SIR ROYALTY INCOME FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

SECOND QUARTER

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTH PERIODS ENDED TO JUNE 30, 2006

AMENDED

SIR ROYALTY INCOME FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")

(For the 3 and 6-month periods ended June 30, 2006)

* This amended MD&A has been filed to correct a wording omission that occurred in the last paragraph on Page 3 relating to the timing of the closure of the Alice Fazooli's!® in downtown Toronto. The wording has been amended herein to specify that the closure took place in the first quarter of 2006.

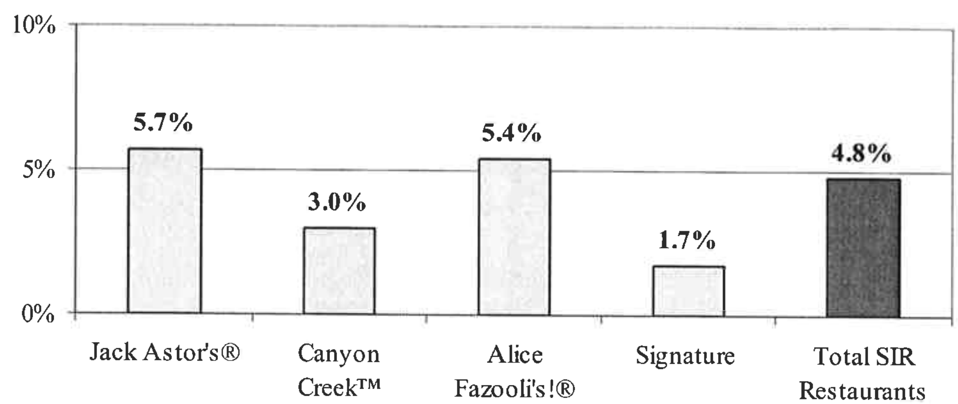
Executive Summary

Highlights for the 3-month period ended June 30, 2006 ("Q2") and 6-month period ended June 30, 2006 ("YTD"), include:

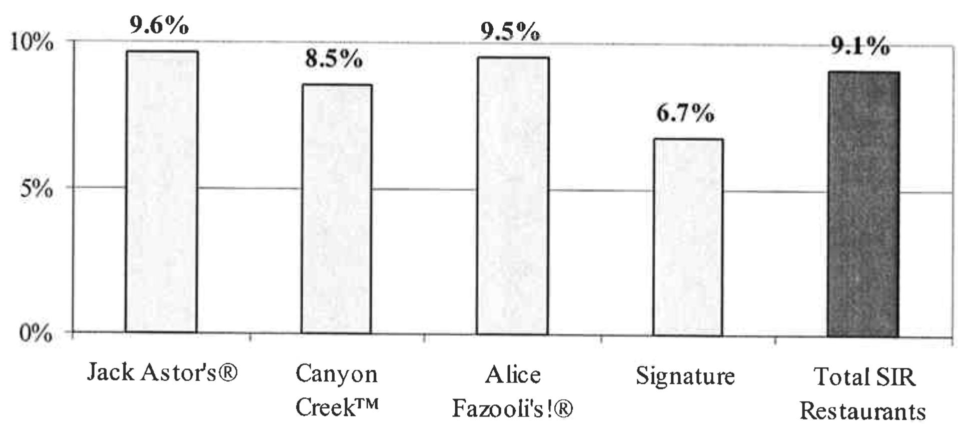
- On May 24, 2006 the Trustees authorized a 5.0% distribution increase to Unitholders. The monthly distributions increased from $0.100 per unit to $0.105 per unit beginning with the distribution paid in June 2006. This will increase the annualized distribution from $1.20 to $1.26.
- Net earnings in Q2 of 2006 increased to $1.8 million, from $1.6 million in Q1 of 2005 and YTD net earnings increased to $3.5 million in 2006, from $3.0 million in 2005.
- Net earnings per fund unit increased to $0.33 in Q2 of 2006, from $0.29 in Q2 of 2005 and YTD net earnings per fund unit increased to $0.65 in 2006, from $0.57 in 2005.
- The payout ratio for Q2 of 2006 was 92.6%, compared to 102.9% in Q2 of 2005 and the YTD payout ratio was 93.0% in 2006, compared to 105.6% in 2005.
- Pooled Revenue increased by 14% in Q2 of 2006 to $37.5 million, from $32.9 million in Q2 of 2005 and YTD Pooled Revenue increased by 19% to $74.4 million in 2006, from $62.6 million in 2005.
- Same store sales growth for restaurants in the Royalty pool ("SSSG") for Q2 of 2006 was 4.8% compared to Q2 of 2005 and SSSG was 9.1% for the YTD of 2006 compared to 2005.
- SSSG was strong in Q2 and the YTD of 2006 for all of SIR's concepts compared to prior year:
  - Jack Astor's® SSSG was 5.7% for Q2 and 9.6% YTD,
  - Canyon Creek™ SSSG was 3.0% for Q2 and 8.5% YTD,
  - Alice Fazooli's!® SSSG was 5.4% fro Q2 and 9.5% YTD, and
  - Signature Restaurants SSSG was 1.7% for Q2 and 6.7% YTD.
- Two Jack Astor's® evolutions were completed in Q2 of 2006. This brings the total evolved Jack Astor's® to 19.
- YTD 2006 one Alice Fazooli's!® renovation was completed. This brings the total renovated Alice Fazooli's!® since the Initial Public Offering ("IPO") to four of the five Alice Fazooli's!® restaurants. The renovated Alice Fazooli's!® restaurants are averaging sales increases in excess of 10%;
- Continued Jack Astor's® advertising program with leading marketing firm;
- The two Jack Astor's® restaurants opened in 2005 became part of the Royalty Pooled Restaurants effective January 1, 2006;
- A new Canyon Creek™ was opened in Q2 in Vaughan, Ontario. A new Canyon Creek™ restaurant was opened in Scarborough, Ontario on March 6, 2006 bringing the YTD 2006 openings to two. One more Canyon Creek™ restaurant is expected to open in 2006. Each of these three restaurants is expected to be added to the Royalty Pooled Restaurants effective January 1, 2007, provided they open before November 1, 2006.
- During Q2 of 2006 the Jack Astor's® in Don Mills, Ontario was closed. This location is being demolished by the landlord and redeveloped into a major "lifestyle mall". It is expected that this project will be completed in the second half of 2008 and a new Jack Astor's® would open in this location at that time. Under the terms of the License and Royalty Agreement, SIR is required to pay a Make-Whole Payment for this location from the date of the closure until December 31, 2006. In accordance with the License and Royalty agreement, on January 1, 2007, the revenue of the closed restaurant will be netted against the revenue of the new SIR Restaurants opened between November 2, 2005 and November 1, 2006, to determine the number of Class B GP units of the partnership, held by SIR Corp., which can be converted into Class A GP units of the Partnership.

Same Store Sales Growth
(unaudited)

Same Store Sales Growth for the 3-month period ended June 30, 2006 vs same period in prior year



Same Store Sales Growth for the 6-month period ended June 30, 2006 vs same period in prior year



SIR reported to the Fund that SSSG was 4.8% for Q2 of 2006 compared to Q1 of 2005. SSSG was 9.1% for the YTD of 2006 compared to the YTD of 2005.

SIR's Management attributes the strong performance of Jack Astor's® in large part to evolutions of existing restaurants, which include changes in menu, staff uniforms and restaurant décor. During Q2 of 2006, two additional Jack Astor's® restaurants were evolved. The evolution program started in 2004. A total of 19 of the 21 Jack Astor's® which were in the royalty pool at the time of the IPO have been evolved as of June 30, 2006. Average sales increases in evolved Jack Astor's® restaurants are in excess of 10% in the year of evolution and an average of 4% over and above their first-year increases for restaurants now in their second year following evolution.

Canyon Creek™ continues to perform well, with SSSG of 3.0% during Q2 2006 compared to the prior year. SSSG was 8.5% for the YTD of 2006 compared to the YTD of 2005.

Performance of Alice Fazooli's!® continues to improve. SSSG in Q2 was 5.4%. SSSG was 9.5% for the YTD of 2006 compared to the YTD of 2005. This growth was achieved even though the dining room of the Alice Fazooli's!® in downtown Toronto was closed for nine days during the first quarter for renovations. Since the IPO, renovations have been completed at four of the five locations.

During Q1 and part of Q2 of 2005, the NHL lockout had a significant negative effect on the revenue of the Signature Restaurants, which are located in downtown Toronto. The same group of restaurants benefited from the end of the lock-out over the same period in 2006. In addition, Signature Restaurants' sales benefited from increased sales at Far Niente® after major renovations in the fall of 2005.

Restaurant Renovations and Advertising

SIR has been deploying a significant portion of the proceeds of the Fund's IPO to invest in its existing restaurants to drive SSSG. As at June 30, 2006 evolutions of 19 Jack Astor's® restaurants had been completed (four of these had been completed prior to the IPO. These evolutions continue to drive strong SSSG in Jack Astor's®. The renovations at four of the five Alice Fazooli's!® restaurants, which were completed during 2005 and the first quarter of 2006, have also delivered strong SSSG in excess of 10%. During mid-October 2005 through November 7, 2005, extensive renovations were completed at Far Niente® in downtown Toronto. These renovations are driving increased guest counts and SSSG at Far Niente®.

Since the IPO, SIR has increased its investment in marketing initiatives. In particular, Jack Astor's® with 22 restaurants (which in Q2 of 2006 represents approximately 65% of Pooled Revenue) has benefited from radio-based campaigns created by a leading North American advertising agency.

New and Closed Restaurants

SIR opened two new restaurants during the Fund's fiscal 2005 year: Jack Astor's® at Front Street and University Avenue in downtown Toronto in February 2005, and Jack Astor's® in Whitby, Ontario, at the end of August 2005. These restaurants became part of the Royalty Pooled Restaurants on January 1, 2006, at which time the SIR Royalty Limited Partnership (the "Partnership") paid SIR, in Partnership securities exchangeable for Units of the Fund, an amount intended to reflect the value to the Partnership of the increased future Royalty stream related to these restaurants, in accordance with the formula described in the License and Royalty Agreement. This adjustment for new revenues that will be part of the Royalty pool is designed to be accretive for Fund Unitholders.

SIR opened a new Canyon Creek™ in Scarborough, Ontario in March 2006 and a second new Canyon Creek™ in Vaughan, Ontario in May 2006. SIR has an additional new Canyon Creek™ site at the Fallsview Casino Resort, in Niagara Falls, Ontario which is under construction and expected to open in 2006. Each of these three restaurants is expected to be added to the Royalty Pooled Restaurants effective January 1, 2007, provided they open before November 1, 2006.

One Royalty Pooled Restaurant has been closed since the IPO was completed. On May 27, 2006 the Jack Astor's® in Don Mills, Ontario was closed. This location is being demolished by the landlord and redeveloped into a major "lifestyle mall". It is expected that this project will be completed in the second half of 2008 and that a new Jack Astor's® would open in this location at that time. Under the terms of the License and Royalty Agreement, SIR is required to pay a Make-Whole Payment for this location from the date of the closure until December 31, 2006. In accordance with the License and Royalty agreement, on January 1, 2007, the revenue of the closed restaurant will be netted against the revenue of the new SIR Restaurants opened between November 2, 2005 and November 1, 2006, to determine the number of Class B GP units of the partnership, held by SIR Corp., which can be converted into Class A GP units of the Partnership.

Distributions

Distributions to Unitholders are intended to be made monthly in arrears based on distributable cash and cash redemptions of Fund Units and subject to the Fund retaining such reasonable working capital and other reserves as may be considered appropriate by the Trustees of the Fund. The Fund's intention, with the assistance of SIR, is to pay even distributions, and if possible, allow the Fund to maintain consistent monthly distributions to Unitholders. The Fund intends to make monthly distributions of its available distributable cash to the maximum extent possible and has paid its expected monthly cash distribution of $0.10 per Unit per month since inception. On May 24, 2006 the Trustees authorized a 5.0% distribution increase to Unitholders. The monthly distributions increased from $0.10 per unit to $0.105 per unit beginning with the distribution paid in June 2006. This will increase the annualized distribution from $1.20 to $1.26.

The payout ratio of cash distributed to distributable cash is intended to average 100% per annum over the longer term. Since the Fund pays even monthly distributions when its underlying cash flow from the Partnership is subject to seasonal fluctuations (as experienced by SIR), there are times during the year when the payout ratio may exceed 100%. During Q2 of 2006 the payout ratio was strong at 92.6%, compared to 102.9% in Q2 of 2005. YTD the payout ratio in 2006 was 93.0% compared to 105.6% for the same period in 2005.

Overview and Business of the Fund

On October 1, 2004, the SIR Royalty Income Fund (the "Fund") filed a final prospectus for a public offering of Units of the Fund. The net proceeds of the Offering of $51,166,670 were used by the Fund to acquire, directly, certain bank debt of SIR Corp. ("SIR") and indirectly, through SIR Holdings Trust (the "Trust"), all of the Ordinary LP Units of SIR Royalty Limited Partnership (the "Partnership"). The Partnership owns the Canadian trademarks (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. The Partnership has 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 the royalty pool (the "License and Royalty Agreement"). The Partnership also issued its own securities to SIR in return for the SIR Rights acquired. The Fund, indirectly, participates in the revenue generated under the License and Royalty Agreement through its investment in the Partnership.

The Fund intends to make monthly distributions of its available cash to the maximum extent possible. In the second quarter of 2006, monthly distributions of $535,667 each or $0.10 per Unit were declared for each of the months of March and April 2006 and a monthly distribution of $562,450 or $.105 per unit was declared for the month of May 2006. Subsequent to June 30, 2006, distributions of $0.105 per Unit were declared for each of the months of June and July 2006.

The Units of the Fund are publicly traded on the Toronto Stock Exchange under the symbol SRV.UN.

Overview and Business of SIR and the Partnership

SIR is a private company amalgamated under the Business Corporations Act of Ontario. As at June 30, 2006, SIR operated 37 Concept Restaurants and Signature Restaurants in Canada (in Ontario, Quebec, Alberta and Nova Scotia). The Concept Restaurants are Jack Astor's® Bar and Grill, Canyon Creek Chop House® and Alice Fazooli's!®. The Signature Restaurants are *reds*®, Far Niente®/Soul of the Vine®, Brasserie Frisco™, and the Armadillo Steak House®/Loose Moose Tap & Grill®. As at June 30, 2006, 36 SIR Restaurants were included in the SIR Royalty Pooled Restaurants. A new Canyon Creek® was opened in Scarborough, Ontario in March, 2006 and a second new Canyon Creek™ was opened in Vaughan, Ontario in May, 2006. Both of these restaurants are expected to be added to the Royalty Pooled Restaurants in January 2007. In May, 2006 the Jack Astor's® in Don Mills, Ontario was closed. Based on the terms of the License and Royalty Agreement, SIR is required to pay a Make-Whole Payment in respect of the lost royalty resulting from the reduction in revenue of this closed restaurant. As a result, the Jack Astor's in Don Mills Ontario effectively remains part of the Royalty Pooled Restaurants until December 31, 2006. SIR owns 100% of all its Canadian restaurants, except for Don Mills (50%). SIR also has an investment in a Jack Astor's® restaurant in the USA which is not included in the SIR Royalty Pooled Restaurants.

The Partnership has 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 the royalty pool. The Partnership also issued its own securities to SIR in return for the SIR Rights acquired.

As at June 30, 2006, SIR retained a 16.2% interest in the Partnership as the holder of the 1,034,005 Class A GP Units of the Partnership. The Class A GP Units are entitled to receive a pro rata share of all residual distributions of the Partnership and are exchangeable into Units of the Fund on a one for one basis. SIR agreed to subordinate distributions on its initial (retained at the time of the IPO) 595,185 Class A GP Units for a minimum of two years, subject to certain terms. Subordination is expected to continue until at least August 26, 2007. In addition, SIR is obligated to pay the Partnership a "Make-Whole Payment", subject to certain terms, initially equal to the amount of the Royalty that otherwise would have been paid to the Partnership in the event of a permanent closure of a restaurant in the Royalty pool. SIR is not required to pay any "Make-Whole Payment" in respect of a closed restaurant in the royalty pool following the date on which the number of restaurants in the Royalty pool is equal to or greater than 68, or following October 12, 2019, whichever occurs first. During the period ended June 30, 2006, SIR closed one restaurant and accordingly will be required to pay a make whole payment of $0.1 million, payable in equal monthly instalments to December 31, 2006. However, other adjustments or payments may still be required in respect of closed restaurants after such date by SIR, depending upon the circumstances. On January 1 of each year (the "Adjustment Date") following December 31, 2005, the restaurants subject to the License and Royalty Agreement are adjusted for new restaurants that have been open for at least 60 days prior to the Adjustment Date and which were not previously included in the Royalty Pooled Restaurants. At each Adjustment Date, SIR will be entitled to convert its Class B GP Units of the Partnership to Class A GP Units of the Partnership based on a conversion formula defined in the Agreement. On January 1, 2006, two new SIR Restaurants were added to SIR's Royalty Pooled Restaurants in accordance with the License and Royalty Agreement. In exchange for the additional royalty stream from these new net restaurants, 438,820 Class B GP units were converted to 438,820 Class A GP units based on a formula defined in the Partnership agreement. As a result of this exchange, SIR's interest in the Partnership increased to 16.2% effective January 1, 2006.

SIR's Fiscal Year is comprised of 13 periods of four weeks each, ending on the last Sunday in August. To preserve this Year End, an additional week must be added approximately every five years. Fiscal quarters of SIR consist of accounting periods of 12, 12, 12 and 16 (or 17) weeks.

Consolidated financial statements of SIR for its fiscal 2005 Year End and its subsequent Quarterly Accounting Periods can be found at www.sedar.com.

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 the last Sunday in August) when patios can be open. Additionally, certain holidays and observances also affect dining patterns both favourably and unfavourably. Accordingly, distribution income recognized by the Fund will vary in conjunction with the seasonality in revenue experienced by SIR. The Fund's intention, with the assistance of SIR, is to pay even distributions in order to reduce the effect of seasonality, and if possible, allow the Fund to maintain consistent monthly distributions to Unitholders.

Selected Consolidated Financial Information

The consolidated financial statements of the Fund are presented in Canadian dollars and are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and include the accounts of the Fund and its subsidiaries, namely the Trust and SIR GP Inc. The information in this Management's Discussion and Analysis ("MD&A") should be read in conjunction with the second quarter unaudited interim consolidated financial statements of the Fund, including the notes thereto.

The following tables set out selected financial information of the Fund and the Partnership:

Financial Highlights	3 months from Apr.1 to June 30, 2006 $	3 months from Apr. 1 to June 30, 2005 $	6 months from Jan. 1 to June 30, 2006 $	6 months from Jan. 1 to June 30, 2005 $
	(in thousands of dollars except restaurants and per Unit amounts) (Unaudited)			
Restaurants in the Royalty pool	36	34	36	34
Pooled Revenue generated by SIR	37,506	32,923	74,366	62,642
6% of Pooled Revenue	2,250	1,975	4,462	3,759
Make-Whole Payment	18	-	18	-
Total Royalty income to Partnership	2,268	1,975	4,480	3,759
Partnership other income	12	7	21	14
Partnership expenses	(41)	(23)	(91)	(37)
Partnership earnings	2,239	1,959	4,410	3,736
SIR Corp.'s interest (Class A and Class C GP Units)	(1,090)	(945)	(2,172)	(1,873)
Partnership income allocated to Fund(1)	1,149	1,014	2,238	1,863
Interest income(2)	750	750	1,500	1,500
Total income of the Fund	1,899	1,764	3,738	3,363
General & administrative expenses	(135)	(202)	(254)	(318)
Net earnings for the period	1,764	1,562	3,484	3,045
Basic earnings per Fund Unit (5,356,667 Units)	0.33	0.29	0.65	0.57
Diluted earnings per Fund Unit (6,390,672 Units)(3)	0.33	0.29	0.65	0.57

(1) *On October 12, 2004, the Fund, indirectly through the Trust, acquired all of the Ordinary LP Units of the Partnership. The holders of the Ordinary LP Units and Class A GP Units are entitled to receive a pro rata share of all residual distributions of the Partnership. The holder of the Ordinary LP Units have the right to receive distributions in priority to the initial Class A GP Units.*

(2) *Interest income is the interest earned during the three and six month periods ended June 30, 2006 and June 30, 2005 from the $40.0 million SIR Loan, which bears interest at 7.5% per annum.*

(3) *Diluted earnings per Fund Unit is calculated as follows: Net earnings for the 3 and 6 month periods ended of $1.8 million and $3.5 million respectively (2005 - $1.6 million and $3.0 million) plus the distributions related to the Class A GP Units of $0.3 million and $0.7 million respectively (2005 - $0.2 million and $0.4 million) divided by the fully diluted Fund Units of 6,390,672 (2005 - 5,951,852). Fully diluted Units represents Fund Units of 5,356,667 plus the convertible Class A GP Units of 1,034,005 (2005 – 595,185).*

For the period from April 1, 2006 to June 30, 2006, the Fund declared and paid a distribution of $0.10 per Unit for each of the months of March 2006 and April 2006 and a distribution of $0.105 for the month of May 2006. Subsequent to June 30, 2006, the Fund declared and paid a distribution of $0.105 per Unit for the month of June 2006. The Fund also declared a distribution of $0.105 per Unit for the month of July 2006, payable in August 2006.

Summary of Quarterly Financial Information	**3 month period ended**						**Period from**
	June 30, 2006	**March 31, 2006**	**Dec. 31, 2005**	**Sept. 30, 2005**	**June 30, 2005**	**March 31, 2005**	**Aug. 23 to Dec. 31, 2004**
	$	**$**	**$**	**$**	**$**	**$**	**$**
	(In thousands of dollars except restaurants and per Unit amounts) (Unaudited)						
Restaurants in the Royalty pool	36	36	34	34	34	34	34
Pooled Revenue generated by SIR	37,506	36,859	35,219	32,385	32,923	29,719	29,021
6% of Pooled Revenue	2,250	2,212	2,113	1,943	1,975	1,783	1,741
Make-Whole Payment (4)	18	-	-	-	-	-	-
Total Royalty income to Partnership	2,268	2,212	2,113	1,943	1,975	1,783	1,741
Partnership other income	12	9	8	8	8	8	5
Partnership expenses	(41)	(50)	(25)	(40)	(23)	(14)	(41)
Partnership earnings	2,239	2,171	2,096	1,911	1,960	1,777	1,705
SIR Corp.'s interest (Class A and Class C GP Units)	(1,090)	(1,089)	(946)	(899)	(946)	(928)	(831)
Partnership income allocated to Fund (5)	1,149	1,089	1,150	1,012	1,014	849	874
Interest income (6)	750	750	750	750	750	750	661
Total income of the Fund	1,899	1,839	1,900	1,762	1,764	1,599	1,535
General & administrative expenses	(135)	(119)	(134)	(107)	(202)	(116)	(148)
Net earnings for the period	1,764	1,720	1,766	1,655	1,562	1,483	1,387
Basic earnings per Fund Unit (5,356,667 Units)	0.33	0.32	0.33	0.31	0.29	0.28	0.26
Diluted earnings per Fund Unit (6,390,672 Units) (7)	0.33	0.32	0.33	0.31	0.29	0.28	0.26

(4) *On May 27, 2006 the Jack Astor's® in Don Mills, Ontario was closed. Under the terms of the License and Royalty Agreement, SIR is required to pay a Make-Whole Payment for this location from the date of the closure until December 31, 2006.*

(5) *On October 12, 2004, the Fund, indirectly through the Trust, acquired all of the Ordinary LP Units of the Partnership. The holders of the Ordinary LP Units and Class A GP Units are entitled to receive a pro rata share of all residual distributions of the Partnership. The holder of the Ordinary LP Units have the right to receive distributions in priority to the initial Class A GP Units.*

(6) *Interest income is the interest earned during the periods from the $40.0 million SIR Loan, which bears interest at 7.5% per annum.*

(7) *Diluted earnings per Fund Unit is calculated as follows: Net earnings for the period plus the distributions related to the Class A GP Units totalling $2.1 million, $2.1 million, $2.0 million, $1.8 million, $1.7 million, $1.7 million and $1.6 million for the 3 month periods ended June 30, 2006, March 31, 2006, December 31, 2005, September 30, 2005, June 30, 2005, March 31, 2005 and the period from August 23 to December 31, 2004, respectively divided by the fully diluted Fund Units of 6,390,672 (2005 and 2004 - 5,951,852). Fully diluted Units represents Fund Units of 5,356,667 plus the convertible Class A GP Units of 1,034,005 (2005 and 2004 – 595,185).*

Distributable Cash [8]	3 months from Apr.1 to June 30, 2006 $	3 months from Apr. 1 to June 30, 2005 $	6 months from Jan .1 to June 30, 2006 $	6 months from Jan. 1 to June 30, 2005 $
	(in thousands of dollars except restaurants and per Unit amounts) (Unaudited)			
Cash provided by operating activities	1,634	1,607	3,241	3,214
Add/(deduct): net change in non-cash working capital items	130	(45)	243	(169)
Distributable cash	**1,764**	**1,562**	**3,484**	**3,045**
Cash distributed for the period	**1,634**	**1,607**	**3,241**	**3,214**
Surplus/(shortfall) of distributable cash	**129**	**(45)**	**243**	**(169)**
Payout ratio [8]	92.6%	102.9%	93.0%	105.6%
Distributable cash per Fund Unit basic (5,356,667 Units)	0.33	0.29	0.65	0.57
Distributable cash per Fund Unit diluted (6,390,672 Units) [9]	0.33	0.29	0.65	0.57

(8) *Distributable cash is a non-GAAP financial measure and does not have a standardized meaning prescribed by GAAP. However, the Fund believes that distributable cash is a useful measure as it provides investors with an indication of cash available for distribution. The Fund's method of calculating distributable cash may differ from that of other issuers and, accordingly, distributable cash may not be comparable to measures used by other issuers. Investors are cautioned that distributable cash should not be construed as an alternative to the statement of cash flows as a measure of liquidity and cash flows of the Fund.*

Distributable cash represents the amount of money which the Fund expects to have available for distribution to Unitholders of the Fund, and is calculated as cash provided by operating activities of the Fund, adjusted for the net change in non-cash working capital items.

(9) *It is the Fund's intention, with the assistance of SIR, to pay even distributions to reduce the effect of seasonality. Higher payout ratios during the colder months of the year are expected with the pattern of seasonality in the business, and it is anticipated that the payout ratio will decrease on average during the warm weather months.*

(10) *Diluted distributable cash per Fund Unit for the 3-month and 6-month periods ended June 30, 2006 are calculated as follows: Distributable cash of $1.8 million and $3.5 million respectively (2005 - $1.6 million and $3.2 million) plus the distributions related to the Class A GP Units of $0.3 million and $0.7 million respectively (2005 - $0.2 million and $0.4 million) divided by the fully diluted Fund Units of 6,390,672 (2005 – 5,951,852). Fully diluted Fund Units represents Fund Units of 5,356,667 plus the convertible Class A GP Units of 1,034,005 (2005 - 595,185).*

Distributions to Unitholders are intended to be made monthly in arrears based upon distributable cash and cash redemptions of Fund Units and subject to the Fund retaining such reasonable working capital and other reserves as may be considered appropriate by the Trustees of the Fund. The Fund's intention, with the assistance of SIR, is to pay even distributions, and if possible, allow the Fund to maintain consistent monthly distributions to Unitholders. The Fund intends to make monthly distributions of its available distributable cash to the maximum extent possible and has at minimum paid its expected monthly cash distribution of $0.10 per Unit per month since inception.

Balance Sheet	June 30, 2006 $	December 31, 2005 $
	(in thousands of dollars) (unaudited)	
Total assets	52,042	51,817
Unitholders' equity	51,955	51,712

Results of Operations - Fund

The Fund's revenue of $1.9 million for the 3-month period ended June 30, 2006 ($1.8 million for the 3-month period ended June 30, 2005) is comprised of distribution income from the Partnership of $1.1 million (2005 - $1.0 million) and interest income of $0.8 million (2005 - $0.8 million). Revenue of $3.7 million for the 6-month period ended June 30, 2006 ($3.4 million for the 6-month period ended June 30, 2005) is comprised of distribution income from the Partnership of $2.2

million (2005 - $1.9 million) and interest income of $1.5 million (2005 - $1.5 million). Distribution income from the Partnership is the pro rata share of the residual distributions of the Partnership for the 3 and 6 month periods ended June 30, 2006 and June 30, 2005. Interest income is interest earned from the $40.0 million SIR Loan which bears interest at 7.5% per annum.

The Fund's operating expenses are limited to general and administration expenses and total $0.1 million for the 3-month period ended June 30, 2006 ($0.2 million for the 3-month period ended June 30, 2005). For the 6-month period ended June 30, 2006 operating expenses total $0.3 million ($0.3 million for the 6-month period ended June 30, 2005) These expenses include professional fees, directors' and officers' liability insurance premium, Trustees' fees, certain public company costs and other administrative fees. These expenses are not expected, under normal circumstances, to vary significantly on an annual basis from year to year.

Net earnings for the 3-month period ended June 30, 2006 was $1.8 million, or $0.33 per Fund Unit on both a basic and fully diluted basis, and for the 3-month period ended June 30, 2005 was $1.6 million, or $0.29 per Fund Unit on both a basic and fully diluted basis. Net earnings for the 6-month period ended June 30, 2006 was $3.5 million, or $0.65 per Fund Unit on both a basic and fully diluted basis, and for the 6-month period ended June 30, 2005 was $3.0 million, or $0.57 per Fund Unit on both a basic and fully diluted basis.

Pooled Revenue

The Fund is indirectly dependent on the amount of the Royalty paid by SIR to the Partnership. The amount of this Royalty is dependent on Pooled Revenue. Pooled Revenue is the revenue of the SIR restaurants included in the Royalty Pooled Restaurants. Currently, there are 36 restaurants in the royalty pool (34 as at June 30, 2005). Increases or decreases in Pooled Revenue are derived from same store revenue growth or decline, and new or closed SIR Restaurants subject to the SIR Rights. Pooled Revenue is affected by the risks associated with the operations and financial condition of SIR, the commercial foodservice industry generally and the casual and fine dining segment of the commercial foodservice industry in particular. The following table sets out Pooled Revenue for the three and six month periods ended June 30, 2006 and June 30, 2005:

	3 month period ended June 30, 2006		3 month period ended June 30, 2005		6 month period ended June 30, 2006		6 month period ended June 30, 2005	
	(in thousands of dollars except restaurants) (Unaudited)							
	Pooled Revenue	Restaurants in the Royalty Pool	Pooled Revenue	Restaurants in the Royalty Pool	Pooled Revenue	Restaurants in the Royalty Pool	Pooled Revenue	Restaurants in the Royalty Pool
Jack Astor's®	24,566	22	20,409	21	48,230	22	38,495	21
Alice Fazooli's!®	4,738	5	4,495	5	9,076	5	8,285	5
Canyon Creek ™	3,745	4	3,637	4	7,875	4	7,257	4
Signature	4,457	4	4,382	4	9,185	4	8,605	4
Total included in Pooled Revenue	37,506	36	32,923	34	74,366	36	62,642	34

Liquidity and Capital Resources

The Fund has a strong balance sheet with no bank lines of credit or any other third party debt. The Fund therefore relies on the payments of the distributions from the Partnership and interest from SIR to meet its obligations to pay the distributions. The Fund believes that the distributions from the Partnership and interest payments will be sufficient to meet its current distribution obligations, subject to seasonal fluctuations. However, the actual amounts distributed will depend upon numerous factors, including the payment of the distributions from the Partnership and interest by SIR, and could fluctuate based on performance. The Fund intends, with the assistance of SIR, to maintain even distributions in order to reduce the effect of fluctuations in revenue and, if possible, allow the Fund to maintain consistent monthly distributions to Unitholders. Under the terms of the License and Royalty Agreement, SIR is required to pay the 6% Royalty to the Partnership 21 days after the end of the four-week period for which the Royalty is determined. The Fund had distributable cash of $1.8 million for the period from April 1, 2006 to June 30, 2006. $1.6 million was distributed to Unitholders during the period April 1, 2006 to June 30, 2006 for the months of March, April and May 2006. Subsequent to June 30, 2006, a distribution of $0.6 million ($0.105 per Unit) was declared and paid for the month of June 2006. In addition, a distribution of $0.6 million ($0.105 per Unit) was declared for the month of July 2006 to be paid in August 2006.

The Fund does not have plans for any capital expenditures in 2006. Its operating and administrative expenses are expected to be fairly stable and predictable and are considered to be in the ordinary course of business.

Off-Balance Sheet Arrangements

The Fund does not have any off-balance sheet arrangements.

Transactions with Related Parties

During the period from April 1, 2006 to June 30, 2006, the Fund earned distribution income of $1.1 million from the Partnership ($1.0 million for the period from April 1, 2005 to June 30, 2005). During the period from January 1, 2006 to June 30, 2006, the Fund earned distribution income of $2.2 million from the Partnership ($1.9 million for the period from January 1, 2005 to June 30, 2005). The Fund, indirectly through the Trust, is entitled to receive a pro rata share of all residual distributions. The Fund's distribution income is dependent upon the revenue generated by the SIR restaurants subject to the License and Royalty Agreement.

During the period from April 1, 2006 to June 30, 2006, the Fund earned interest income of $0.8 million from the SIR Loan ($0.8 million for the period from April 1, 2005 to June 30, 2005). During the period from January 1, 2006 to June 30, 2006, the Fund earned interest income of $1.5 million from the SIR Loan ($1.5 million for the period from January 1, 2005 to June 30, 2005). A description of the terms of the SIR Loan is included in the notes to the Consolidated Financial Statements of the SIR Royalty Income Fund (unaudited) for the period from January 1, 2006 to June 30, 2006.

As at June 30, 2006, the Fund had amounts due from SIR of $0.2 million and amounts due from the Partnership of $0.6 million. The amounts due from SIR consist mainly of interest owing to the Fund on the SIR Loan for the month of June. The amounts due from the Partnership represent distributions receivable of $1.4 million partially offset by advances payable of $0.8 million. As at December 31, 2005, the Fund had amounts due from SIR of $0.2 million and amounts due from the Partnership of $0.4 million. The amounts due from SIR consist mainly of interest owing to the Fund on the SIR Loan for the month of December. The amounts due from the Partnership represent distributions receivable of $0.9 million partially offset by advances payable of $0.5 million. All advances were conducted as part of the normal course of business operations.

Critical Accounting Estimates

Management believes that there have been no substantial changes in the nature of the critical accounting estimates as described in the annual MD&A for the year ended December 31, 2005.

Changes in Accounting Policies, Including Initial Adoption

There have been no changes to the accounting policies as described in the MD&A for the year ended December 31, 2005.

Financial Instruments and Other Instruments

Management believes that there have been no substantial changes in the nature of financial instruments and other instruments since the year ended December 31, 2005. The reader will find this information in the notes to the Consolidated Financial Statements of the SIR Royalty Income Fund (unaudited) for the three month period ended March 31, 2006.

Disclosure of Outstanding Unit Data

The following summarizes the ownership structure of the Fund as at June 30, 2006 and as at December 31, 2005:

	Number of Units	Amount $
Fund		
Units issued	5,356,667	51,166,670