no assurance that these restaurants will be opened or will become part of Royalty Pooled Restaurants.

- During fiscal 2013, SIR initiated a program to evolve its Alice Fazooli's into a new concept brand called Scaddabush and began this process by renovating its Alice Fazooli's Square One location in Mississauga, Ontario in Q4 2013. Scaddabush offers guests a new, refreshing take on Italian dining. During Q3 2014, on February 18, 2014, SIR

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(3) References to EBITDA are to the net earnings (loss) and comprehensive income (loss) for the period before provision for (recovery of) income taxes, interest (income) and other expense (income) - net, goodwill and intangible assets impairment, impairment of non-financial assets, 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, 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, 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.

opened a second Scaddabush restaurant. SIR plans to open a third Scaddabush in downtown Toronto, during fiscal 2016.

- SIR continues to focus on sustaining and growing existing restaurant sales and profits while managing costs. SIR carefully monitors economic conditions and considers new restaurant growth and renovations when appropriate and subject to acceptable long-term financing or other available funds.
- Subsequent to Q2 2015, on February 18, 2015, one of SIR's Signature brand restaurants was temporarily closed due to significant water damage. The restoration is anticipated to be completed by the end of March and the restaurant will re-open soon thereafter. SIR maintains business interruption insurance to mitigate the risk of such events.

Overview

SIR is a private company amalgamated under the Business Corporations Act of Ontario. As at February 15, 2015, SIR operated 58 Concept and Signature Restaurants in Canada (in Ontario, Quebec, Alberta, Nova Scotia, and Newfoundland). The Concept Restaurants include Jack Astor's, Canyon Creek and Alice Fazooli's/Scaddabush. The Signature group of restaurants located in downtown Toronto include Reds Wine Tavern, Reds Midtown Tavern, Far Niente®/FOUR®/Petit Four® and the Loose Moose. SIR also owns and operates a Duke's Refresher & Bar and two seasonal restaurants: Duke's Refresher and Abbey's Bakehouse, in addition to one seasonal Abbey's Bakehouse retail outlet, which are not part of Royalty Pooled Restaurants. SIR owns 100% of all its Canadian restaurants. As at February 15, 2015, 55 SIR Restaurants were included in SIR Royalty Pooled Restaurants.

On January 1, 2015, two restaurants were added to Royalty Pooled Restaurants, including one new Jack Astor's restaurant that opened in Q4 2014 and one Scaddabush restaurant that opened in Q3 2014.

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 2015, Duke's Refresher is not expected to be added to the Royalty Pool on January 1, 2016. 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 2015 and 2014 consist of 52 weeks and 53 weeks, respectively.

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 24-week periods ended February 15, 2015 and February 9, 2014, respectively. The unaudited financial statements of SIR are prepared in accordance with IFRS and are presented in Canadian dollars. This information should be read in conjunction with the annual audited consolidated financial statements of SIR, including the notes thereto.

Statements of Operations and Comprehensive Income (Loss)	12-Week Period Ended February 15, 2015	12-Week Period Ended February 9, 2014	24-Week Period Ended February 15, 2015	24-Week Period Ended February 9, 2014
	(in thousands of dollars) (unaudited)			
Corporate restaurant operations:				
Food and beverage revenue	58,778	55,224	118,965	111,278
Cost of corporate restaurant operations	54,253	51,497	109,222	103,933
Earnings from corporate restaurant operations	**4,525**	**3,727**	**9,743**	**7,345**
Net earnings (loss) and comprehensive income (loss)	**(4,645)**	**113**	**(4,605)**	**(11,621)**
Adjusted Net Earnings (Loss)(2)	**923**	**(208)**	**1,943**	**(805)**

Statement of Financial Position	February 15, 2015	August 31, 2014
	(in thousands of dollars) (unaudited)	
Total assets	81,604	79,959
Total non-current liabilities	157,652	153,881

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

Adjusted Net Earnings (Loss)(2), EBITDA(3) and Adjusted EBITDA(3) are financial measures that do not have standardized meanings prescribed by IFRS. They are used by SIR to supplement its reporting of net earnings (loss) and net cash flow. Adjusted Net Earnings (Loss)(2) consist of net earnings (loss) 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 February 15, 2015	12-Week Period Ended February 9, 2014	24-Week Period Ended February 15, 2015	24-Week Period Ended February 9, 2014
	(in thousands of dollars) (unaudited)			
Net earnings (loss) and comprehensive income (loss)	(4,645)	113	(4,605)	(11,621)
Change in amortized cost of Ordinary LP Units and Class A LP Units of the Partnership	5,568	(321)	6,548	10,816
Adjusted Net Earnings (Loss)(2)	**923**	**(208)**	**1,943**	**(805)**

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

Reconciliation of net earnings (loss) and comprehensive income (loss) for the period to EBITDA(3) and Adjusted EBITDA(3)	12-Week Period Ended February 15, 2015	12-Week Period Ended February 9, 2014	24-Week Period Ended February 15, 2015	24-Week Period Ended February 9, 2014
	(in thousands of dollars) (unaudited)			
Net earnings (loss) and comprehensive income (loss) for the period	(4,645)	113	(4,605)	(11,621)
Add (deduct):				
Provision for income taxes	33	93	100	128
Interest (income) and other expense (income) – net	(225)	(197)	(194)	(161)
Loss on disposal of property and equipment	18	22	53	137
Interest expense	507	613	1,076	1,167
Interest on loan payable to SIR Royalty Income Fund	699	698	1,397	1,396
Change in amortized cost of Ordinary LP Units and Class A LP Units of the Partnership	5,568	(321)	6,548	10,816
Depreciation and amortization	2,580	2,507	5,196	4,882
EBITDA(3)	**4,535**	**3,528**	**9,571**	**6,744**
Pre-opening costs	229	567	395	1,314
Adjusted EBITDA(3)	**4,764**	**4,095**	**9,966**	**8,058**
Income from Class A & B GP Units of the Partnership(4) (Not included in EBITDA(3) and Adjusted EBITDA(3) above)	764	961	1,614	1,702
6% Royalty obligations under License and Royalty Agreement(5)	3,429	3,159	6,849	6,291

Results of Operations

Reconciliation of Revenue from Consolidated Financial Statements to Pooled Revenue	12-Week Period Ended February 15, 2015	12-Week Period Ended February 9, 2014	24-Week Period Ended February 15, 2015	24-Week Period Ended February 9, 2014
	(in thousands of dollars (unaudited)			
Revenue reported in consolidated financial statements	58,778	55,224	118,965	111,278
Less: Revenue from corporate restaurant operations excluded from the Royalty pool	(1,634)	(2,573)	(4,823)	(6,424)
Revenue for Restaurants in the Royalty pool	**57,144**	**52,651**	**114,142**	**104,854**

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

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

Reconciliation of Revenue from Consolidated Financial Statements to Same Store Sales[(1)]	12-Week Period Ended February 15, 2015	12-Week Period Ended February 9, 2014	24-Week Period Ended February 15, 2015	24-Week Period Ended February 9, 2014
	(in thousands of dollars) (unaudited)			
Revenue reported in consolidated financial statements	58,778	55,224	118,965	111,278
Less: Revenue from corporate restaurant operations excluded from Same Store Sales[(1)]	(3,679)	(1,292)	(7,679)	(1,687)
Same Store Sales[(1)]	**55,099**	**53,932**	**111,286**	**109,591**

Same Store Sales[(1)] **by Segment**	12-Week Period Ended February 15, 2015	12-Week Period Ended February 9, 2014	% Fav. / (Unfav.)	24-Week Period Ended February 15, 2015	24-Week Period Ended February 9, 2014	% Fav. / (Unfav.)
	(in thousands of dollars) (unaudited)					
Jack Astor's	40,501	39,932	1.4%	82,996	82,431	0.7%
Canyon Creek	6,804	6,554	3.8%	13,135	12,714	3.3%
Alice Fazooli's/Scaddabush	3,237	3,103	4.3%	6,347	6,185	2.6%
Signature Restaurants	4,557	4,343	4.9%	8,808	8,261	6.6%
Same Store Sales[(1)]	**55,099**	**53,932**	**2.2%**	**111,286**	**109,591**	**1.5%**

Summary of Quarterly Results

Statement of Operations	2nd Quarter Ended February 15, 2015 (12 weeks)	1st Quarter Ended November 23, 2014 (12 weeks)	4th Quarter Ended August 31, 2014 (17 weeks)	3rd Quarter Ended May 4, 2014 (12 weeks)	2nd Quarter Ended February 9, 2014 (12 weeks)	1st Quarter Ended November 17, 2013 (12 weeks)	4th Quarter Ended August 25, 2013 (16 weeks)	3rd Quarter Ended May 5, 2013 (12 weeks)
	(in thousands of dollars) (unaudited)							
Corporate Restaurant Operations								
Food and beverage revenue	58,778	60,187	95,786	59,773	55,224	56,054	82,864	56,676
Cost of corporate restaurant operations	54,253	54,969	89,031	55,399	51,497	52,436	76,837	51,172
Earnings from corporate restaurant operations	**4,525**	**5,218**	**6,755**	**4,374**	**3,727**	**3,618**	**6,027**	**5,504**
Net earnings (loss) and comprehensive income (loss)	**(4,645)**	**40**	**1,522**	**725**	**113**	**(11,734)**	**(6,484)**	**(5,003)**
Adjusted Net Earnings (Loss)[(2)]	**923**	**1,020**	**1,215**	**430**	**(208)**	**(597)**	**616**	**310**

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)]	2nd Quarter Ended February 15, 2015 (12 weeks)	1st Quarter Ended November 23, 2014 (12 weeks)	4th Quarter Ended August 31, 2014 (17 weeks)	3rd Quarter Ended May 4, 2014 (12 weeks)	2nd Quarter Ended February 9, 2014 (12 weeks)	1st Quarter Ended November 17, 2013 (12 weeks)	4th Quarter Ended August 25, 2013 (16 weeks)	3rd Quarter Ended May 5, 2013 (12 weeks)
	(in thousands of dollars) (unaudited)							
Net earnings (loss) and comprehensive income (loss)	(4,645)	40	1,522	725	113	(11,734)	(6,484)	(5,003)
Change in amortized cost of the Ordinary LP Units and Class A LP Units of the Partnership	5,568	980	(307)	(295)	(321)	11,137	7,100	5,313
Adjusted Net Earnings (Loss)[(2)]	**923**	**1,020**	**1,215**	**430**	**(208)**	**(597)**	**616**	**310**

Selected Unaudited Consolidated Statement of Cash Flows Information:

	2nd Quarter Ended February 15, 2015 (12 weeks)	1st Quarter Ended November 23, 2014 (12 weeks)	4th Quarter Ended August 31, 2014 (17 weeks)	3rd Quarter Ended May 4, 2014 (12 weeks)	2nd Quarter Ended February 9, 2014 (12 weeks)	1st Quarter Ended November 17, 2013 (12 weeks)	4th Quarter Ended August 25, 2013 (16 weeks)	3rd Quarter Ended May 5, 2013 (12 weeks)
	(in thousands of dollars) (unaudited)							
Cash provided by operations	534	7,004	4,877	1,757	1,505	71	7,137	2,201
Cash provided by (used in) investing activities	740	76	(2,575)	2,677	(5,323)	(164)	(2,513)	700
Cash provided by (used in) financing activities	(2,422)	(2,235)	(3,281)	(2,329)	669	(950)	(2,647)	(2,237)
Increase (decrease) in cash and cash equivalents during the period	(1,148)	4,845	(979)	2,105	(3,149)	(1,043)	1,977	664
Cash and cash equivalents – Beginning of period	9,487	4,642	5,621	3,516	6,665	7,708	5,731	5,067
Cash and cash equivalents – End of period	8,339	9,487	4,642	5,621	3,516	6,665	7,708	5,731

Revenue

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

i. Revenue (per the SIR consolidated statements of operations and comprehensive income (loss)) – this is the total consolidated revenue of all restaurants for the period. The restaurants include all SIR Restaurants. For the 12-week and 24-week periods ended February 15, 2015, revenue was $58.8 million and $119.0 million, respectively.

ii. Same Store Sales ("SSS")[(1)] – this is a sub-set of (i) above used for tracking comparable year-over-year sales. For Q2 2015 and Q2 2014, SSS[(1)] includes all SIR Restaurants, except for those restaurants that were not open for the entire comparable periods in fiscal 2015 and fiscal 2014, the seasonal Duke's Refresher, Abbey's Bakehouse and Abbey's Bakehouse retail outlet. SSS[(1)] for Alice Fazooli's includes three Alice Fazooli's restaurants and one Scaddabush restaurant, representing the Square One location in Mississauga, Ontario. For the 12-week and 24-week periods ended February 15, 2015, SSS[(1)] were $55.1 million and $111.3 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. Currently, there are 55 Royalty Pooled Restaurants. For the 12-week and 24-week periods ended February 15, 2015, Pooled Revenue was $57.1 million and $114.1 million, respectively. The applicable Royalty payable to the Partnership on the Pooled Revenue for these periods was $3.4 million and $6.8 million, respectively.

Same Store Sales[1]

SIR generated SSSG[1] of 2.2% and 1.5% for the 12-week and 24-week periods ended February 15, 2015, respectively.

Jack Astor's, SIR's flagship Concept Restaurant brand, which contributed approximately 72% of Q2 2015 Pooled Revenue, experienced SSSG[1] of 1.4% and 0.7% for the 12-week and 24-week periods ended February 15, 2015, respectively.

Canyon Creek generated SSSG[1] of 3.8% and 3.3% for the 12-week and 24-week periods ended February 15, 2015, respectively. During Q1 2015, SIR completed a renovation of one Canyon Creek restaurant. SIR is encouraged by the initial sales growth and guest feedback. Management continues to review initiatives to enhance value at Canyon Creek.

Alice Fazooli's, together with Scaddabush, had SSSG[1] of 4.3% and 2.6% for the 12-week and 24-week periods ended February 15, 2015, respectively. During fiscal 2013, SIR initiated a program to evolve the Alice Fazooli's concept into Scaddabush. To date, SIR has renovated one Alice Fazooli's restaurant, located in Mississauga, Ontario and re-opened it as Scaddabush in Q4 2013. This location generated SSSG[1] of 14.2% and 14.0% for the 12-week and 24-week periods ended February 15, 2015, respectively. During Q3 2014, SIR opened one new Scaddabush restaurant which is not yet part of SSSG[1].

The downtown Toronto Signature Restaurants generated SSSG[1] of 4.9% and 6.6% for the 12-week and 24-week periods ended February 15, 2015, respectively and resulted from positive growth from each of the restaurants included in this group that are part of SSS[1].

Cost of Corporate Restaurant Operations

As a percentage of revenue, costs of corporate restaurant operations was 92.3% and 91.8% for the 12-week and 24-week periods ended February 15, 2015, respectively, compared to 93.3% and 93.4% for the 12-week and 24-week periods ended February 9, 2014, respectively. Lower costs as a percentage of revenue are attributable to lower pre-opening expenses related to new restaurant openings for the 12-week and 24-week periods ended February 15, 2015 compared to the same periods in the prior year. Pre-opening expenses are typical for new restaurant openings.

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 through a series of transactions taking place in fiscal years 2013, 2014 and Q1 2015 (see the Liquidity and Capital Resources section). In accordance with IFRS, SIR has consolidated the Partnership. The Ordinary LP Units and Class A LP Units of the Partnership, which are held by the Fund, require SIR to pay distributions to the Fund when declared by the board of directors of SIR GP Inc. SIR GP Inc. is controlled by the Fund and, accordingly, SIR is unable to control the declaration of these distributions. As a result, the Ordinary LP Units and Class A LP Units of the Partnership have been classified as a financial liability in the consolidated statements of financial position. The Ordinary LP Units and Class A LP Units were initially recorded at fair value and subsequently at amortized cost, which requires updating the carrying amount of the financial liability to reflect actual and revised estimates in cash flows. The changes in the estimated cash flows are derived from changes in the value of the underlying Fund units adjusted for taxes and the SIR Loan.

Changes in amortized cost are recognized in the consolidated statements of operations and comprehensive income (loss). The change in the amortized cost is a non-cash transaction and accordingly, has no impact on cash flows. For Q2 2015, the change in amortized cost is an expense of $5.6 million and is due to an increase in the underlying Fund unit price compared to Q1 2015. For YTD, the change in amortized cost was an expense of $6.5 million and is due to an increase in the underlying Fund unit price and an increase in the number of Class A LP Units held by the Fund compared to the end of Q4 2014.

EBITDA[3] and Adjusted EBITDA[3]

EBITDA[3] was $4.5 million and $9.6 million for the 12-week and 24-week periods ended February 15, 2015, respectively, up from $3.5 million and $6.7 million for the 12-week and 24-week periods ended February 9, 2014, respectively. Adjusted EBITDA[3] was $4.8 million and $10.0 million for the 12-week and 24-week periods ended February 15, 2015, respectively, up from $4.1 million and $8.1 million for the 12-week and 24-week periods ended February 9, 2014, 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 is payable to the Fund, bears interest at 7.5% per annum, and is due October 12, 2044. On August 23, 2013, SIR, the Fund and the Partnership entered into an Amended and Restated Subordination and Postponement 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 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 Amended and Restated Subordination and Postponement Agreement.

Under the Amended and Restated Subordination and Postponement Agreement, absent a default or event of default under the 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 Amended and Restated Subordination and Postponement Agreement also contains various other typical covenants.

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 $1.4 million for the 12-week and 24-week periods ended February 15, 2015, respectively and $0.7 million and $1.4 million for the 12-week and 24-week periods ended February 9, 2014, 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 February 15, 2015	12-Week Period Ended February 9, 2014	24-Week Period Ended February 15, 2015	24-Week Period Ended February 9, 2014
	(in thousands of dollars) (unaudited)			
Balance – Beginning of the period	98,069	94,966	94,060	85,718
Conversion of Class A GP Units	-	-	4,410	-
Change in amortized cost of the Ordinary LP Units and Class A LP Units of the Partnership	5,568	(321)	6,548	10,816
Distributions paid to Ordinary LP and Class A LP unitholders	(2,363)	(2,447)	(3,744)	(4,336)
Balance – End of period	101,274	92,198	101,274	92,198
Less: Current portion of Ordinary LP Units and Class A LP Units of the Partnership	(8,827)	(8,285)	(8,827)	(8,285)
Ordinary LP Units and Class A LP Units of the Partnership	92,447	83,913	92,447	83,913

	12-Week Period Ended February 15, 2015	12-Week Period Ended February 9, 2014	24-Week Period Ended February 15, 2015	24-Week Period Ended February 9, 2014
	(in thousands of dollars) (unaudited)			
Pooled Revenue[6]	57,144	52,651	114,142	104,854
Partnership royalty income[7]	3,429	3,159	6,849	6,291
Other income	8	12	17	22
Partnership expenses	(11)	(19)	(28)	(40)
Net earnings of the Partnership	3,426	3,152	6,838	6,273
SIR's residual interest in the earnings of the Partnership:				
Income from Class A & B GP Units of the Partnership	(764)	(961)	(1,614)	(1,702)
Income from Class C GP Units of the Partnership	(691)	(691)	(1,381)	(1,381)
	(1,455)	(1,652)	(2,995)	(3,083)
Fund's interest in the earnings of the Partnership	1,971	1,500	3,843	3,190

On October 12, 2004, the Partnership issued Ordinary LP and GP Units to the Fund for cash consideration of $11.2 million. During Q1 2015 and fiscal 2014, the Fund acquired 350,000 and 500,000 Class A LP Units, respectively, upon SIR's conversion of its Class A GP Units into Fund units (refer to page 15 of the Liquidity and Capital Resources section). The holders of the Ordinary LP Units and Class A LP Units are entitled to receive their pro rata share of all residual distributions of the Partnership. The distributions are declared by the board of directors of SIR GP Inc., which is controlled by the Fund. Accordingly, the Ordinary LP Units and Class A LP Units of the Partnership have been classified as a financial liability in the consolidated statements of financial position. The Ordinary LP Units and Class A LP Units of the Partnership are accounted for at amortized cost, with changes in the carrying value recorded in the consolidated statements of operations and comprehensive income (loss).

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

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.

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

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

On January 1, 2015, two (January 1, 2014 – four) new SIR Restaurants were added to Royalty Pooled Restaurants in accordance with the Partnership Agreement. As consideration for the additional Royalty associated with the addition of two new SIR Restaurants on January 1, 2015 (January 1, 2014 – four), as well as the Second Incremental Adjustment for the four new SIR Restaurant added to Royalty Pooled Restaurants on January 1, 2014 (January 1, 2013 – four), SIR converted its Class B GP Units into Class A GP Units based on the formula defined in the Partnership Agreement. The net effect of these adjustments to Royalty Pooled Restaurants was that SIR converted 347,000 (January 1, 2014 – 803,000) Class B GP Units into 347,000 (January 1, 2014 – 803,000) Class A GP Units on January 1, 2015 at an estimated fair value of $4.5 million (January 1, 2014 – $11.4 million).

In addition, the revenues of the four new SIR Restaurants added to Royalty Pooled Restaurants on January 1, 2014 were less than 80% of the Initial Adjustment's estimated revenue (January 1, 2013 – four new SIR Restaurants exceeded 80% of the Initial Adjustment's estimated revenue) and, as a result, the distributions on the Class A GP Units were reduced by a special conversion refund of $0.005 million in December 2014 and paid in January 2015 (a special conversion distribution of $0.2 million was declared in December 2013 and paid in January 2014).

After the net effect of the adjustments to Royalty Pooled Restaurants on January 1, 2015, SIR's residual interest in the Partnership is 24.6% (August 31, 2014 - 25.5%)

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 February 15, 2015	12-Week Period Ended February 9, 2014	24-Week Period Ended February 15, 2015	24-Week Period Ended February 9, 2014
	(in thousands of dollars) (unaudited)			
Cash provided by operations	534	1,505	7,538	1,576
Cash provided by (used in) investing activities	740	(5,323)	816	(5,487)
Cash provided by (used in) financing activities	(2,422)	669	(4,657)	(281)
Increase (decrease) in cash and cash equivalents during the period	(1,148)	(3,149)	3,697	(4,192)
Cash and cash equivalents – Beginning of period	9,487	6,665	4,642	7,708
Cash and cash equivalents – End of period	8,339	3,516	8,339	3,516

Cash provided by operations decreased by $1.0 million for the 12-week period ended February 15, 2015 compared to the 12-week period ended February 9, 2014. Although Adjusted Net Earnings (Loss)[(2)] increased $1.1 million in this period, it was offset by a decrease in the variance in the net change in working capital items of $2.0 million. Cash provided by operations increased by $6.0 million for 24-week period ended February 15, 2015 compared to the 24-week period ended February 9, 2014. Adjusted Net Earnings (Loss)[(2)] increased by $2.7 million for the 24-week period ended February 15, 2015 compared to the 24-week period ended February 9, 2014. Other increases in cash for this period include the variance in the net change in working capital items of $2.6 million and the decrease in distributions paid to Ordinary LP and Class A LP unitholders of $0.6 million.

Investing activities generated cash of $0.7 million and $0.8 million for the 12-week and 24-week periods ended February 15, 2015, respectively. Investing activities used cash of $5.3 million and $5.5 million for the 12-week and 24-week periods ended February 9, 2014, respectively. Purchases of property and equipment and other assets – net amounted to $1.4 million and $3.4 million for the 12-week and 24-week periods ended February 15, 2015, respectively and $5.4 million and $8.7 million for the 12-week and 24-week periods ended February 9, 2014, respectively. The majority of the capital expenditures for the 12-week and 24-week periods ended February 15, 2015 related to: the renovation at the Canyon Creek restaurant and the construction of the new Jack Astor's restaurant in Ottawa, Ontario, that opened subsequent to Q2 2015. The majority of the capital expenditures for the 12-week and 24-week periods ended February 9, 2014 related to the construction costs incurred for the new Reds Midtown Tavern that opened in Q1 2014, the new Duke's Refresher & Bar that opened in Q2 2014 and the new Scaddabush that opened subsequent to Q2 2014, as well as the renovation costs for three Jack Astor's restaurants during Q1 2014 and one in Q2 2014. 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. The proceeds from the conversion of Class A GP Units to Fund units and their subsequent sale were placed in a restricted account and have been accounted for as non-cash transactions in the consolidated statements of cash flows. Cash used in investing activities includes net cash proceeds received from restricted funds of $2.3 million and $4.3 million for the 12-week and 24-week periods ended February 15, 2015, respectively and $nil and $3.0 million for the 12-week and 24-week periods ended February 9, 2014, respectively.

For the 12-week and 24-week periods ended February 15, 2015, cash used in financing activities was $2.4 million and $4.7 million, respectively. Cash provided by financing activities was $0.7 million for the 12-week period ended February 9, 2014 and cash used in financing activities was $0.3 million for the 24-week period ended February 9, 2014. Proceeds received from the issuance of long-term debt were $2.5 million and $4.0 million for the 12-week and 24-week periods ended February 9, 2014, which represents draws on the Tranche B Development Loan. Principal repayments on long-term debt were $1.2 million and $2.3 million for the 12-week and 24-week periods ended February 15, 2015, respectively and $0.7 million and $1.6 million for the 12-week and 24-week periods ended February 9, 2014, respectively. Interest paid was $1.2 million and $2.3 million for the 12-week and 24-week periods ended February 15, 2015, respectively and $1.2 million and $2.4 million for the 12-week and 24-week periods ended February 9, 2014, respectively.

The new Jack Astor's restaurant that opened during Q4 2014 and the new Scaddabush Restaurant that opened in Q3 2014 were added to the Royalty Pooled Restaurants effective January 1, 2015. 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 four New Additional Restaurants that were added to Royalty Pooled Restaurants on January 1, 2014. 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, 2015, SIR held 2,488,421 Class A GP Units. (refer to page 15).

As at February 15, 2015, SIR had current assets of $19.6 million (August 31, 2014 – $15.1 million) and current liabilities of $42.9 million (August 31, 2014 – $40.4 million) resulting in a working capital deficit of $23.3 million (August 31, 2014 – $25.3 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.

On June 23, 2014, SIR entered into the Credit Agreement, which provided for contemplated financing of $6.0 million under the Tranche C Development Loan in addition to the existing Term Loan, the Tranche A Development Loan and the Tranche B Development Loan. The Tranche A Development Loan and the Tranche B Development Loan have been fully drawn and no further advances are permitted. The Tranche C Development Loan was not to exceed $6.0 million. No draws were made on the Tranche C Development Loan and the draw down date has expired.

All loans under the Credit Agreement are due on November 14, 2016. The Term Loan and the Tranche A Development Loan have a variable interest rate equal to the greater of 6.0% per annum and the three-month Canadian dollar bankers' acceptance rate plus 5.75% per annum, which on February 15, 2015, totalled 6.58%. The Tranche B Development Loan has a variable interest rate equal to the greater of 5.90% per annum and the three-month Canadian dollar bankers' acceptance rate plus 5.65% per annum, which on February 15, 2015 totalled 6.48%. SIR can also elect to fix the interest rate. The amortization period for the Term Loan is ten years, whereas the Tranche A Development Loan and the Tranche B Development Loan are seven years.

The Term Loan, Tranche A Development Loan and Tranche B Development Loan are repayable in estimated monthly blended installments of principal and interest of $0.3 million, $0.2 million and $0.6 million, respectively. Interest only was payable on the Tranche B Development Loan until it was converted into term debt in December 2013.

The Credit Agreement is collateralized by a general security agreement and entitles the lender to a first charge on all of SIR's assets, including a pledge of all shares and the investment in the Partnership and a specific assignment of the rights under the License and Royalty Agreement. The loan is secured by substantially all of the assets of SIR and most of its subsidiaries, which are also guarantors. However, the lender does not have a pledge over the assets of the Partnership. The Credit Agreement contains certain financial and non-financial covenants that SIR is in compliance with as at its last reporting date to the lender, including a minimum fixed charge coverage ratio and a senior leverage ratio. The Partnership and the Fund have not guaranteed the Credit Agreement. The covenants were amended on November 5, 2014 (refer to page 15).

The 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 an Amended and Restated Subordination and Postponement Agreement, a copy of which was filed on SEDAR.

A company owned by the majority shareholder of SIR has guaranteed SIR's obligations under the Credit Agreement and a guarantee fee of $0.04 million and $0.08 million were charged to the consolidated statements of operations and comprehensive income (loss) for the 12-week and 24-week periods ended February 15, 2015, respectively (12-week and 24-week periods ended February 9, 2014 - $0.04 million and $0.08 million, respectively. On November 13, 2009, SIR also issued 26 warrants to the majority shareholder of SIR to acquire Class S Special Shares of SIR, 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 Credit Agreement. The warrants have also been pledged to the senior lender.

In Q3 2014, on February 10, 2014, SIR converted 500,000 Class A GP Units to Fund units and sold these Fund units for net proceeds of $6.8 million (net of transaction costs of $0.2 million).

On November 5, 2014, the lender agreed to release the security over 350,000 Class A GP Units and on November 19, 2014, SIR exchanged 350,000 Class A GP Units of the Partnership into Fund units and sold these Fund units for estimated net proceeds $4.3 million (net of transaction costs of $0.1 million).

SIR's residual interest in the Partnership was affected by the conversions of the Class A GP Units into Fund units. After the February 10, 2014 transaction in Q3 2014, SIR's residual interest in the Partnership decreased by 5.1% and was 25.5% as at August 31, 2014. After the November 19, 2014 transaction, SIR's residual interest in the Partnership decreased by 3.6% to 21.9% but increased 2.7% after the net effect of the adjustments to Royalty Pooled Restaurants on January 1, 2015. Therefore, SIR's residual interest in the Partnership is currently 24.6%.

The disposition of Fund units has been accounted for as a non-cash transaction in the consolidated statements of cash flows. The proceeds net of certain transaction costs of $4.3 million for the Q1 2015 transaction and $6.8 million for the Q3 2014 transaction were deposited into an account restricted by the lender and, accordingly, were classified as restricted cash in the consolidated statements of financial position. During the 12-week and 24-week periods ended February 15, 2015, $2.3 million and $4.3 million, respectively (12-week and 24-week periods ended February 9, 2014 - $nil and $3.0 million, respectively) of the funds held in the restricted account have been released to SIR. As at February 15, 2015, the balance in the restricted account was $nil (August 31, 2014 - $0.001 million). The funds in the restricted account are only to be used by SIR to finance capital expenditures, including restaurant renovations, new restaurant construction and other lender-approved purposes.

The financial covenants applicable to SIR in the Credit Agreement have been modified such that the minimum cash available for debt service ratio applied commencing at the end of SIR's first quarter of fiscal 2015 (the 12-week period ended November 23, 2014). All other financial covenants remain the same. SIR is currently compliant with its financial covenants.

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 August 23, 2013, 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 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 consolidated financial statements, however the obligation for payments remains.

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

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

At the current date, SIR has four commitments to lease properties, on which it plans to build three new Jack Astor's restaurants and one new Scaddabush restaurant. SIR has begun the construction of two of the Jack Astor's restaurants and has further purchase commitments for the construction of these properties of $2.5 million. At the current date, SIR has not entered into any construction contracts for the other two restaurants, but expects to do so in the future. Final costs of construction are subject to uncertainties as to their amounts and timing. Items such as finalization of design and final construction quotations could change the total cost of these projects. There can be no assurance that these restaurants will be opened or will become part of Royalty Pooled Restaurants.

As at February 15, 2015, $14.9 million, $8.0 million and $3.5 million were outstanding on SIR's Credit Agreement for the Term Loan, Tranche A Development Loan and Tranche B Development Loan, respectively.

Off-Balance Sheet Arrangements

There has been no substantial changes to SIR's off-balance sheet arrangements in the current fiscal year. The reader should refer to the annual MD&A for this information impacting SIR for the year ended August 31, 2014.

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 occupancy costs and maintenance services, charged to corporate costs, provided by a company owned by a party related to a shareholder of SIR, in the amount of $0.02 million and $0.03 million for the 12-week and 24-week periods ended February 15, 2015, respectively, ($0.03 million and $0.07 million for the 12-week and 24-week periods ended February 9, 2014, respectively).
- Payment for occupancy costs, charged to corporate costs, provided by a company owned by a director and shareholder of SIR, in the amount of $nil for both the 12-week and 24-week periods ended February 15, 2015, ($0.003 million for both the 12-week and 24-week periods ended February 9, 2014).
- Payment for refurbishing costs, charged to corporate costs, provided by a shareholder of SIR in the amount of $0.003 million and $0.005 million for the 12-week and 24-week periods ended February 15, 2015, respectively, ($nil for both the 12-week and 24-week periods ended February 9, 2014).
- Payment for refurbishing costs, charged to corporate costs, provided by a company owned by a shareholder of SIR in the amount of $0.008 million for both the 12-week and 24-week periods ended February 15, 2015, ($nil for both the 12-week and 24-week periods ended February 9, 2014).
- Payment for consulting fees charged to corporate costs, provided by a company owned by a director and shareholder of SIR, in the amount of $0.05 million and $0.07 million for the 12-week and 24-week periods ended February 15, 2015, respectively, ($nil for both the 12-week and 24-week periods ended February 9, 2014).
- Payment for maintenance services, charged to direct costs of restaurant operations, provided by a company owned by a party related to a shareholder of SIR, in the amount of $0.03 million and $0.06 million for the 12-week and 24-week periods ended February 15, 2015, respectively, ($0.03 million and $0.04 million for the 12-week and 24-week periods ended February 9, 2014, respectively).
- Payment for design and construction management fees and fixtures, charged to property and equipment, provided by a company owned by a shareholder of SIR, in the amount of $0.02 million and $0.08 million for the 12-week and 24-week periods ended February 15, 2015, respectively, ($0.2 million and $0.5 million for the 12-week and 24-week periods ended February 9, 2014, respectively).

- Payment for construction management fees and fixtures, charged to property and equipment, provided by a company owned by a party related to a shareholder of SIR, in the amount of $0.3 million and $0.4 million for the 12-week and 24-week periods ended February 15, 2015, respectively, ($0.5 million and $0.9 million for the 12-week and 24-week periods ended February 9, 2014, respectively).
- Payment for fixtures, charged to direct costs of restaurant operations, provided by a shareholder of SIR, in the amount of $nil and $0.01 million for the 12-week and 24-week periods ended February 15, 2015 ($0.01 million and $0.02 million charged to property and equipment for the 12-week and 24-week periods ended February 9, 2014, respectively).
- 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 24-week periods ended February 15, 2015, respectively, ($0.1 million and $0.2 million for the 12-week and 24-week periods ended February 9, 2014, respectively). SIR recognized interest income on those loans and advances of $0.05 million and $0.1 million for the 12-week and 24-week periods ended February 15, 2015, respectively, ($0.04 million and $0.08 million for the 12-week and 24-week periods ended February 9, 2014, respectively). As at February 15, 2015, SIR has loans and advances of $1.6 million owing from U.S. S.I.R. L.L.C. (August 31, 2014 – $1.3 million).
- SIR owns an investment in common shares of a company owned by a party related to a shareholder of SIR. SIR does not have the ability to significantly influence the operations of this company and, accordingly, has accounted for the investment as a financial asset (available for sale) and is carried at nominal value.
- SIR has advanced $0.3 million to one shareholder of SIR. The advance has a variable interest rate equal to the three-month Canadian dollar bankers' acceptance rate plus 5.65% per annum and is due on June 30, 2015.

In addition, included in accounts receivable are amounts due from U.S. S.I.R. L.L.C and its subsidiary of $0.2 million (August 31, 2014 – $0.2 million). Also included in accounts receivable are amounts due from a company owned by a party related to a director of SIR of $0.2 million (August 31, 2014 – $0.2 million).

Included in accounts payable and accrued liabilities are amounts due to shareholders of SIR and companies owned by shareholders of SIR of $0.07 million (August 31, 2014 – $0.01 million). Also included in accounts payable are amounts due to a company owned by a party related to a shareholder of SIR of $0.08 million (August 31, 2014 – $0.09 million), amounts due to a company owned by a party related to a director of SIR of $0.1 million (August 31, 2014 – $0.2 million) and amounts due to U.S. S.I.R. L.L.C. of $0.9 million (August 31, 2014 – $0.8 million).

Transactions with the SIR Royalty Income Fund

Advances receivable from the Fund and its subsidiaries as at February 15, 2015 were $2.5 million (August 31, 2014 – $2.6 million). Advances receivable are non-interest bearing and due on demand.

During the 12-week and 24-week periods ended February 15, 2015, distributions of $2.0 million and $3.8 million were declared to the Fund by the Partnership, respectively ($1.5 million and $3.2 million for the 12-week and 24-week periods ended February 9, 2014, 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 February 15, 2015 were $3.4 million (August 31, 2014 – $3.3 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 $1.4 million for the 12-week and 24-week periods ended February 15, 2015, respectively, and $0.7 million and $1.4 million for the 12-week and 24-week periods ended February 9, 2014. Interest payable on the SIR Loan as at February 15, 2015 was $0.4 million (August 31, 2014 – $0.3 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 $0.005 million and $0.011 million for the 12-week and 24-week periods ended February 15, 2015, respectively ($0.005 million and $0.011 million for the 12-week and 24-week periods ended February 9, 2014), 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 31, 2014. The reader will find this information in the annual MD&A for the year ended August 31, 2014.

Changes in Accounting Policies, Including Recently Issued Accounting Pronouncements

IFRS adopted during the period

IAS 36, Impairment of Assets – Disclosures, has been amended to introduce limited scope amendments to remove certain disclosure requirements in IAS 36, Impairment of Assets. Management has determined that the adoption of this standard has no impact on the interim consolidated financial statements.

IFRIC 21, Accounting for Levies Imposed by Governments, clarifies that the obligating event giving rise to a liability to pay a levy is the activity described in the relevant legislation that triggers payment of the levy. Management has determined that the adoption of this standard has no impact on the interim consolidated financial statements.

IAS 24, Related Party Transactions, has been amended to (i) revise the definition of "related party" to include an entity that provides key management personnel services to the reporting entity or its parent, and (ii) clarify related disclosure requirements. Management has determined that the adoption of this standard has no impact on the interim consolidated financial statements.

IFRS issued but not yet effective

IFRS 9, Financial Instruments – Classification and Measurement: In July 2014, the International Accounting Standards Board (IASB) issued the final version of IFRS 9, Financial Instruments, bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39, Financial Instruments: Recognition and Measurement. The mandatory effective date of IFRS 9 would be annual periods beginning on or after January 1, 2018, with early adoption permitted. Management is evaluating the standard and has not yet determined the impact on its consolidated financial statements.

IFRS 15, Revenue from Contracts with Customers, specifies how and when to recognize revenue as well as requiring entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18, Revenue, IAS 11, Construction Contracts, and a number of revenue-related interpretations. Application of the standard is mandatory for all IFRS reporters and it applies to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts. IFRS 15 must be applied in an entity's first annual IFRS financial statements for periods beginning on or after January 1, 2017 and early adoption is permitted. Management is evaluating the standard and has not yet determined the impact on its consolidated financial statements.

IFRS 7, Financial Instruments – Disclosure, has been amended to require disclosures on transition from IAS 39 to IFRS 9. This amendment is effective on adoption of IFRS 9, which is effective for years beginning on or after January 1, 2015. Management is evaluating the amendment and has not yet determined the impact on its consolidated financial statements.

Financial Instruments

Management believes that there have been no substantial changes in the financial instruments since the year ended August 31, 2014. The reader will find this information in the annual MD&A for the year ended August 31, 2014.

Risks and Uncertainties

The performance of SIR is dependent on many factors. The restaurant industry generally, and in particular, the casual and fine dining segment of this industry, is intensely competitive with respect to price, service, location, food quality and qualified staff. SIR Restaurants are subject to laws that prohibit or limit smoking in enclosed workplaces and/or certain outdoor public places, such as restaurant patios. There are many well-established competitors with greater financial and other resources than SIR. Competitors include national and regional chains, as well as individually owned restaurants. Recently, competition has increased in the mid-price, full-service, casual and fine dining sectors in which many of the SIR Restaurants operate. Some of SIR's competitors have been in existence for a substantially longer period than SIR and may be better established in the markets where SIR Restaurants are or may be located. In addition, factors such as business and economic conditions, changes in foreign exchange, availability of credit, inflation, increased food, labour and benefits costs, taxes, government regulations (including those governing alcoholic beverages), weather, seasonality, public safety issues and the availability and quality of food, services and products sold in the restaurants affect the restaurant industry in general and therefore SIR. Please refer to the Fund's March 18, 2015 Annual Information Form for further discussion on risks and uncertainties related to the Fund and SIR.

SIR is a holder of partnership interests in the Partnership. The Fund is also an indirect holder of partnership interests in the Partnership. The income of the Fund must be computed and will be taxed in accordance with Canadian tax laws. There is no assurance that Canadian federal income tax laws respecting the treatment of trusts will not be changed in a manner which adversely affects Unitholders.

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

Outlook

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

On June 23, 2014, SIR amended its credit facility with its lender to provide for contemplated financing with the Tranche C Development Loan. SIR has not drawn on this facility and the draw down date has expired.

At the current date, SIR has three commitments to lease properties, upon which it plans to build two new Jack Astor's restaurants and one new Scaddabush restaurant, the latter in downtown Toronto, Ontario. It is expected that these locations will open in fiscal 2015 and fiscal 2016. There can be no assurance that these restaurants will be opened or will become part of Royalty Pooled Restaurants.

SIR introduced a variant of the Alice Fazooli's concept called Scaddabush, offering guests a new, refreshing take on Italian dining and began by renovating the Alice Fazooli's Square One location in Mississauga, Ontario in Q4 2013. During Q3 2014, on February 18, 2014, SIR opened a second Scaddabush restaurant and SIR plans to open a third one in downtown Toronto, in fiscal 2016. SIR plans to continue the conversion of additional Alice Fazooli's to Scaddabush over the next two fiscal years. During Q1 2015, SIR completed a renovation of one Canyon Creek restaurant and SIR is encouraged by its initial sales growth and guest feedback.

Subsequent to Q2 2015, on February 18, 2015, one of SIR's Signature brand restaurants was temporarily closed due to significant water damage. The restoration is anticipated to be completed by the end of March and the restaurant will re-open soon thereafter. SIR maintains business interruption insurance to mitigate the risk of such events.

SIR continues to focus on sustaining and growing existing restaurant sales and profits while managing costs. SIR carefully monitors economic conditions, and 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", "should", "would", "expect", "believe", "plan", "anticipate", "intend", "estimate" and other similar terminology and the negative of such expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of Fund, the Trust, the Partnership, SIR, the SIR Restaurants or industry results, to differ materially from the anticipated results, performance, achievements or developments expressed or implied by such forward-looking statements. These statements reflect Management's current expectations, estimates and projections regarding future events and operating performance and speak only as of the date of this document. Readers should not place undue importance on forward-looking statements and should not rely upon this information as of any other date. Risks related to forward-looking statements include, among other things, challenges presented by a number of factors, including: market conditions at the time of this filing; competition; changes in demographic trends; weather; changing consumer preferences and discretionary spending patterns; changes in consumer confidence; changes in national and local business and economic conditions; changes in foreign exchange; changes in availability of credit; legal proceedings and challenges to intellectual property rights; dependence of the Fund on the financial condition of SIR; legislation and governmental regulation; accounting policies and practices; and the results of operations and financial condition of SIR. The foregoing list of factors is not exhaustive. Many of these issues can affect the Fund's or SIR's actual results and could cause their actual results to differ materially from those expressed or implied in any forward-looking statements made by, or on behalf of, the Fund or SIR. There can be no assurance that SIR will remain compliant in the future with all of its financial covenants under the Credit Agreement and imposed by the lender, or that it will be entitled to utilize any funds in the restricted account. 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 March 25, 2015.

In formulating the forward-looking statements contained herein, Management has assumed that business and economic conditions affecting SIR's restaurants and the Fund will continue substantially in the ordinary course, including without limitation with respect to general industry conditions, competition, general levels of economic activity (including in downtown Toronto), regulations (including those regarding employees, food safety, tobacco and alcohol), weather, taxes, foreign exchange rates and interest rates, that there will be no pandemics or other material outbreaks of disease or safety issues affecting humans or animals or food products, and that there will be no unplanned material changes in its facilities, equipment, customer and employee relations, or credit arrangements. These assumptions, although considered reasonable by Management at the time of preparation, may prove to be incorrect. In particular, Management has assumed that the tax effects on distributions will remain consistent with current regulations or pronouncements, and also in estimating the revenue for new restaurants, Management has assumed that they will operate consistent with other similar SIR restaurants, and has assumed that SIR will remain compliant in the future with all of its financial covenants under the Credit Agreement and imposed by the lender and that SIR will be entitled to utilize any funds in its restricted account. For more information concerning the Fund's risks and uncertainties, please refer to the March 18, 2015 Annual Information Form, for the period ended December 31, 2014, 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