SIR CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE 12-WEEK AND 36-WEEK PERIODS ENDED MAY 4, 2014

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Executive Summary

SIR Corp.'s ("SIR's") third quarter of fiscal 2014 ("Q3 2014") was from February 10, 2014 to May 4, 2014 inclusive. Highlights for SIR's third quarter include:

- ***Consolidated revenue and Same Store Sales*** [(1)] ***("SSS") (unaudited):***
  - Food and beverage revenue from corporate restaurant operations for Q3 2014 was $59.8 million and $171.1 million year-to-date ("YTD"). This represents a $3.1 million or 5.5% increase over the prior year for the quarter and a $11.8 million or 7.4% increase over the prior year for YTD.
  - SIR experienced SSS[(1)] declines of 0.7% and 0.4% for Q3 2014 and YTD, respectively.
  - SIR's flagship Concept Restaurant brand, Jack Astor's®, which generates approximately 74% of YTD Pooled Revenue, had SSS[(1)] declines of 1.0% and 0.6% for Q3 2014 and YTD, respectively. Canyon Creek® had growth in SSS[(1)] of 1.8% for Q3 2014 and a decline in SSS[(1)] of 0.8% for YTD. Alice Fazooli's®/Scaddabush Italian Kitchen & Bar® ("Scaddabush") had a SSS[(1)] decline of 4.0% and 6.8% for Q3 2014 and YTD, respectively. The Scaddabush location in Mississauga, Ontario, which was introduced during the fourth quarter of fiscal 2013 ("Q4 2013"), experienced SSSG[(1)] of 17.7% and 15.9% in Q3 2014 and YTD, respectively. The downtown Toronto Signature Restaurants had SSSG[(1)] of 0.7% and 8.1% for Q3 2014 and YTD, respectively. Unfavourable weather in the current period compared to the same period in the prior year had a negative impact on SSS[(1)] for Q3 2014 and YTD for all concepts.

- ***Investment in new and existing restaurants***
  - During the first quarter of fiscal 2014 ("Q1 2014"), on October 30, 2013, SIR opened Reds® Midtown Tavern, a second location of the Reds® Signature Restaurant. During the second quarter of fiscal 2014 ("Q2 2014"), on December 4, 2013, SIR opened another new Signature Restaurant, a second location of Duke's Refresher™ called Duke's Refresher™ & Bar. During Q3 2014, on February 18, 2014, SIR opened one new Scaddabush restaurant. Subsequent to Q3 2014, on June 11, 2014, SIR opened one new Jack Astor's restaurant.
  - Four restaurants were added to Royalty Pooled Restaurants on January 1, 2014, consisting of the two new Jack Astor's restaurants opened during the third quarter of fiscal 2013 ("Q3 2013"), the one new Jack Astor's restaurant opened during Q4 2013, and the new Signature Restaurant, Reds Midtown Tavern, which opened in Q1 2014.
  - Four Jack Astor's restaurants were renovated during the 36-week period ended May 4, 2014 (three in Q1 2014 and one in Q2 2014). Five restaurants were renovated during fiscal 2013, including two major Signature Restaurant renovations, one major Alice Fazooli's renovation, and two Jack Astor's renovations. The Signature Restaurant renovations were at Reds® Wine Tavern in the first quarter of fiscal 2013 ("Q1 2013") and the Loose Moose Tap & Grill® in the second quarter of fiscal 2013 ("Q2 2013"). In Q3 2013, the patio at Reds Wine Tavern was also renovated and extended. The major Alice Fazooli's renovation was in Q4 2013, when SIR temporarily closed the Alice Fazooli's Square One location in Mississauga, Ontario to complete a renovation and concept redirection. The restaurant was re-opened in Q4 2013 as Scaddabush, offering guests a new, refreshing take on Italian dining.

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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 2014 and fiscal 2013 and the seasonal Duke's Refresher and Abbey's Bakehouse, which are both located in Muskoka, Ontario. SSS for Alice Fazooli's includes three Alice Fazooli's restaurants and one Scaddabush restaurant, representing the Square One location in Mississauga, Ontario, which was renovated and re-opened as Scaddabush on July 23, 2013. Please refer to the reconciliation of consolidated revenue to SSS on page 8 and to the definition of SSS in the Revenue section on page 9.

- ***Net Earnings (Loss) and Comprehensive Income (Loss) and Adjusted Net Earnings (Loss)***[(2)]
  - The net earnings and comprehensive income for Q3 2014 of $0.7 million is $5.7 million favourable to the same period in the prior year. The net loss and comprehensive loss for YTD of $10.9 million is $1.1 million unfavourable to the same period in the prior year.
    - The favourable variance in net earnings and comprehensive income for Q3 2014 is primarily due to a favourable change in the amortized cost of Ordinary LP Units and Class A LP Units of the SIR Royalty Limited Partnership (the "Partnership"), which was income of $0.3 million for Q3 2014 compared to an expense of $5.3 million for Q3 2013. This was the result of a decrease in the underlying Fund unit price compared to Q2 2014. Additional favourable variances to Adjusted Net Earnings[(2)] of $0.1 million are noted below.
    - The unfavourable variance in net earnings and comprehensive income for YTD is primarily due to an unfavourable change in the amortized cost of Ordinary LP Units and Class A LP Units of the Partnership, which was $10.5 million for YTD compared to $9.1 million for the same period of the prior year. This was the result of an increase in the underlying Fund unit price compared to Q4 2013. This unfavourable variance was then partially offset by a net favourable variance to Adjusted Net Earnings[(2)] of $0.3 million as noted below.
  - The Adjusted Net Earnings[(2)] for Q3 2014 of $0.4 million is $0.1 million favourable to the same period in the prior year. The Adjusted Net Loss[(2)] for YTD of $0.4 million is $0.3 million favourable to the same period in the prior year.
    - The favourable variance for Q3 2014 is primarily the result of decreased interest (income) and other expense (income) of $0.8 million and decreased corporate costs of $0.4 million. These were partially offset by decreased earnings from corporate restaurant operations of $1.1 million.
    - The favourable variance for YTD is primarily the result of decreased interest (income) and other expense (income) of $1.2 million, which was partially offset by decreased earnings from corporate restaurant operations of $1.0 million.
    - The decreased interest (income) and other expense (income) for both Q3 2014 and YTD was primarily due to higher transaction costs associated with the sale of Fund units in Q3 2013 than the transaction costs associated with the sale of Fund units during Q3 2014.

- ***EBITDA***[(3)]
  - EBITDA[(3)] is $4.5 million and $5.1 million for Q3 2014 and Q3 2013, respectively.
  - YTD EBITDA[(3)] for Q3 is $11.2 million and $11.4 million for fiscal 2014 and fiscal 2013, respectively.

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(2) Adjusted Net Earnings (Loss) is calculated by removing the change in amortized cost of the Ordinary LP Units and Class A LP Units of the Partnership from the net earnings (loss) 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 7 and page 9 of this document.

(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, impairment of goodwill and 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.

- ***Other***

  - Fiscal 2014 quarters Q1, Q2, Q3, and Q4 consist of accounting periods of 12, 12, 12, and 17 weeks, respectively, compared to fiscal 2013 quarters of 12, 12, 12, and 16 weeks, respectively. Fiscal 2014 consists of 53 weeks, compared to 52 weeks in fiscal 2013.

  - On August 23, 2013, SIR entered into a Second Amended and Restated Loan Agreement (the Credit Agreement) that includes a term loan (the Term Loan) and two committed development loans (the Tranche A Development Loan and the Tranche B Development Loan) and also provided for additional uncommitted financing (Tranche C Development Loan). The Tranche B Development Loan was for a maximum principal amount of $4.0 million and was fully drawn as of February 9, 2014. The Tranche C Development Loan is not to exceed $6.0 million and is available to use subject to approval by the lender. SIR has requested a commitment from the lender for additional funding under this loan. Terms and conditions of the Tranche C Development Loan have not yet been agreed on by the lender and SIR (See Liquidity and Capital Resources section).

  - In fiscal 2013 and Q3 2014, on February 10, 2014, SIR converted 1,418,900 and 500,000 Class A GP Units, respectively, to Fund units and sold these Fund units for total net proceeds of $16.6 million in the fiscal 2013 transactions and $6.8 million in the February 10, 2014 transaction. 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, these transactions did not have a dilutive effect on the Fund. SIR's residual interest in the Partnership was affected by the conversions of the Class A GP Units into Fund units. After the net effect of the fiscal 2013 transactions and the adjustments to Royalty Pooled Restaurants on January 1, 2014, SIR retained a 30.6% residual interest in the Partnership. After the February 10, 2014 transaction, SIR's residual interest in the Partnership decreased by 5.1% and is currently at 25.5%. The Class A LP Units have been accounted for as a financial liability consistent with the Ordinary LP Units (Refer to page 16 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 seasonal Abbey's Bakehouse® retail outlet in Port Carling, Ontario, which are expected to open in the remainder of fiscal 2014 and later in fiscal 2015. There can be no assurance that these restaurants will be opened or will become part of Royalty Pooled Restaurants.

  - SIR has initiated a program to evolve the Alice Fazooli's concept called Scaddabush and began by renovating the 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 opened one new Scaddabush restaurant.

  - 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.

Overview

SIR is a private company amalgamated under the Business Corporations Act of Ontario. As at May 4, 2014, SIR operated 57 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/Scaddabush. The Signature Restaurants are Reds Wine Tavern, Reds Midtown Tavern, Far Niente®/FOUR®/Petit Four®, the Loose Moose Tap & Grill, and Duke's Refresher & Bar. SIR also owns and operates two seasonal Signature Restaurants in Muskoka, Ontario: Duke's Refresher and Abbey's Bakehouse, which are not currently part of Royalty Pooled Restaurants. As at May 4, 2014, 53 SIR Restaurants were included in SIR Royalty Pooled Restaurants. SIR owns 100% of all its Canadian restaurants.

On January 1, 2014, four restaurants were added to Royalty Pooled Restaurants, which included the two new Jack Astor's restaurants opened in Q3 2013, the one new Jack Astor's restaurant opened in Q4 2013, and the one new Signature Restaurant, Reds Midtown Tavern, opened in Q1 2014. During Q2 2014, on December 4, 2013, SIR opened one new Signature Restaurant, Duke's Refresher & Bar. During Q3 2014, on February 18, 2014, SIR opened one new Scaddabush restaurant.

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 2014 and 2013 consist of 53 weeks and 52 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 36-week periods ended May 4, 2014 and May 5, 2013, respectively. The unaudited consolidated financial statements of SIR are prepared in accordance with IFRS and are presented in Canadian dollars. This information should be read in conjunction with the annual audited consolidated financial statements of SIR, including the notes thereto.

Statements of Operations and Comprehensive Income (Loss)	12-Week Period Ended May 4, 2014	12-Week Period Ended May 5, 2013	36-Week Period Ended May 4, 2014	36-Week Period Ended May 5, 2013
	(in thousands of dollars) (unaudited)			
Corporate restaurant operations:				
Food and beverage revenue	59,773	56,676	171,051	159,266
Cost of corporate restaurant operations	55,399	51,172	159,332	146,574
Earnings from corporate restaurant operations	**4,374**	**5,504**	**11,719**	**12,692**
Net earnings (loss) and comprehensive income (loss)	**725**	**(5,003)**	**(10,896)**	**(9,777)**
Adjusted Net Earnings (Loss)(2)	**430**	**310**	**(375)**	**(709)**

Statement of Financial Position	May 4, 2014	August 25, 2013
	(in thousands of dollars) (unaudited)	
Total assets	85,143	82,613
Total non-current liabilities	157,455	147,265

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 May 4, 2014	12-Week Period Ended May 5, 2013	36-Week Period Ended May 4, 2014	36-Week Period Ended May 5, 2013
	(in thousands of dollars) (unaudited)			
Net earnings (loss) and comprehensive income (loss)	725	(5,003)	(10,896)	(9,777)
Change in amortized cost of Ordinary LP Units and Class A LP Units of the Partnership	(295)	5,313	10,521	9,068
Adjusted Net Earnings (Loss)(2)	**430**	**310**	**(375)**	**(709)**

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 May 4, 2014	12-Week Period Ended May 5, 2013	36-Week Period Ended May 4, 2014	36-Week Period Ended May 5, 2013
	(in thousands of dollars) (unaudited)			
Net earnings (loss) and comprehensive income (loss)	725	(5,003)	(10,896)	(9,777)
Add (deduct):				
Provision for income taxes	30	36	158	273
Interest (income) and other expense (income) – net	104	942	(57)	1,133
Loss on disposal of property and equipment	35	70	172	206
Impairment of non-financial assets	-	130	-	130
Interest expense	599	601	1,766	1,813
Interest on SIR Loan	697	696	2,093	2,091
Change in amortized cost of Ordinary LP Units and Class A LP Units of the Partnership	(295)	5,313	10,521	9,068
Depreciation and amortization	2,602	2,268	7,484	6,495
EBITDA(3)	**4,497**	**5,053**	**11,241**	**11,432**
Pre-opening costs	393	651	1,707	1,553
Adjusted EBITDA(3)	**4,890**	**5,704**	**12,948**	**12,985**
Income from Class A & B GP Units of the Partnership(4) (Not included in EBITDA(3) and Adjusted EBITDA(3) above)	867	880	2,569	2,977
6% Royalty obligations under License and Royalty Agreement(5)	3,518	3,312	9,809	9,308

(4) *Includes the additional distribution paid to Class B GP Unitholders in December of each year, if any.*

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

Results of Operations

Reconciliation of Revenue from Consolidated Financial Statements to Pooled Revenue	12-Week Period Ended May 4, 2014	12-Week Period Ended May 5, 2013	36-Week Period Ended May 4, 2014	36-Week Period Ended May 5, 2013
	(in thousands of dollars) (unaudited)			
Revenue reported in consolidated financial statements	59,773	56,676	171,051	159,266
Less: Revenue from corporate restaurant operations excluded from the Royalty pool	(1,144)	(1,477)	(7,568)	(6,220)
Revenue for Restaurants in the Royalty pool	**58,629**	**55,199**	**163,483**	**153,046**

Reconciliation of Revenue from Consolidated Financial Statements to Same Store Sales(1)	12-Week Period Ended May 4, 2014	12-Week Period Ended May 5, 2013	36-Week Period Ended May 4, 2014	36-Week Period Ended May 5, 2013
	(in thousands of dollars) (unaudited)			
Revenue reported in consolidated financial statements	59,773	56,676	171,051	159,266
Less: Revenue from corporate restaurant operations excluded from Same Store Sales(1)	(7,303)	(3,855)	(19,325)	(6,997)
Same Store Sales(1)	**52,470**	**52,821**	**151,726**	**152,269**

Same Store Sales(1) by Segment	12-Week Period Ended May 4, 2014	12-Week Period Ended May 5, 2013	% Fav. / (Unfav.)	36-Week Period Ended May 4, 2014	36-Week Period Ended May 5, 2013	% Fav. / (Unfav.)
			(in thousands of dollars) (unaudited)			
Jack Astor's	38,295	38,668	(1.0%)	110,391	111,079	(0.6%)
Canyon Creek	6,418	6,306	1.8%	19,132	19,292	(0.8%)
Alice Fazooli's/Scaddabush	3,024	3,149	(4.0%)	9,209	9,881	(6.8%)
Signature Restaurants	4,733	4,698	0.7%	12,994	12,017	8.1%
Same Store Sales(1)	**52,470**	**52,821**	**(0.7%)**	**151,726**	**152,269**	**(0.4%)**

Summary of Quarterly Results

Statement of Operations	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)	2nd Quarter Ended February 10, 2013 (12 weeks)	1st Quarter Ended November 18, 2012 (12 weeks)	4th Quarter Ended August 26, 2012 (16 weeks)
Corporate Restaurant Operations				(in thousands of dollars) (unaudited)				
Food and beverage revenue	59,773	55,224	56,054	82,864	56,676	52,210	50,380	71,405
Cost of corporate restaurant operations	55,399	51,497	52,436	76,837	51,172	47,837	47,565	65,149
Earnings from corporate restaurant operations	**4,374**	**3,727**	**3,618**	**6,027**	**5,504**	**4,373**	**2,815**	**6,256**
Net earnings (loss) and comprehensive income (loss)	**725**	**113**	**(11,734)**	**(6,484)**	**(5,003)**	**(2,822)**	**(1,952)**	**(15,429)**
Adjusted Net Earnings (Loss)(2)	**430**	**(208)**	**(597)**	**616**	**310**	**347**	**(1,366)**	**1,432**

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

Reconciliation of net earnings (loss) and comprehensive income (loss) for the period to Adjusted Net Earnings (Loss)(2)	3rd Quarter Ended May 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)	2nd Quarter Ended February 10, 2013 (12 weeks)	1st Quarter Ended November 18, 2012 (12 weeks)	4th Quarter Ended August 26, 2012 (16 weeks)
				(in thousands of dollars) (unaudited)				
Net earnings (loss) and comprehensive income (loss)	725	113	(11,734)	(6,484)	(5,003)	(2,822)	(1,952)	(15,429)
Change in amortized cost of the Ordinary LP Units and Class A LP Units of the Partnership	(295)	(321)	11,137	7,100	5,313	3,169	586	16,861
Adjusted Net Earnings (Loss)(2)	**430**	**(208)**	**(597)**	**616**	**310**	**347**	**(1,366)**	**1,432**

Selected Unaudited Consolidated Statement of Cash Flows Information:

	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)	2nd Quarter Ended February 10, 2013 (12 weeks)	1st Quarter Ended November 18, 2012 (12 weeks)	4th Quarter Ended August 26, 2012 (16 weeks)
				(in thousands of dollars) (unaudited)				
Cash provided by continuing operations	1,757	1,505	71	7,137	2,201	3,278	31	6,603
Cash provided by (used in) continuing investing activities	2,677	(5,323)	(164)	(2,513)	700	(1,202)	(3,494)	(4,515)
Cash provided by (used in) continuing financing activities	(2,329)	669	(950)	(2,647)	(2,237)	(2,011)	(2,030)	4,490
Increase (decrease) in cash and cash equivalents during the period	2,105	(3,149)	(1,043)	1,977	664	65	(5,493)	6,578
Cash and cash equivalents – Beginning of period	3,516	6,665	7,708	5,731	5,067	5,002	10,495	3,917
Cash and cash equivalents – End of period	5,621	3,516	6,665	7,708	5,731	5,067	5,002	10,495

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 36-week periods ended May 4, 2014, revenue was $59.8 million and $171.1 million, respectively.

ii. Same Store Sales(1) – this is a sub-set of i above used for tracking comparable year-over-year sales. For Q3 2014 and Q3 2013, SSS(1) includes all SIR Restaurants, except for those restaurants that were not open for the entire comparable periods in fiscal 2014 and fiscal 2013 and the seasonal Duke's Refresher and Abbey's Bakehouse, which are both located in Muskoka, Ontario. SSS(1) for Alice Fazooli's includes three Alice Fazooli's restaurants and one Scaddabush restaurant, representing the Square One location in Mississauga, Ontario, which was renovated and re-opened as Scaddabush in Q4 2013. For the 12-week and 36-week periods ended May 4, 2014, SSS(1) was $52.5 million and $151.7 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 53 Royalty Pooled Restaurants. For the 12-week and 36-week periods ended May 4, 2014, Pooled Revenue was $58.6 million and $163.5 million, respectively. The applicable Royalty to the Partnership on the Pooled Revenue for these same periods was $3.5 million and $9.8 million, respectively.

Same Store Sales[1]

SIR had SSS[1] declines of 0.7% and 0.4% for the 12-week and 36-week periods ended May 4, 2014, respectively. Unfavourable weather in the current period compared to the same period in the prior year had a negative impact on SSS[1] for Q3 2014 and YTD for all concepts.

Jack Astor's, SIR's flagship Concept Restaurant brand, which generates approximately 74% of YTD Pooled Revenue, experienced SSS[1] declines of 1.0% and 0.6% for the 12-week and 36-week periods ended May 4, 2014, respectively.

Canyon Creek experienced growth in SSS[1] of 1.8% and a decline in SSS[1] of 0.8% for the 12-week and 36-week periods ended May 4, 2014, respectively. Management continues to review initiatives to enhance value at Canyon Creek.

Alice Fazooli's, together with Scaddabush, had a SSS[1] decline of 4.0% and 6.8% for the 12-week and 36-week periods ended May 4, 2014, respectively. SIR has initiated a program to evolve the Alice Fazooli's concept called Scaddabush. SIR renovated the Alice Fazooli's Square One location in Mississauga, Ontario and re-opened this location as Scaddabush in Q4 2013. Scaddabush offers guests a new, refreshing take on Italian dining and generated SSSG[1] of 17.7% and 15.9% for the 12-week and 36-week periods ended May 4, 2014.

The downtown Toronto Signature Restaurants experienced SSSG[1] of 0.7% and 8.1% for the 12-week and 36-week periods ended May 4, 2014, respectively. SSSG[1] in the Signature Restaurants for both Q3 2014 and YTD was positively affected by fiscal 2013 renovations. Reds was fully renovated in Q1 2013, with its patio renovated and extended in Q3 2013, and the Loose Moose was fully renovated in Q2 2013.

Cost of Corporate Restaurant Operations

As a percentage of revenue, costs of corporate restaurant operations was 92.7% and 93.1% for the 12-week and 36-week periods ended May 4, 2014, respectively, compared to 90.3% and 92.0% for the 12-week and 36-week periods ended May 5, 2013, respectively. The increases are primarily the result of relatively flat SSS[1]. In addition, higher costs include repairs and maintenance, utilities, marketing, and labour costs for both the 12-week and 36-week periods ended May 4, 2014, respectively. The higher labour costs were primarily the result of the added labour and training costs associated with opening two new Signature Restaurants and one new Scaddabush restaurant during the 36-week period ended May 4, 2014 and one new Jack Astor's restaurant subsequent to Q3 2014. Pre-opening expenses were also higher for the 36-week period ended May 4, 2014. Higher operating costs and pre-opening expenses are typical for new restaurant openings. The increase for the 36-week period ended May 4, 2014 was less significant than the increase for the 12-week period ended May 4, 2014 due to the temporary renovation closure of Reds in Q1 2013, which added to costs as a percentage of sales for the 36-week period ended May 5, 2013.

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. In fiscal 2013 and Q3 2014, on February 10, 2014, the Fund acquired 1,418,900 and 500,000 Class A LP units, respectively, upon SIR's conversion of its Class A GP Units into Fund units (refer to page 16 of the Liquidity and Capital Resources section). In accordance with IFRS, SIR has consolidated the Partnership. The Ordinary LP Units and Class A LP Units of the Partnership, which are held by the Fund, require SIR to pay distributions to the Fund when declared by the board of directors of SIR GP Inc. SIR GP Inc. is controlled by the Fund and, accordingly, SIR is unable to control the declaration of these distributions. As a result, the Ordinary LP Units and Class A LP Units of the Partnership have been classified as a financial liability in the consolidated statements of financial position. The Ordinary LP Units and Class A LP Units were initially recorded at fair value and subsequently at amortized cost, which requires updating the carrying amount of the financial liability to reflect actual and revised estimates in cash flows. The changes in the estimated cash flows are derived from changes in the value of the underlying Fund units adjusted for taxes and the SIR Loan.

Changes in amortized cost are recognized in the consolidated statements of operations and comprehensive income (loss). The change in the amortized cost is a non-cash transaction and accordingly, has no impact on cash flows. For Q3 2014, the change in amortized cost was income of $0.3 million due to a decrease in the underlying Fund unit price compared to Q2 2014, which was partially offset by an increase in the number of Fund units compared to Q2 2014. For YTD, the change in amortized cost was an expense of $10.5 million, which was due to increases in the underlying Fund unit price and the number of Fund units compared to Q4 2013. The change in amortized cost was an expense of $5.3 million and $9.1 million for the 12-week and 36-week periods ended May 5, 2013, respectively.

Interest on the SIR Loan totalled $0.7 million and $2.1 million for both the 12-week and 36-week periods ended May 4, 2014 and May 5, 2013, respectively.

EBITDA[3] and Adjusted EBITDA[3]

EBITDA[3] is $4.5 million and $11.2 million for the 12-week and 36-week periods ended May 4, 2014, respectively and $5.1 million and $11.4 million for the 12-week and 36-week periods ended May 5, 2013, respectively. Adjusted EBITDA[3] is $4.9 million and $12.9 million for the 12-week and 36-week periods ended May 4, 2014, respectively and $5.7 million and $13.0 million for the 12-week and 36-week periods ended May 5, 2013, 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 of $0.7 million and $2.1 million was charged to the consolidated statements of operations and comprehensive income (loss) for both the 12-week and 36-week periods ended May 4, 2014 and May 5, 2013, respectively.

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

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

	12-Week Period Ended May 4, 2014	12-Week Period Ended May 5, 2013	36-Week Period Ended May 4, 2014	36-Week Period Ended May 5, 2013
	(in thousands of dollars) (unaudited)			
Balance – Beginning of the period	92,198	65,669	85,718	58,328
Conversion of Class A GP Units	6,976	11,008	6,976	17,819
Change in amortized cost of the Ordinary LP Units and Class A LP Units of the Partnership	(295)	5,313	10,521	9,068
Distributions paid to Ordinary LP and Class A LP unitholders	(1,749)	(1,582)	(6,085)	(4,807)
Balance – End of period	97,130	80,408	97,130	80,408
Less: Current portion of Ordinary LP Units and Class A LP Units of the Partnership	(8,285)	(6,735)	(8,285)	(6,735)
Ordinary LP Units and Class A LP Units of the Partnership	88,845	73,673	88,845	73,673

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

Pooled Revenue[(6)]	58,629	55,199	163,483	153,046
Partnership royalty income[(7)]	3,518	3,312	9,809	9,308
Other income	11	9	33	26
Partnership expenses	(20)	(26)	(60)	(63)
Net earnings of the Partnership	3,509	3,295	9,782	9,271
SIR's residual interest in the earnings of the Partnership:				
Income from Class A & B GP Units of the Partnership	(867)	(880)	(2,569)	(2,977)
Income from Class C GP Units of the Partnership	(690)	(690)	(2,071)	(2,071)
	(1,557)	(1,570)	(4,640)	(5,048)
Fund's interest in the earnings of the Partnership	1,952	1,725	5,142	4,223

On October 12, 2004, the Partnership issued Ordinary LP and GP Units to the Fund for cash consideration of $11.2 million. In fiscal 2013 and Q3 2014, on February 10, 2014, the Fund acquired 1,418,900 and 500,000 Class A LP Units, respectively, upon SIR's conversion of its Class A GP Units into Fund units (refer to page 16 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").

(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.

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, 2014, four (January 1, 2013 – 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 four new SIR Restaurants on January 1, 2014 (January 1, 2013 – four), as well as the Second Incremental Adjustment for four new SIR Restaurant added to Royalty Pooled Restaurants on January 1, 2013 (January 1, 2012 – 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 nil (January 1, 2013 – two) SIR Restaurants during the prior year. The net effect of these adjustments to Royalty Pooled Restaurants was that SIR converted 803,000 (January 1, 2013 – 296,000) Class B GP Units into 803,000 (January 1, 2013 – 296,000) Class A GP Units on January 1, 2014 at an estimated fair value of $11.4 million (January 1, 2013 – $4.3 million). In addition, the revenues of four new SIR Restaurants added to Royalty Pooled Restaurants on January 1, 2013 (January 1, 2012 – one) exceeded 80% of the Initial Adjustment's estimated revenues and, as a result, an additional distribution of $0.2 million was declared in December 2013 (December 2012 – $0.02 million) and paid the following January.

After the net effect of the adjustments to Royalty Pooled Restaurants on January 1, 2014, SIR's residual interest in the Partnership was 30.6% (August 25, 2013 – 24.4%). After the February 10, 2014 transaction (refer to page 16 of the Liquidity and Capital Resources section), SIR's residual interest in the Partnership decreased by 5.1% and is currently at 25.5%.

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

Liquidity and Capital Resources

Selected Consolidated Statement of Cash Flows Information	12-Week Period Ended May 4, 2014	12-Week Period Ended May 5, 2013	36-Week Period Ended May 4, 2014	36-Week Period Ended May 5, 2013
	(in thousand of dollars) (unaudited)			
Cash provided by operations	1,757	2,201	3,333	5,510
Cash provided by (used in) investing activities	2,677	700	(2,810)	(3,996)
Cash used in financing activities	(2,329)	(2,237)	(2,610)	(6,278)
Increase (decrease) in cash and cash equivalents during the period	2,105	664	(2,087)	(4,764)
Cash and cash equivalents – Beginning of period	3,516	5,067	7,708	10,495
Cash and cash equivalents – End of period	5,621	5,731	5,621	5,731

Cash provided by operations decreased by $0.4 million and $2.2 million for the 12-week and 36-week periods ended May 4, 2014 as compared to the 12-week and 36-week periods ended May 5, 2013, respectively. For the 12-week period ended May 4, 2014, net earnings increased by $5.7 million. This increase was offset by fluctuations in non-cash expenses from the same period of the prior year. Decreases in items not affecting cash for the 12-week period ended May 4, 2014 included the change in amortized cost of Ordinary LP Units and Class A LP Units of the Partnership of $5.6 million and other items of $0.5 million. An increase in distributions paid to Ordinary LP and Class A LP unitholders of $0.2 million further decreased cash provided by operations for the 12-week period ended May 4, 2014. These decreases were partially offset by an increase in depreciation and amortization of $0.3 million for the 12-week period ended May 4, 2014. For the 36-week period ended May 4, 2014, net loss increased by $1.1 million. This increase in net loss was partially offset by fluctuations in non-cash expenses from the same period of the prior year. Increases in non-cash expenses for the 36-week period ended May 4, 2014 included an increase in the change in amortized cost of Ordinary LP Units and Class A LP Units of the Partnership of $1.5 million and an increase in depreciation and amortization of $1.0 million, which were offset by a recovery of loans and advances of $0.3 million and other items of $0.7 million. An increase in distributions paid to Ordinary LP and Class A LP unitholders of $1.3 million and a decrease in the net change in working capital items of $0.8 million further decreased cash provided by operations for the 36-week period ended May 4, 2014.

Investing activities provided cash of $2.7 million and $0.7 million for the 12-week periods ended May 4, 2014 and May 5, 2013, respectively and used cash of $2.8 million and $4.0 million for the 36-week periods ended May 4, 2014 and May 5, 2013, respectively. Purchases of property and equipment and other assets – net amounted to $2.6 million and $11.3 million for the 12-week and 36-week periods ended May 4, 2014, respectively and $6.8 million and $16.1 million for the 12-week and 36-week periods ended May 5, 2013, respectively. The majority of the capital expenditures for the 36-week period ended May 4, 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, the new Scaddabush that opened in Q3 2014, and the new Jack Astor's that opened subsequent to Q3 2014, as well as the renovation costs for three Jack Astor's restaurants during Q1 2014 and one during Q2 2014. The majority of the capital expenditures for the 36-week period ended May 5, 2013 related to the construction costs incurred for five new Jack Astor's restaurants (two in Q1 2013, two in Q3 2013, and one in Q4 2013) and the renovation costs for Reds Wine Tavern, the Loose Moose, and two Jack Astor's restaurants. 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 used in investing activities includes net cash proceeds received from restricted funds of $5.3 million and $8.3 million for the 12-week and 36-week periods ended May 4, 2014, respectively and $7.4 million and $12.0 million for the 12-week and 36-week periods ended May 5, 2013, respectively. The proceeds from the conversion of Class A GP Units to Fund units and their subsequent sale was placed in a restricted account and has been accounted for as a non-cash transaction in the consolidated statements of cash flows.

For the 12-week and 36-week periods ended May 4, 2014, cash used in financing activities was $2.3 million and $2.6 million, respectively. Cash used in financing activities was $2.2 million and $6.3 million for the 12-week and 36-week periods ended May 5, 2013, respectively. Proceeds received from the issuance of long-term debt were $nil and $4.0 million for the 12-week and 36-week periods ended May 4, 2014, which represents draws on the Tranche B Development Loan. Principal repayments on long-term debt were $1.1 million and $2.7 million for the 12-week and 36-week periods ended May 4, 2014, respectively and $0.9 million and $2.4 million for the 12-week and 36-week periods ended May 5, 2013, respectively. Interest paid was $1.2 million and $3.6 million for the 12-week and 36-week periods ended May 4, 2014, respectively and $1.3 million and $3.7 million for the 12-week and 36-week periods ended May 5, 2013, respectively.

The two new Jack Astor's restaurants opened during Q3 2013, the one new Jack Astor's restaurant opened during Q4 2013, and the one new Signature Restaurant, Reds Midtown Tavern, which opened in Q1 2014, were added to the Royalty Pooled Restaurants effective January 1, 2014. At this 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, 2013. 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, 2014, SIR held 2,991,344 Class A GP Units. After the February 10, 2014 transaction during Q3 2014 (refer to page 16), the number of SIR's Class A GP Units decreased by 500,000 units and at the current date, SIR holds 2,491,344 Class A GP Units.

As at May 4, 2014, SIR had current assets of $19.4 million (August 25, 2013 – $21.3 million) and current liabilities of $43.6 million (August 25, 2013 – $40.5 million) resulting in a working capital deficit of $24.2 million (August 25, 2013 – $19.2 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, scheduled debt repayments, and future construction commitments.

SIR's Credit Agreement includes the Term Loan, Tranche A Development Loan, Tranche B Development Loan, and also provides for additional uncommitted financing (Tranche C Development Loan), for which terms and conditions have not yet been agreed on by the lender and SIR.

All loans under the Credit Agreement, except the Tranche C Development Loan, 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 May 4, 2014, totalled 6.95%. The Tranche B Development Loan has a variable interest rate equal to the greater of 6.0% per annum and the three-month Canadian dollar bankers' acceptance rate plus 5.65% per annum, which on May 4, 2014 totalled 6.85%. SIR can also elect to fix the interest rate. The amortization period for the Term Loan, the Tranche A Development Loan and the Tranche B Development Loan are ten years, seven years, and seven years, respectively.

The Term Loan and Tranche A Development Loan are repayable in estimated monthly blended installments of principal and interest of $0.3 million and $0.2 million, respectively.

The Tranche B Development Loan was for a maximum principal amount of $4.0 million and was fully drawn in Q2 2014. Interest only was payable on the Tranche B Development Loan until it was converted into term debt in December 2013. The Tranche B Development Loan is repayable in blended monthly payments of principal and interest of $0.06 million.

The Tranche C Development Loan is not to exceed $6.0 million and is available to use subject to approval by the lender. SIR has requested a commitment from the lender for additional funding under this loan. Terms and conditions of the Tranche C Development Loan have not yet been agreed on by the lender and SIR.

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 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 $0.05 million and $0.2 million were charged to the consolidated statements of operations and comprehensive income (loss) for the 12-week and 36-week periods ended May 4, 2014 respectively ($0.05 million and $0.05 million for the 12-week and 36-week periods ended May 5, 2013, 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 fiscal 2013 and Q3 2014, on February 10, 2014, SIR converted 1,418,900 and 500,000 Class A GP Units, respectively, to Fund units and sold these Fund units for net proceeds of $16.6 million (net of transaction costs of $1.3 million) in the fiscal 2013 transactions and $6.8 million (net of transaction costs of $0.2 million) in the February 10, 2014 transaction. SIR's residual interest in the Partnership was affected by the conversions of the Class A GP Units into Fund units. After the net effect of the fiscal 2013 transactions and the adjustments to Royalty Pooled Restaurants on January 1, 2014, SIR retained a 30.6% residual interest in the Partnership. After the February 10, 2014 transaction in Q3 2014, SIR's residual interest in the Partnership decreased by 5.1% and is currently at 25.5%.

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 were $17.0 million and $6.8 million in the fiscal 2013 transactions and the Q3 2014 transaction, respectively. These amounts were deposited into an account restricted by the lender and, accordingly, were classified as restricted cash in the consolidated statements of financial position. As at May 4, 2014, $22.3 million of the funds held in the restricted account have been released to SIR. The funds are released upon SIR presenting eligible capital expenditures to the lender. As at May 4, 2014, the balance in the restricted account is $1.5 million.

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 three commitments to lease properties, on which it plans to build two new Jack Astor's restaurants and one new seasonal Abbey's Bakehouse retail outlet in Port Carling, Ontario. SIR has begun the early stages of construction of one of the Jack Astor's restaurants and the seasonal Abbey's Bakehouse retail outlet and has further purchase commitments for the construction of these properties of $2.4 million. At the current date, SIR has not entered into any construction contracts for the other Jack Astor's restaurant, but expects to do so in the future. Final costs of construction are subject to uncertainties as to their amounts and timing. Items such as finalization of design and final construction quotations could change the total cost of these projects. There can be no assurance that these restaurants will be opened or will become part of Royalty Pooled Restaurants.

As at May 4, 2014, $17.1 million, $9.2 million, and $3.9 million were outstanding on SIR's Credit Agreement for the Term Loan, Tranche A Development Loan, and Tranche B Development Loan, respectively (see Liquidity and Capital Resources section).

Off-Balance Sheet Arrangements

There have 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 25, 2013.

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 $0.05 million and $0.1 million for the 12-week and 36-week periods ended May 4, 2014, respectively ($0.05 million and $0.1 million for the 12-week and 36-week periods ended May 5, 2013, 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 and $0.003 million for the 12-week and 36-week periods ended May 4, 2014, respectively ($nil for both the 12-week and 36-week periods ended May 5, 2013).
- 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 $0.02 million and $0.06 million for the 12-week and 36-week periods ended May 4, 2014, respectively ($0.01 million and $0.02 million for the 12-week and 36-week periods ended May 5, 2013, 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 $0.2 million and $0.6 million for the 12-week and 36-week periods ended May 4, 2014, respectively ($0.2 million and $0.6 million for the 12-week and 36-week periods ended May 5, 2013, 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 $nil and $0.9 million for the 12-week and 36-week periods ended May 4, 2014, respectively ($0.3 million and $1.1 million for the 12-week and 36-week periods ended May 5, 2013, respectively).
- Payment for fixtures, charged to property and equipment, provided by a shareholder of SIR, in the amount of $0.01 million and $0.03 million for the 12-week and 36-week periods ended May 4, 2014, respectively ($nil and $nil for the 12-week and 36-week periods ended May 5, 2013, respectively).
- Received repayment against loans and advances from U.S. S.I.R. L.L.C. of $0.05 million and $0.2 million for the 12-week and 36-week periods ended May 4, 2014, respectively ($0.06 million and $0.1 million for the 12-week and 36-week periods ended May 5, 2013, respectively). SIR recognized interest income on those loans and advances of $0.04 million and $0.1 million for the 12-week and 36-week periods ended May 4, 2014, respectively ($0.04 million and $0.1 million for the 12-week and 36-week periods ended May 5, 2013, respectively*)*. As at May 4, 2014, SIR has loans and advances of $1.4 million owing from U.S. S.I.R. L.L.C. (August 25, 2013 – $1.2 million).

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 25, 2013 – $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 25, 2013 – $0.2 million).

Included in accounts payable and accrued liabilities are amounts due to shareholders of SIR and companies related to shareholders of SIR of $0.1 million (August 25, 2013 – $0.05 million). Also included in accounts payable are amounts due to a company owned by a party related to a shareholder of SIR of $0.05 million (August 25, 2013 – $0.2 million), amounts due to a company owned by a party related to a director of SIR of $0.1 million (August 25, 2013 – $0.09 million) and amounts due to U.S. S.I.R. L.L.C. of $0.8 million (August 25, 2013 – $0.8 million).

Transactions with the SIR Royalty Income Fund

Advances receivable from the Fund and its subsidiaries as at May 4, 2014 were $2.4 million (August 25, 2013 – $2.4 million). Advances receivable are non-interest bearing and due on demand.

During the 12-week and 36-week periods ended May 4, 2014, distributions of $2.0 million and $5.1 million were declared to the Fund by the Partnership, respectively ($1.7 million and $4.2 million for the 12-week and 36-week periods ended May 5, 2013, respectively). The Fund, indirectly through the Trust, is entitled to receive a pro rata share of all residual distributions. Distributions previously declared, but unpaid as at May 4, 2014 were $3.0 million (August 25, 2013 – $3.9 million) and are included in Ordinary LP Units and Class A LP Units of the Partnership in the consolidated statements of financial position.

The SIR Loan bears interest at 7.5% per annum. Interest expense on the SIR Loan totaled $0.7 million and $2.1 million for both the 12-week and 36-week periods ended May 4, 2014 and May 5, 2013, respectively. Interest payable on the SIR Loan as at May 4, 2014 was $0.3 million (August 25, 2013 – $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 and $0.017 million for the 12-week and 36-week periods ended May 4, 2014, respectively ($0.006 million and $0.017 million for the 12-week and 36-week periods ended May 5, 2013, respectively), 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 since the year ended August 25, 2013. The reader will find this information in the annual MD&A for the year ended August 25, 2013.

Changes in Accounting Policies, Including Recently Issued Accounting Pronouncements

There have been no changes to accounting policies affecting SIR in the current fiscal year, except as noted below. The reader should refer to the annual consolidated financial statements and MD&A for changes in accounting policies impacting SIR for the year ended August 25, 2013.

IFRS 10, Consolidated Financial Statements, requires an entity to consolidate an investee when it is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. IFRS 10 replaced Standing Interpretations Committee 12, Consolidation - Special Purpose Entities, and parts of IAS 27. Management has determined that the adoption of this standard has no impact on the interim consolidated financial statements.

IFRS 12, Disclosure of Interests in Other Entities, establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. Management has determined that the adoption of this standard has no impact on the interim consolidated financial statements. The adoption of this standard will require additional disclosures in the annual consolidated financial statements.

IFRS 13, Fair Value Measurement, is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Management has determined that the adoption of this standard has no impact on the interim consolidated financial statements.

IFRS issued but not yet adopted

IFRS 9, Financial Instruments, is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is measured using amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest; otherwise, it is at fair value through profit or loss. IFRS 9 was amended in November 2013 to (i) include guidance on hedge accounting, (ii) allow entities to early adopt the requirement to recognize changes in fair value attributable to changes in an entity's own credit risk, from financial liabilities designated under the fair value option, in other comprehensive income, without having to adopt the remainder of IFRS 9, and (iii) remove the previous mandatory effective date of January 1, 2015, although the standard is available for early adoption. 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.

Amendments to other standards

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. This standard is effective for years beginning on or after January 1, 2014. Management is evaluating this standard and has not yet determined the impact on its 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. This standard is effective for years beginning on or after January 1, 2014. Management is evaluating this standard and has not yet determined the impact on its 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. This amendment is effective for annual periods beginning on or after July 1, 2014. Management is evaluating this amendment and has not yet determined the impact on its consolidated financial statements.

IFRS 7, Financial Instruments – Disclosure, has been amended to require disclosures on transition from IAS 39 to IFRS 9. This amendment is effective on adoption of IFRS 9, 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 financial instruments since the year ended August 25, 2013. The reader will find this information in the annual MD&A for the year ended August 25, 2013.

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. There are many well-established competitors with greater financial and other resources than SIR. Competitors include national and regional chains, as well as individually owned restaurants. Recently, competition has increased in the mid-price, full-service, casual and fine dining sectors in which many of the SIR Restaurants operate. Some of SIR's competitors have been in existence for a substantially longer period than SIR and may be better established in the markets where SIR Restaurants are or may be located. In addition, factors such as business and economic conditions, changes in foreign exchange, availability of credit, inflation, increased food, labour and benefits costs, taxes, government regulations (including those governing alcoholic beverages), weather, seasonality, public safety issues and the availability and quality of food, services and products sold in the restaurants affect the restaurant industry in general and therefore SIR. Please refer to the Fund's March 11, 2014 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 currently there are sufficient cash resources retained in SIR from its cash generated by operations to fund its working capital requirements, scheduled debt repayments, and future construction commitments.

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 seasonal Abbey's Bakehouse retail outlet in Port Carling, Ontario. It is expected that these locations will open in 2014 and 2015. There can be no assurance that these restaurants will be opened or will become part of Royalty Pooled Restaurants.

Subsequent to May 4, 2014, on June 11, 2014, SIR opened one new Jack Astor's restaurant.

SIR has initiated a program to evolve the Alice Fazooli's concept called Scaddabush and began by renovating the 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 opened one new Scaddabush restaurant.

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", "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: 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. 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. Forward-looking statements are based on Management's current plans, estimates, projections, beliefs and opinions, and the Fund and SIR do not undertake any obligation to update forward-looking statements should assumptions related to these plans, estimates, projections, beliefs and opinions change, except as expressly required by applicable securities laws. This Management's Discussion and Analysis is provided as of June 18, 2014.

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. For more information concerning the Fund's risks and uncertainties, please refer to the March 11, 2014 Annual Information Form, for the period ended December 31, 2013, 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