SIR ROYALTY INCOME FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

SECOND QUARTER
UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE 3-MONTH AND 6-MONTH PERIODS ENDED
JUNE 30, 2005

SIR ROYALTY INCOME FUND
Management's Discussion and Analysis
SECOND QUARTER
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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 ("Royalty Pooled Restaurants"). 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.

Effective January 1, 2005, the Fund adopted Accounting Guideline – 15 ("AcG-15") of the Canadian Institute of Chartered Accountants ("CICA"), Consolidation of Variable Interest Entities ("VIE"). The Fund has determined that the Partnership is a VIE and that SIR is the primary beneficiary of the Partnership. Therefore, the Partnership is no longer consolidated by the Fund and results of the Fund for the period ended December 31, 2004 were restated for comparative purposes. The change in accounting policy had no impact on the consolidated net earnings of the Fund for the period from August 23, 2004 to December 31, 2004, and the contractual obligations among the various entities are not affected. The effect on the consolidated balance sheet of the Fund as at December 31, 2004 is outlined in the Changes in Accounting Policies, Including Initial Adoption section. The Partnership statements are now provided separately at www.sedar.com under SIR Royalty Income Fund.

The Fund intends to make monthly distributions of its available cash to the maximum extent possible. In the second quarter of fiscal 2005, monthly distributions of $535,667 or $0.10 per Unit were declared and paid for each of the months of March, April and May 2005. Subsequent to June 30, 2005, a distribution of $0.10 per Unit was declared and paid for the month of June 2005.

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, 2005, SIR operated 36 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™, the Armadillo Texas Grill™/the Loose Moose Tap & Grill™ and Leoni's Italian Kitchen™. Currently, 34 SIR Restaurants are included in the SIR Royalty Pooled Restaurants. A new Jack Astor's™ in downtown Toronto opened in February of 2005 and is expected to be added to the Royalty Pooled Restaurants in January 2006. Effective April 30, 2005, SIR owns 100% of Leoni's Italian Kitchen™ under a newly created entity following the deemed bankruptcy of 1100255 Ontario Inc. (SIR still holds a 35% interest in 1100255 Ontario Inc.). This restaurant is not included in the SIR Royalty Pooled Restaurants. Subsequent to June 30, 2005, SIR closed Leoni's Italian Kitchen™ after evaluating the performance of the restaurant and its strategic alternatives. SIR owns 100% of all its Canadian restaurants, except for Jack Astor's™ Don Mills Limited (50%), which is accounted for using the equity method. SIR also has equity investments in two Jack Astor's™ restaurants in the USA, which are 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.

Overview and Business of SIR and the Partnership (continued)

Currently, SIR retains a 10% interest in the Partnership and has agreed to subordinate this initial share of the distributions for a minimum of two years, subject to certain terms. 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. 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.

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 2004 Year End and its subsequent Quarterly Accounting Periods can be found at www.sedar.com under SIR Royalty Income Fund, "other" category.

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. No comparatives are shown, as the Fund has only been in existence since August 23, 2004, and began operating on October 12, 2004 upon closing of the Offering.

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

Statement of Operations	3-month period from April 1, 2005 to June 30, 2005 $	6-month period from January 1, 2005 to June 30, 2005 $
	(in thousands of dollars except per Unit amounts) (unaudited)	
Distribution income from Partnership[1]	1,014	1,863
Interest income [2]	750	1,500
Total income	**1,764**	**3,363**
General & administrative expenses	202	318
Net earnings for the period	**1,562**	**3,045**
Basic earnings per Fund Unit (5,356,667 Units)	0.29	0.57
Diluted earnings per Fund Unit (5,951,852 Units) [3]	0.29	0.57

Consolidated Financial Information (continued)

(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 holders 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 periods from the $40.0 million SIR Loan, which bears interest at 7.5% per annum.

(3) Diluted earnings per Fund Unit for the 3-month and 6-month periods ended June 30, 2005 is calculated as follows: Net earnings for the 3-month period of $1.6 million ($3.0 million for the 6-month period) plus the distributions related to the Class A GP Units of $0.2 million ($0.4 million for the 6-month period) divided by the weighted average number of Fund Units outstanding of 5,951,852. Weighted average number of Fund Units outstanding represents Fund Units of 5,356,667 plus the convertible Class A GP Units of 595,185.

For the 3-month period from April 1, 2005 to June 30, 2005, the Fund declared and paid a distribution of $0.10 per Unit for each of the months of March, April and May 2005. Subsequent to June 30, 2005, the Fund declared and paid a distribution of $0.10 per Unit for the month of June 2005.

Distributable Cash (4)	3-month period from April 1, 2005 to June 30, 2005 $	6-month period from January 1, 2005 to June 30, 2005 $	Period from August 23, 2004 to December 31, 2004 $	Period from August 23, 2004 to December 31, 2004 $ (as previously reported)
	(in thousands of dollars except per Unit amounts and payout ratio)			
	(unaudited)	(unaudited)		
Cash provided by operating activities	1,607	3,214	880	2,533
Add/(deduct): net change in non-cash working capital items	(45)	(169)	507	-
Deduct: non-controlling interest	-	-	-	(831)
Distributable cash (4)	**1,562**	**3,045**	**1,387**	**1,702**
Cash distributed for the period	**1,607**	**3,214**	**1,416**	**1,416**
Excess of cash distributed over distributable cash (4)	**45**	**169**	**29**	**(286)**
Payout ratio (5)	103%	106%	102%	83%
Distributable cash per Fund Unit basic (5,356,667 Units)	0.29	0.57	0.26	0.32
Distributable cash per Fund Unit diluted (5,951,852 Units) (6)	0.29	0.57	0.26	0.32

4) 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 has been revised from the presentation as at December 31, 2004 as follows:

- *The adoption of the VIE guidelines resulted in the Fund de-consolidating the Partnership, and accordingly, a reduction in revenue applicable to the Class A GP Units, Class B GP Units and Class C GP Units of the Partnership of $1.7 million and the removal of the non-controlling interest in the earnings of the Partnership of $0.8 million. The net effect on the distributable cash of the Fund due to the adoption of the VIE guidelines was $nil.*
- *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 which Management now believes is more indicative of amounts available for distribution.*

Consolidated Financial Information (continued)

5) 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 move towards 100% in the warm weather months.

6) Diluted distributable cash per Fund Unit for the 3-month and 6-month periods ended June 30, 2005 is calculated as follows: Distributable cash for the 3-month period of $1.6 million ($3.0 million for the 6-month period) plus the distributions related to the Class A GP Units for the 3-month period of $0.2 million ($0.4 million for the 6-month period) divided by the weighted average number of Fund Units outstanding of 5,951,852. Weighted average number of Fund Units outstanding represents Fund Units of 5,356,667 plus the convertible Class A GP Units of 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. Distributions to Unitholders of $1.607 million relating to the period April 1, 2005 to June 30, 2005 were slightly higher than the distributable cash of $1.562 million for the same period due to seasonality. Generally, revenues are higher during SIR's fourth quarter (ending the last Sunday in August). The period from April 1, 2005 to June 30, 2005 falls during a portion of both SIR's third and fourth quarters. The Fund's intention, with the assistance of SIR, is to pay even distributions to reduce the effect of seasonality, and if possible, allow the Fund to maintain consistent monthly distributions to Unitholders.

Balance Sheet	June 30, 2005 $	December 31, 2004 $	December 31, 2004 $ (as previously reported)
		(in thousands of dollars)	
	(unaudited)		
Total assets	51,665	52,007	94,624
Unitholders' equity	51,505	51,674	48,141

(See Changes in Accounting Policies, Including Initial Adoption)

Results of Operations - Fund

The Fund's revenue of $1.8 million for the 3-month period ended June 30, 2005 is comprised of distribution income from the Partnership of $1.0 million and interest income of $0.8 million. Revenue of $3.4 million for the 6-month period ended June 30, 2005 is comprised of distribution income from the Partnership of $1.9 million and interest income of $1.5 million. Distribution income from the Partnership is the pro rata share of the residual distributions of the Partnership for the 3-month and 6-month periods ended June 30, 2005. Interest income is interest earned for the 3-month and 6-month periods ended June 30, 2005 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 $0.2 million for the 3-month period ended June 30, 2005 and $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.

Net earnings for the 3-month period ended June 30, 2005 and the 6-month period ended June 30, 2005 were $1.6 million, or $0.29 per Fund Unit on both a basic and diluted basis, and $3.0 million or $0.57 per Fund Unit on both a basic and diluted basis, respectively.

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 34 restaurants in the royalty pool. 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 3-month and 6-month periods ended June 30, 2005:

Pooled Revenue (continued)

	3-month period from April 1, 2005 to June 30, 2005 $	6-month period from January 1, 2005 to June 30, 2005 $
	(in thousands of dollars except restaurants) (unaudited)	
Restaurants in the royalty pool	34	34
Pooled Revenue generated by SIR	32,923	62,642
Royalty income to Partnership – 6% of Pooled Revenue	1,975	3,759

Due to seasonality, revenue of the restaurants included in the royalty pool for the period from January 1, 2005 to June 30, 2005 is not indicative of full year performance. Generally, revenues are higher during SIR's fourth quarter (ending the last Sunday in August). The period from April 1, 2005 to June 30, 2005 falls during a portion of both SIR's third and fourth quarters. SIR's Management has reported to the Fund that revenue during this period has been impacted by a number of factors including:

- The National Hockey League ("NHL") lockout has had an unfavourable impact with certain downtown Toronto restaurants, including the Armadillo Texas Grill™/the Loose Moose™, Far Niente™/Soul of the Vine™ and Canyon Creek™ Front St. location being most affected by the lockout because of their proximity to the Air Canada Centre. Jack Astor's™ restaurant in Kanata has also been affected because of its proximity to the Corel Centre. Restaurants in suburban locations do not appear to be impacted to a measurable extent. With the end of the Toronto Maple Leafs games in May of the prior year, the unfavourable impact of the NHL lockout is not expected to continue past the end of SIR's third quarter (May 8, 2005).
- SIR's Management is in the process of evolving the Jack Astor's™ concept to its next stage, which includes the implementation of changes in menu, staff uniforms and restaurant décor. During the period from April 1, 2005 to June 30, 2005, five Jack Astor's™ were closed for approximately five days each to undergo the evolution process. The evolution program started in 2004 and is intended to continue throughout 2005. A total of thirteen Jack Astor's™ have been evolved as at the end of June 2005.
- Revenue of the Alice Fazooli's!™ restaurants have not fully achieved expectations and SIR's Management is continuing to monitor guest feedback and make adjustments to the concept. A renovation along with menu changes was completed at the Richmond Hill location in January 2005 and the Oakville location in early July 2005. The Richmond Hill location achieved revenue increases similar to those of Jack Astor's™ and early indications for Oakville are favourable, both in customer response and revenue increases.

SIR has reported to the Fund that it's pro-forma Pooled Revenue for the 11 fiscal periods ended July 3, 2005 was 0.2% unfavourable versus the comparable period in the prior year, as follows:

Segmented Pro-forma Pooled Revenue	44-week Period Ended July 3, 2005 $	44-week Period Ended July 4, 2004 $
	(in thousands of dollars) (unaudited)	
Jack Astor's™	64,716	63,490
Alice Fazooli's!™	14,158	14,461
Canyon Creek ™	12,669	11,616
Signature Restaurants	15,277	17,498
Pro-forma revenue for restaurants in the royalty pool	**106,820**	**107,065**

Liquidity and Capital Resources

Both the Fund and SIR have strong balance sheets with minimal third party debt (excluding the $40 million SIR Loan owed by SIR to the Fund and for which SIR can surrender its Class C GP Units in the Partnership as consideration for principal payments under the loan). The Fund does not have bank lines of credit. The Fund therefore relies on the payments of the distributions from the Partnership and interest income 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 $1.6 million for the period from April 1, 2005 to June 30, 2005. $1.6 million was distributed to Unitholders during the period April 1, 2005 to June 30, 2005 for the months of March, April and May 2005. Subsequent to June 30, 2005, a distribution of $0.5 million ($0.10 per Unit) was declared and paid for the month of June 2005.

The Fund does not have plans for any capital expenditures in 2005. 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 3-month and 6-month periods ended June 30, 2005, the Fund earned distribution income of $1.0 million and $1.9 million, respectively, from the Partnership. 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 3-month and 6-month periods ended June 30, 2005, the Fund earned interest income of $0.8 million and $1.5 million, respectively, from the SIR Loan. 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 3-month and 6-month periods ended June 30, 2005.

As at June 30, 2005, the Fund had amounts due from SIR of $0.2 million and amounts due from the Partnership of $0.2 million. The amounts due from SIR represent interest owing to the Fund on the SIR Loan for the month on June. The amounts due from the Partnership represent distributions receivable of $0.4 million partially offset by advances payable of $0.2 million.

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 period ended December 31, 2004 except as follows:

Investment and loan receivable

The investment in the Partnership is recorded at cost and written down to its estimated realizable amount when there is evidence of impairment. Investment income is recorded to the extent of distributions declared by the Partnership. The loan receivable from SIR is reviewed for impairment. If impairment were identified, the loan would be reduced to its estimated recoverable amount measured by expected future cash flows. The accrual of interest would be suspended if collections become doubtful. At December 31, 2004 and June 30, 2005 there is no impairment of the investment or loan receivable.

Changes in Accounting Policies, Including Initial Adoption

There have been no changes to the accounting policies as described in the MD&A for the period from August 23, 2004 to December 31, 2004 except as follows:

Changes in Accounting Policies, Including Initial Adoption (continued)

Effective January 1, 2005, the Fund adopted AcG-15 of the CICA, Consolidation of Variable Interest Entities, which requires the consolidation of VIEs by the primary beneficiary. A VIE is an entity where (a) its equity investment at risk is insufficient to permit the entity to finance its activities without additional subordinated support from others and/or where certain essential characteristics of a controlling financial interest are not met, and (b) it does not meet specified exemption criteria. The primary beneficiary is the enterprise that will absorb or receive the majority of the VIE's expected losses, expected residual returns, or both.

The Fund has determined that SIR, under AcG-15, is the primary beneficiary of the Partnership and therefore the Fund will no longer consolidate the Partnership which it had done previously based on the former consolidation guidelines. Accordingly, the December 31, 2004 comparative results were restated to exclude the balances and transactions of the Partnership and record the Fund's investment in the Partnership at cost. The effect of this change in accounting policy on the consolidated balance sheet as at December 31, 2004 was as follows:

	December 31, 2004 (as previously reported)	Adjustment	December 31, 2004 (restated)
		(in millions of dollars)	
Current assets	1.0	(0.2)	0.8
Loan receivable from SIR	40.0	-	40.0
Intangible assets	53.6	(53.6) (1)	-
Investment in Partnership	-	11.2 (2)	11.2
Current liabilities	0.5	(0.2)	0.3
Non-controlling interest	46.0	(46.0) (3)	-
Unitholders' equity	48.1	3.5 (4)	51.6

1) *The SIR Rights are recorded in the financial statements of the Partnership which is no longer consolidated in the Fund.*
2) *The investment in Partnership represents the Ordinary LP Units of the Partnership indirectly owned by the Fund through the Trust.*
3) *Non-controlling interest represents SIR's interest in Units of the Partnership, which is no longer consolidated in the Fund.*
4) *The Partnership agreed to pay $3.5 million of the costs of the Public Offering of the Fund and the issuance of the Ordinary LP Units of the Partnership and, accordingly, upon adoption of AcG-15, Unitholders' equity increased by an equivalent amount.*

The change in accounting policy has had no impact on the consolidated net earnings of the Fund for the period from August 23, 2004 to December 31, 2004. Statements of the Partnership are now provided separately at www.sedar.com under SIR Royalty Income Fund.

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 period ended December 31, 2004. The reader will find this information in the notes to the Consolidated Financial Statements of the SIR Royalty Income Fund (unaudited) for the 3-month and 6-month periods ended June 30, 2005.

Disclosure of Outstanding Unit Data

The following summarizes the ownership structure of the Fund:

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

Risks and Uncertainties

The performance of the Fund is dependent upon distributions from the Partnership and indirectly the Royalty that the Partnership receives from SIR. The amount of the Royalty is dependent upon the revenue of the SIR Restaurants in the royalty pool. The 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 restaurant industry generally and, in particular, the casual and fine dining segment of the industry, is intensely competitive with respect to price, service, location, food quality and qualified staff. Competition has increased in the mid-price, full service, casual and fine dining sectors in which many of the SIR restaurants operate. If SIR is unable to successfully compete in the casual and fine dining sectors of the restaurant industry, Pooled Revenue may be adversely affected, the amount of the Royalty reduced and the ability of SIR to pay the Royalty may be impaired.

Outlook

SIR has advised the Fund that it intends to continue to focus on growing existing restaurant revenues and expanding the number of SIR Restaurants subject to the SIR Rights in Canada. As part of that expansion plan, SIR opened a new Jack Astor's™ on the corner of Front Street and University Avenue in downtown Toronto in early February 2005. This location is expected to become part of SIR's Royalty Pooled Restaurants in January 2006. SIR has also secured three additional new sites in southern Ontario for restaurant development – two for Canyon Creek™ and one for Jack Astor's™. The new Jack Astor's™ will be located in Whitby and is expected to become part of SIR's Royalty Pooled Restaurants in January 2006.

As part of the focus on growing existing restaurant revenues, SIR continues to invest approximately $0.4 million per restaurant to evolve the Jack Astor's™ concept. This includes changes to the menu, staff uniforms and restaurant décor, which SIR Management believes will reinforce SIR's position at the top end of the casual theme restaurant category. The changes being implemented are the result of continued focus on qualitative and quantitative consumer research. SIR has advised the Fund that thirteen restaurants have been evolved as at the end of June 2005. The first thirteen restaurants have shown aggregate increases in revenue over the prior year since completing their respective evolutions. The Jack Astor's™ evolution program is intended to continue throughout 2005.

Following the successful renovation of Alice Fazooli's!™ in Richmond Hill, SIR completed a renovation at the Oakville location in early July 2005.

Effective April 30, 2005, SIR owns 100% of Leoni's Italian Kitchen™ under a newly created entity following the deemed bankruptcy of 1100255 Ontario Inc. It is not included in the SIR Royalty Pooled Restaurants. After evaluating the performance of this restaurant and its strategic alternatives, SIR closed Leoni's Italian Kitchen™ on July 3, 2005.

Forward Looking Information

Certain statements in this document may constitute "forward-looking" statements which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Fund to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this document, such statements are such words as "may", "will", "expect", "believe", "plan", "anticipate", "intend" and other similar terminology. These statements reflect SIR Management's current expectations regarding future events and operating performance and speak only as of the date of this document. These forward-looking statements involve a number of risks and uncertainties, including those outlined under Risks and Uncertainties above and those set forth in the Fund's October 1, 2004 prospectus and its March 31, 2005 Annual Information Form.

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