# SIR ROYALTY INCOME FUND

## MANAGEMENT'S DISCUSSION AND ANALYSIS

## SECOND QUARTER

### UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE THREE AND SIX-MONTH PERIODS ENDED JUNE 30, 2008

# SIR ROYALTY INCOME FUND

## MANAGEMENT'S DISCUSSION AND ANALYSIS

***(For the 3 and 6-month periods ended June 30, 2008)***

### *Executive Summary*

Highlights for the 3-month period ended June 30, 2008 ("Q2") and 6-month period ended June 30, 2008 ("YTD"), for SIR Royalty Income Fund (the "Fund") include:

- On May 28, 2008, the Trustees authorized a 4.5% distribution increase to Unitholders. The monthly distributions increased from $0.110 per unit to $0.115 per unit beginning with the distribution paid in June 2008. Going forward, this will increase the estimated annualized distribution from $1.32 to $1.38.
- Net earnings were $2.0 million and $3.8 million for Q2 and YTD 2008, respectively as compared to $0.9 million and $2.7 million for Q2 2007 and YTD 2007, respectively. Net earnings per Fund Unit were $0.37 and $0.71 for Q2 2008 and YTD 2008, respectively as compared to $0.18 and $0.50 for Q2 2007 and YTD 2007, respectively. A significant future income tax expense in Q2 2007 resulted in reduced net earnings for the period. This future income tax expense was recorded as a result of new legislation relating to the taxation of certain publicly listed flow-through entities that became substantively enacted during Q2 2007.
- Distributable cash(1) per Fund Unit, both on a basic and diluted basis was $0.37 for Q2 2008 and $0.71 for YTD 2008, compared to $0.33 for Q2 2007 and $0.66 for YTD 2007.
- The payout ratio(1) was 90.6% in Q2 of 2008 and 93.9% for YTD 2008, as compared to 95.5% in Q2 of 2007 and 96.5% for YTD 2007.
- Pooled Revenue increased by 10.9% in Q2 of 2008 to $45.4 million, from $41.0 million in Q2 of 2007. YTD Pooled Revenue increased 8.8% to $87.4 million from $80.4 million in the same period last year.
- Same store sales growth(2) ("SSSG") for restaurants in the Royalty pool for Q2 of 2008 was 6.8% and 4.3% for YTD 2008. Snowfall in southern Ontario during Q1 was significantly higher than average which SIR's Management believes had a negative effect on the YTD SSSG(2).
- SSSG(2) was positive in Q2 of 2008 and YTD 2008 for all SIR Corp.'s ("SIR") Concept Restaurants (Jack Astor's®, Canyon Creek® and Alice Fazooli's!®), as well as for the downtown Toronto Signature Restaurants. Jack Astor's SSSG(2) was 6.6% for Q2 and 4.3% YTD, Canyon Creek SSSG(2) was 6.2% for Q2 and 3.2% YTD, Alice Fazooli's! SSSG(2) was 8.1% for Q2 and 4.7% YTD and the Signature Restaurants' SSSG(2) was 7.6% for Q2 and 5.8% YTD.
- On January 1, 2008, the three new Jack Astor's restaurants that opened in 2007 were added to the Royalty Pooled Restaurants and Brasserie Frisco® and one Jack Astor's restaurant that were closed during 2007 were removed from the Royalty Pooled Restaurants.
- FOUR™ restaurant, a new healthy upscale restaurant focusing on guilt-free dining with each dish having less than 650 calories was introduced by SIR during Q1 and opened on February 27, 2008. The opening of FOUR marks the completion of the Soul of the Vine® renovation which began at the end of fiscal 2007, with the introduction of an innovative bakery concept, Petit Four™.
- SIR opened a Jack Astor's restaurant and a Canyon Creek restaurant near the Toronto Pearson International Airport, in April 2008 and a Jack Astor's at the corner of Yonge and Dundas Streets in Toronto, Ontario, in May 2008. Subsequent to Q2, SIR opened a new Jack Astor's restaurant in the former Brasserie Frisco location on John Street in Toronto, Ontario in July 2008. It is expected that these restaurants will be added to the Royalty Pooled Restaurants on January 1, 2009.
- A new Jack Astor's restaurant is expected to open in 2008 in the 'lifestyle mall' which is currently under construction in the development where the former Jack Astor's restaurant in Don Mills, which closed in 2006, existed.
- In addition to the one new Canyon Creek and the four new Jack Astor's mentioned above, SIR has secured sites for five additional new restaurants: one with an expected opening in 2008, two with expected openings in 2009 and two with expected openings in 2011.

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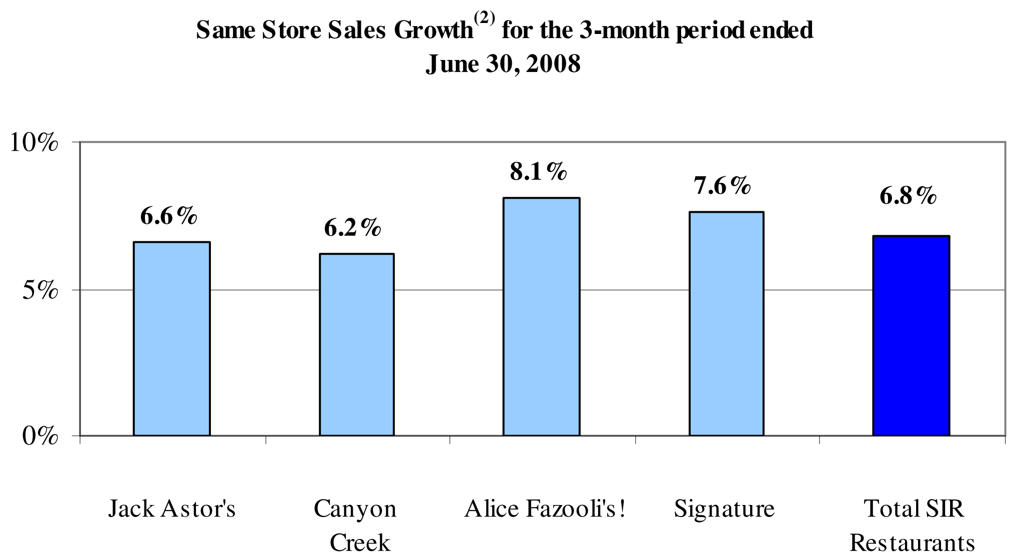
*(1) Distributable cash and payout ratio are non-GAAP financial measures and do not have a standardized meaning prescribed by GAAP. However, the Fund believes that distributable cash and the payout ratio are useful measures as they provide investors with an indication of cash available for distribution.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

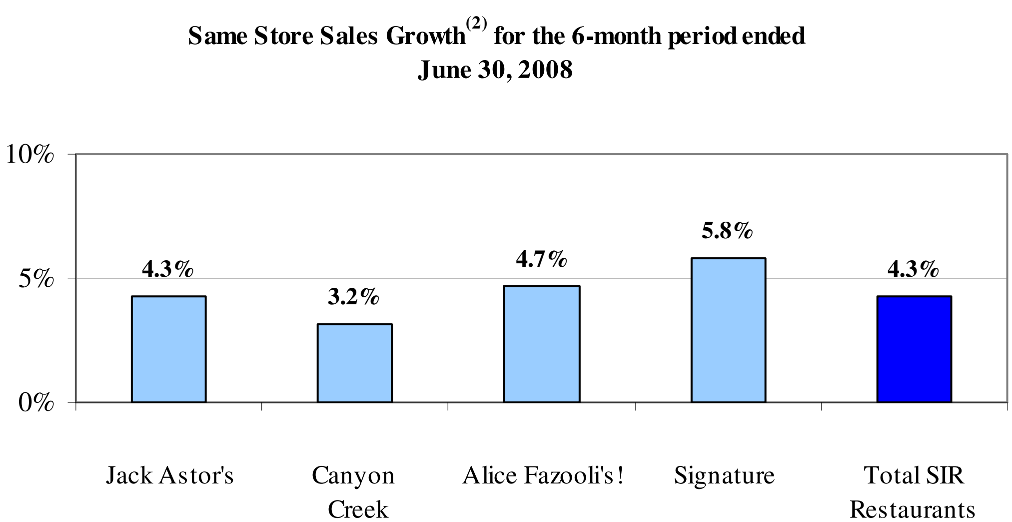
*(2) Same store sales ("SSS") and same store sales growth ("SSSG") are non-GAAP financial measures that do not have standardized meanings prescribed by GAAP. However, the Fund believes that SSS and SSSG are useful measures and provide investors with an indication of the change in year-over-year sales. The Fund'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. SSS includes revenue from all SIR Restaurants included in Pooled Revenue except for Brasserie Frisco® and the Jack Astor's located in Hamilton, Ontario, Dartmouth, Nova Scotia and both the former and existing Burlington, Ontario locations as they were not open for the entire comparable periods in fiscal 2008 and fiscal 2007. The US restaurant is not part of SSS.*

- While SIR is not owned by the Fund, the Fund is economically dependent upon SIR. SIR files its unaudited interim and audited annual consolidated financial statements and Management's Discussion and Analysis which can be found on SEDAR under the Fund's listing named "Other". SIR's Q3 unaudited consolidated financial statements and MD&A are listed having a filing date of June 18, 2008.

## *Same Store Sales Growth*[2]

(unaudited)




SIR reported to the Fund that SSSG[2] was 4.3% for YTD 2008, which is over and above the SSSG[2] of 3.5% experienced in the prior year (please see the table on the following page). Snowfall in southern Ontario during Q1 was significantly higher than average and SIR's Management believes that this had a negative effect on the YTD SSSG[2] of SIR's Concept and Signature Restaurants. In particular, in the GTA (where the majority of SIR's restaurants are located), the snowfall received in Q1 of fiscal 2008 was nearly double the average snowfall received in Q1 of the preceding five years.

SSSG[2] for Jack Astor's was 4.3% YTD 2008. This growth was achieved on top of the SSSG[2] of 2.4% experienced in the prior year. All the existing Jack Astor's restaurants originally in the Royalty pool have now been evolved. Canyon Creek experienced SSSG[2] of 3.2% during YTD 2008 as compared to SSSG[2] of 5.3% in YTD 2007 and Alice Fazooli's! experienced SSSG[2] of 4.7% during YTD 2008 as compared to SSSG[2] of 6.2% in YTD 2007.

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(2) *See footnote (2) on page 2.*

During YTD 2008, the Signature Restaurants, which are located in downtown Toronto, had SSSG(2) of 5.8% as compared to 5.3% in YTD 2007. Renovations at the Armadillo Texas Grill®/the Loose Moose Tap & Grill® in fiscal 2007 converted the entire operating space to the Loose Moose Tap & Grill. This resulted in strong SSS(2) in Q1 & Q2 which are contributing to the Signature Restaurants' SSSG(2). The Signature Restaurants' SSSG(2) were impacted by the closure of Soul of the Vine for 32 days during Q1 for renovations, converting the majority of its space to FOUR restaurant, a new healthy upscale restaurant focusing on guilt-free dining with each dish having less than 650 calories. FOUR opened on February 27, 2008 and Management is pleased with the result and early media coverage has been positive. Brasserie Frisco was closed in December 2007 and is not included in the SSSG(2) calculation for Q2 and YTD 2008.

| **SSSG(2) for Restaurants in the Royalty pool** | **6-month period ended June 30, 2008** (unaudited) | **6-month period ended June 30, 2007** (unaudited) |
|---|---|---|
| Jack Astor's | 4.3% | 2.4% |
| Canyon Creek | 3.2% | 5.3% |
| Alice Fazooli's! | 4.7% | 6.2% |
| Signature Restaurants | 5.8% | 5.3% |
| **Overall SSSG(2)** | **4.3%** | **3.5%** |

## *Restaurant Renovations and Advertising*

SIR used a significant portion of the proceeds of the Fund's IPO to invest in its existing restaurants to drive SSSG(2). Evolutions of all the Jack Astor's restaurants originally in the Royalty pool have been completed, with the last one completed in Q4 of 2007. These evolutions have resulted in increased sales since the IPO. During Q4 of 2007, renovations were completed at Soul of the Vine in order to introduce an innovative bakery concept, Petit Four, which targets the lucrative catering and take-out markets in the downtown Toronto core. Petit Four replaced the take-out portion of Soul of the Vine. In Q1 of 2008, renovations were completed in the remaining portion of Soul of the Vine, converting it into FOUR restaurant. FOUR opened on February 27, 2008 and is a new healthy upscale restaurant focusing on guilt-free dining with each dish having less than 650 calories. Both FOUR and Petit Four are not being treated as New Restaurants under the License and Royalty Agreement. The revenues of Petit Four and FOUR were added to Pooled Revenue from their dates of opening and SIR did not convert any Class B GP Units into Class A GP Units of the Partnership in exchange for these additional revenue streams. Subsequent to Q2, SIR closed the Jack Astor's near the Square One shopping mall in Mississauga, Ontario, for two days, to make exterior and audio visual updates and modifications to the bar and lobby area.

SIR's concept restaurants have been supported by advertising initiatives, including radio-based advertising. All three Concept Restaurants aired multiple station radio campaigns in fiscal 2007. Jack Astor's has continued with radio-based advertising throughout 2008 and Alice Fazooli's! had some radio-based advertising during Q1 2008.

## *New and Closed Restaurants*

In Q2, a Jack Astor's and a Canyon Creek restaurant were opened in April 2008, near the Toronto Pearson International Airport and a Jack Astor's was opened at the corner of Yonge and Dundas Streets in Toronto, Ontario, in May 2008. Subsequent to Q2, on July 7, 2008 a Jack Astor's was opened in the former Brasserie Frisco location on John Street in Toronto, Ontario in the heart of the entertainment district. It is expected that these restaurants will be added to the Royalty Pooled Restaurants effective January 1, 2009 as New Additional Restaurants.

A new Jack Astor's restaurant is also expected to open in Don Mills, Ontario in fiscal 2008. SIR has secured a site in the "lifestyle mall" which is currently being constructed in the same development where a former Jack Astor's restaurant existed. This former Jack Astor's was closed in fiscal 2006 and removed from the Royalty pool effective January 1, 2007.

In addition to the five restaurants mentioned above, SIR has secured five new sites for SIR Corp. restaurants. A Jack Astor's at the corner of Yonge and Bloor Streets in Toronto, Ontario is expected to open in fiscal 2008. A Jack Astor's in Boisbriand, Quebec and a Canyon Creek in Brampton, Ontario are expected to open in fiscal 2009. Two new restaurants at the corner of Yonge and Gerrard Streets in Toronto, Ontario are expected to open in fiscal 2011.

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*(2) See footnote (2) on page 2.*

During fiscal 2007, SIR opened three new Jack Astor's restaurants (Hamilton, Ontario in Q1, Dartmouth, Nova Scotia in Q2 and Burlington, Ontario in Q4). Each of these new restaurants was added to the Royalty Pooled Restaurants on January 1, 2008. The former Jack Astor's restaurant in Burlington, Ontario and the Brasserie Frisco restaurant were closed on September 29, 2007 and December 22, 2007, respectively. SIR was required to pay a Make-Whole Payment from their date of closure to December 31, 2007 and these closed restaurants were removed from the Royalty Pooled Restaurants as New Closed Restaurants, on January 1, 2008. The new Burlington site has provided higher revenues and therefore an increased Royalty stream to the Partnership. The new Jack Astor's that opened subsequent to Q2, in the former Brasserie Frisco location, is expected to be a better use of this prime downtown Toronto location.

## *Distributions*

Distributions to Unitholders are intended to be made monthly in arrears based on distributable cash[(1)] 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[(1)] to the extent possible and has paid its expected monthly cash distribution of $0.10 per Unit per month, or more, since inception. Please refer to the chart on page 10 for a summary of monthly distributions since inception.

The payout ratio[(1)] of cash distributed to distributable cash[(1)] 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[(1)] may exceed 100%. The payout ratio[(1)] in Q2 of 2008 was 90.6% as compared to 95.5% for Q2 of 2007.

## *Overview and Business of the Fund*

On October 1, 2004, the Fund filed a final prospectus for a public offering of Units of the Fund. The net proceeds of the Offering of $51.2 million were used by the Fund to acquire, directly, certain bank debt of SIR and indirectly, through SIR Holdings Trust (the "Trust"), all of the Ordinary LP Units of 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 Partnership's financial statements are provided separately at www.sedar.com under the SIR Royalty Income Fund profile "other" category and on SIR's website at www.sircorp.com.

The Fund intends to make monthly distributions of its available cash to the extent possible. During the quarter, monthly distributions of $0.6 million or $0.11 per Unit were declared and paid for each of the months of March and April, 2008. A monthly distribution of $0.6 million or $0.115 per unit was declared and paid for the month of May 2008. Subsequent to June 30, 2008, a distribution of $0.115 per Unit was declared and paid for the month of June 2008 and a distribution of $0.115 per Unit was declared for the month of July 2008.

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, 2008, SIR operated 42 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®/Petit Four and FOUR, and the Loose Moose Tap & Grill. As at June 30, 2008, 39 SIR Restaurants were included in the SIR Royalty Pooled Restaurants. On January 1, 2008, the three new Jack Astor's restaurants that opened in 2007 were added to the Royalty Pooled Restaurants. Brasserie Frisco and one Jack Astor's restaurant were closed during 2007 and effective January 1, 2008, these closed restaurants were removed from the Royalty Pooled Restaurants as New Closed Restaurants. Based on the terms of the License and Royalty Agreement, SIR was required to pay a Make-Whole Payment in respect of the lost Royalty resulting from the reduction in revenue of these closed restaurants from their date of closure to December 31, 2007. SIR owns 100% of all its Canadian restaurants, except for Jack Astor's Don Mills Limited (50%).

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*(1) See footnote (1) on page 2.*

SIR also owns one Jack Astor's restaurant in the U.S., 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 6.0% 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.

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. Under the formula as defined in the Partnership Agreement, the number of Class A GP Units issued to SIR on the Initial Adjustment date is equal to 80% of the estimated value of the additional Royalty revenue. Additional Class B GP Units may be converted to Class A GP Units in respect of these new SIR Restaurants if the actual revenues of the new SIR Restaurants exceed 80% of the January 1 Initial Adjustment's estimated revenue applied to the formula defined in the Partnership Agreement. Conversely, Class A GP Units would be converted to Class B GP Units by SIR if the actual revenues of the new SIR Restaurants are less than 80% of the January 1 Initial Adjustment's estimated revenue. In December of each year, a Conversion Distribution will be payable to the Class B GP Unitholders based on actual revenues of the new SIR Restaurants exceeding 80% of the Initial Adjustment's estimated revenue or there will be a reduction in the cash distributions to the Class A GP Unitholders if revenues are less than 80% of the Initial Adjustment's estimated revenue. The Conversion Distribution results in an adjustment to SIR's share of the Partnership income to reflect the actual contribution of the revenues of the new SIR Restaurants for the fiscal year. As this amount is not declared until December 31st, when the actual revenues for the New Additional Restaurants are known, the effect of this adjustment is not included in the results of quarters one through three.

The revenues of the new SIR Restaurants added to the Royalty pool on January 1, 2007 exceeded 80% of the Initial Adjustment's estimated revenue and, as a result, a Conversion Distribution of $0.08 million (2007 - $0.23 million) was declared in December 2007 and paid in cash to SIR in January 2008. Assuming the revenues of the three new SIR Restaurants added to the Royalty pool on January 1, 2008 exceed 80% of the Initial Adjustment's estimated revenue, additional Class A GP Units would be expected to be issued to SIR effective January 1, 2009 and a Conversion Distribution would be expected to be declared in December 2008, and paid in cash to SIR in January 2009.

On January 1, 2008, three (2007 - three) new SIR Restaurants were added to the Royalty Pooled Restaurants in accordance with the License and Royalty Agreement. As consideration for the additional Royalty associated with the addition of three (2007 – three) new restaurants on January 1, 2008, as well as the Second Incremental Adjustment for the three (2006 – two) new SIR Restaurants added to the Royalty Pooled Restaurants on January 1, 2007, SIR converted a portion of 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 to Class A GP Units was reduced by an adjustment for the closure of two (2006 – one) SIR Restaurants during the prior year. The net effect of these adjustments to the Royalty Pooled Restaurants was that SIR converted 193,535 (2007 – 421,004) Class B GP Units of the Partnership into 193,535 (2007 – 421,004) Class A GP Units of the Partnership on January 1, 2008 at an estimated fair value of $1.5 million (2007 - $3.5 million). As a result of this exchange, SIR's interest in the Partnership increased to 23.5% effective January 1, 2008 (2007 – 21.4%).

As at June 30, 2008, SIR retained a 23.5% (2007 – 21.4%) interest in the Partnership as the holder of the 1,648,544 (2007 – 1,455,009) Class A GP Units of the Partnership, representing SIR's initial retained interest as at the closing date of the Offering plus the Class A GP Units that were received as part of the conversions that took place on January 1, 2006, January 1, 2007 and January 1, 2008 when the net new restaurants were vended into the Royalty Pooled Restaurants. 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 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.

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. SIR's fiscal 2008 year will consist of 53 weeks.

Consolidated financial statements of SIR can be found at www.sedar.com under the SIR Royalty Income Fund profile, "other" category and on SIR's website at www.sircorp.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 have been open for an extended period. Additionally, certain holidays and observances also affect guest 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 unaudited consolidated financial statements of the Fund are presented in Canadian dollars, 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 should be read in conjunction with the annual consolidated financial statements of the Fund, including the notes thereto. The Fund has 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 and the Partnership:

### *Financial Highlights*

| *(in thousands of dollars except restaurants and per Unit amounts)* *(Unaudited)* | **3-month period ended June 30, 2008** | **3-month period ended June 30, 2007** | **6-month period ended June 30, 2008** | **6-month period ended June 30, 2007** |
|---|---|---|---|---|
| Restaurants in the Royalty pool | 39 | 38 | 39 | 38 |
| Pooled Revenue generated by SIR | 45,424 | 40,956 | 87,448 | 80,407 |
| 6% of Pooled Revenue | 2,725 | 2,457 | 5,247 | 4,824 |
| Make-Whole Payment | - | - | - | - |
| Total Royalty income to Partnership | 2,725 | 2,457 | 5,247 | 4,824 |
| Partnership other income | 15 | 14 | 32 | 28 |
| Partnership expenses | (24) | (22) | (68) | (61) |
| Partnership earnings | 2,716 | 2,449 | 5,211 | 4,791 |
| SIR Corp.'s interest (Class A, B and C GP Units) | (1,360) | (1,238) | (2,668) | (2,458) |
| **Partnership income allocated to Fund**(3) | 1,356 | 1,211 | 2,543 | 2,333 |
| Interest income(4) | 750 | 750 | 1,500 | 1,500 |
| **Total income of the Fund** | 2,106 | 1,961 | 4,043 | 3,833 |
| General & administrative expenses | (124) | (167) | (248) | (309) |
| **Net earnings before income taxes of the Fund** | 1,982 | 1,794 | 3,795 | 3,524 |
| Future income taxes | - | (853) | - | (853) |
| **Net earnings for the period** | 1,982 | 941 | 3,795 | 2,671 |
| Basic earnings per Fund Unit (5,356,667 Units) | $0.37 | $0.18 | $0.71 | $0.50 |
| Diluted earnings per Fund Unit (2008 – 7,005,211 Units, 2007 – 6,811,676 Units)(5) | $0.37 | $0.18 | $0.71 | $0.50 |

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*(3) 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 had the right to receive distributions in priority to the initial 595,185 Class A GP Units until August 26, 2007.*

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

*(5) Diluted earnings per Fund Unit is calculated as follows: Net earnings for the period plus the distributions related to the Class A GP Units which together total $2.6 million and $5.0 million for the 3 and 6-month periods ended June 30, 2008, respectively, divided by the weighted average number of Fund Units outstanding of 7,011,211 Units. The weighted average number of Fund Units outstanding for the 3 and 6-month periods ended June 30, 2008 represent Fund Units of 5,356,667 plus the convertible Class A GP Units of 1,648,544. Diluted earnings per Fund Unit for 2007 is calculated as follows: Net earnings for the period plus the distributions related to the Class A GP Units and less future income tax expense, which together total $1.2 million and $3.4 million for the 3 and 6-month periods ended June 30, 2007, respectively divided by the weighted average number of Fund Units outstanding of 6,811,676. Weighted average number of Fund Units outstanding for fiscal 2007 represents Fund Units of 5,356,667 plus the convertible Class A GP Units of 1,455,009.*

For the 3-month period from April 1, 2008 to June 30, 2008, the Fund declared and paid a distribution of $0.11 per Unit for each of the months of March 2008 and April 2008. A distribution of $0.115 per Unit was declared and paid for the month of May 2008. Subsequent to June 30, 2008, the Fund declared and paid a distribution of $0.115 per Unit for the month of June 2008. The Fund also declared a distribution of $0.115 per Unit for the month of July 2008, payable in August 2008.

### *Summary of Quarterly Financial Information*

| | 3-month periods ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| *(in thousands of dollars except restaurants and per Unit amounts) (unaudited)* | **June 30, 2008** | **March 31, 2008** | **December 31, 2007** | **September 30, 2007** | **June 30, 2007** | **March 31, 2007** | **December 31, 2006** | **September 30, 2006** |
| Restaurants in the Royalty pool | 39 | 39 | 38 | 38 | 38 | 38 | 36 | 36 |
| Pooled Revenue generated by SIR | 45,424 | 42,024 | 42,132 | 40,814 | 40,956 | 39,451 | 38,716 | 36,447 |
| 6% of Pooled Revenue | 2,725 | 2,521 | 2,528 | 2,449 | 2,457 | 2,367 | 2,323 | 2,190 |
| Make-Whole Payment(6) | - | - | 34 | - | - | - | 42 | 41 |
| Total Royalty income to Partnership | 2,725 | 2,521 | 2,562 | 2,449 | 2,457 | 2,367 | 2,365 | 2,231 |
| Partnership other income | 15 | 17 | 15 | 15 | 14 | 14 | 13 | 13 |
| Partnership expenses | (24) | (43) | (16) | (27) | (22) | (39) | (45) | (21) |
| Partnership earnings | 2,716 | 2,495 | 2,561 | 2,437 | 2,449 | 2,342 | 2,333 | 2,223 |
| SIR's interest (Class A, B and C GP Units) | (1,360) | (1,308) | (1,355) | (1,252) | (1,238) | (1,220) | (1,343) | (1,090) |
| **Partnership income allocated to Fund(3)** | 1,356 | 1,187 | 1,206 | 1,185 | 1,211 | 1,122 | 990 | 1,133 |
| Interest income(4) | 750 | 750 | 750 | 750 | 750 | 750 | 750 | 750 |
| **Total income of the Fund** | 2,106 | 1,937 | 1,956 | 1,935 | 1,961 | 1,872 | 1,740 | 1,883 |
| General & administrative expenses | (124) | (124) | (89) | (85) | (167) | (142) | (99) | (123) |
| **Net earnings before income taxes of the Fund** | 1,982 | 1,813 | 1,867 | 1,850 | 1,794 | 1,730 | 1,641 | 1,760 |
| Future income taxes | - | - | 56 | - | (853) | - | - | - |
| **Net earnings for the period** | 1,982 | 1,813 | 1,923 | 1,850 | 941 | 1,730 | 1,641 | 1,760 |
| Basic earnings per Fund Unit (5,356,667 Units) | $0.37 | $0.34 | $0.36 | $0.35 | $0.18 | $0.32 | $0.31 | $0.33 |
| Diluted earnings per Fund Unit (2008 – 7,005,211 Units; 2007 - 6,811,676 Units; 2006 – 6,390,672 Units)(7) | $0.37 | $0.34 | $0.36 | $0.35 | $0.18 | $0.32 | $0.31 | $0.33 |

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(3) *See footnote (3) on page 8.*

(4) *See footnote (4) on page 8.*

(6) *The Jack Astor's in Burlington, Ontario and the Brasserie Frisco were closed on September 29, 2007 and December 22, 2007, respectively and 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 these locations from the date of the closure until December 31st of the year of closure.*

(7) *Diluted earnings per Fund Unit for 2008 is calculated as follows: Net earnings for the period plus the distributions related to the Class A GP Units, which together total $2.6 million and 2.4 million for the 3-month period ended June 30, 2008 and March 31, 2008 divided by the weighted average number of Fund Units outstanding of 7,005,211. The weighted average number of Fund Units outstanding represents Fund Units of 5,356,667 plus the convertible Class A GP Units of 1,648,544. Diluted earnings per Fund Unit for 2007 is calculated as follows: Net earnings for the period plus the distributions related to the Class A GP Units plus/(less) future income tax recovery/(expense), which together total $2.5 million, $2.4 million, $1.2 million and $2.2 million for the 3-month periods ended December 31, 2007, September 30, 2007, June 30, 2007 and March 31, 2007 respectively, divided by the weighted average number of Fund Units outstanding of 6,811,676 Units. The weighted average number of Fund Units outstanding represents Fund Units of 5,356,667 plus the convertible Class A GP Units of 1,455,009. Diluted earnings per Fund Unit for 2006 is calculated as follows: Net earnings for the period plus the distributions related to the Class A GP Units which together total $2.0 million, $1.8 million for the 3-month periods ended December 31, 2006, September 30, 2006 respectively, divided by the weighted average number of Fund Units outstanding of 6,390,672. Weighted average number of Fund Units outstanding for fiscal 2006 represents Fund Units of 5,356,667 plus the convertible Class A GP Units of 1,034,005.*

| ***Distributable Cash***(1)<br>*(in thousands of dollars except per Unit amounts and payout ratio(1))*<br>*(unaudited)* | **3-month period ended June 30, 2008** | **3-month period ended June 30, 2007** | **6-month period ended June 30, 2008** | **6-month period ended June 30, 2007** |
|---|---|---|---|---|
| Cash provided by operating activities | 1,794 | 1,714 | 3,562 | 3,402 |
| Add (deduct): Net change in non-cash working capital items(8) | 188 | 80 | 233 | 123 |
| **Distributable cash**(1) | **1,982** | **1,794** | **3,795** | **3,525** |
| **Cash distributed for the period** | **1,794** | **1,714** | **3,562** | **3,402** |
| **Surplus of distributable cash**(1) | **188** | **80** | **233** | **123** |
| Payout ratio(1)(9) | 90.6% | 95.5% | 93.9% | 96.5% |
| Distributable cash(1) per Fund Unit basic (5,356,667 Units) | $0.37 | $0.33 | $0.71 | $0.66 |
| Distributable cash(1) per Fund Unit diluted (2008 – 7,005,211 Units, 2007 - 6,811,676 Units)(10) | $0.37 | $0.33 | $0.71 | $0.66 |

| ***Distributable Cash***(1)<br>*(in thousands of dollars except per Unit amounts and payout ratio(1))*<br>*(unaudited)* | **3-month periods ended**<br>**June 30, 2008** | **March 31, 2008** | **December 31, 2007** | **September 30, 2007** | **June 30, 2007** | **March 31, 2007** | **December 30, 2006** | **September 30, 2006** |
|---|---|---|---|---|---|---|---|---|
| Cash provided by operating activities | 1,794 | 1,768 | 1,768 | 1,768 | 1,714 | 1,687 | 1,687 | 1,687 |
| Add/(deduct): Net change in non-cash working capital items(8) | 188 | 45 | 99 | 82 | 80 | 43 | (46) | 73 |
| **Distributable cash**(1) | **1,982** | **1,813** | **1,867** | **1,850** | **1,794** | **1,730** | **1,641** | **1,760** |
| **Cash distributed for the period** | **1,794** | **1,768** | **1,768** | **1,768** | **1,714** | **1,687** | **1,687** | **1,687** |
| **Surplus/ (shortfall) of distributable cash**(1) | **188** | **45** | **99** | **82** | **80** | **43** | **(46)** | **73** |
| Payout ratio(1)(9) | 90.6% | 97.5% | 94.7%(11) | 95.6% | 95.5% | 97.5% | 102.8%(11) | 95.9% |
| Distributable cash(1) per Fund Unit basic (5,356,667 Units) | $0.37 | $0.34 | $0.35 | $0.35 | $0.33 | $0.32 | $0.31 | $0.33 |
| Distributable cash(1) per Fund Unit diluted (2008 - 7,005,211; 2007 – 6,811,676 Units; 2006 - 6,390,672 Units)(10) | $0.37 | $0.34 | $0.35 | $0.35 | $0.33 | $0.32 | $0.31 | $0.33 |

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*(1) See footnote (1) on page 2.*

*(8) Distributable cash is adjusted to exclude changes in non-cash working capital items as the Fund's working capital requirements are not permanent and are primarily due to the timing of payments between related parties.*

*(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 2008 is calculated as follows: Distributable cash for the period plus the distributions related to the Class A GP Units, which together total and $2.6 million and $2.4 million for the 3-month periods ended June 30, 2008 and March 31, 2008 respectively divided by the weighted average number of Fund Units outstanding of 7,005,211 units. The weighted average number of Fund Units outstanding represents Fund Units of 5,356,667 plus the convertible Class A GP units of 1,648,544. Diluted distributable cash per Fund Unit for 2007 is as follows: Distributable cash for the period plus the distributions related to the Class A GP Units, which together total $2.4 million, $2.4 million, $2.2 million, $2.2 million, for the 3-month periods ended December 31, 2007, September 30, 2007, June 30, 2007 and March 31, 2007, respectively, divided by the weighted average number of Fund Units outstanding of 6,811,676 units. The weighted average number of Fund Units outstanding represents Fund Units of 5,356,667 plus the convertible Class A GP Units of 1,455,009. Diluted earnings per Fund Unit for 2006 is calculated as follows: Net earnings for the period plus the distributions related to the Class A GP Units which together total $2.0 million and $2.1 million for the 3-month periods ended December 31, 2006 and September 30, 2006, respectively, divided by the weighted average number of Fund Units outstanding of 6,390,672. Weighted average number of Fund Units outstanding for fiscal 2006 represents Fund Units of 5,356,667 plus the convertible Class A GP Units of 1,034,005.*

*(11) The payout ratio for the fourth quarter of 2007 was affected by the $0.08 million (2006 - $0.23 million) Priority Special Conversion Distribution paid by the Partnership. This distribution was paid on the Class B GP Units that were converted to Class A GP Units, effective January 1, 2008 (January 1, 2007) related to the Second Incremental Adjustment for the restaurants added to the Royalty pool effective January 1, 2008 (January 1, 2007).*

Distributions to Unitholders are intended to be made monthly in arrears based on distributable cash[1] 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[1] to the extent possible and has paid its expected minimum monthly cash distribution of $0.10 per Unit per month since inception.

A history of monthly distributions is as follows:

| Months Paid | Monthly Distribution per Unit | Annualized Distribution per Unit | Increase in Monthly Distribution |
|---|---|---|---|
| Inception to May, 2006 | $0.100 | $1.20 | - |
| June, 2006 to May, 2007 | $0.105 | $1.26 | 5.0% |
| June, 2007 to May, 2008 | $0.110 | $1.32 | 4.8% |
| June, 2008 to date | $0.115 | $1.38 | 4.5% |

The payout ratio[1] of cash distributed to distributable cash[1] is intended to average 100% per annum. Since the Fund pays even monthly distributions when it's 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%. For the 3-month and 6-month periods ended June 30, 2008 the payout ratio[1] was 90.6% and 93.9%, respectively. For the 3-month and 6-month periods ended June 30, 2007, the payout ratio was 95.5% and 96.5%, respectively.

The following table provides disclosure regarding the relationship between cash flows from operating activities and net income, and historical distributed cash amounts:

| | 3-month period ended June 30, 2008 | 3-month period ended June 30, 2007 | 6-month period ended June 30, 2008 | 6-month period ended June 30, 2007 |
|---|---|---|---|---|
| | *(in thousands of dollars) (unaudited)* | | | |
| Cash provided by operating activities | 1,794 | 1,714 | 3,562 | 3,402 |
| Net income | 1,982 | 941 | 3,795 | 2,671 |
| Cash distributed for the period | 1,794 | 1,714 | 3,562 | 3,402 |
| **Excess (shortfall) of cash provided by operating activities over cash distributed for the period[12]** | **-** | **-** | **-** | **-** |
| **Excess (shortfall) of net income over cash distributions paid[13]** | **188** | **(773)** | **233** | **(731)** |

There was a shortfall of net income over cash distributions paid of $0.8 million and $0.7 million for the 3 and 6 month periods ended June 30, 2007 respectively. This shortfall of net income over cash distributions paid was the result of the Fund recording a future income tax expense of $0.9 million in Q2 and YTD 2007.

## *Balance Sheet*

The following table shows total assets and Unitholders' equity of the Fund:

| *(in thousands of dollars) (unaudited)* | June 30, 2008 | March 31, 2008 | December 31, 2007 | September 30, 2007 | June 30, 2007 | March 31, 2007 | December 31, 2006 | September 30, 2006 |
|---|---|---|---|---|---|---|---|---|
| Total assets | 52,596 | 52,432 | 52,406 | 52,306 | 52,229 | 52,104 | 52,106 | 52,155 |
| Unitholders' equity | 51,722 | 51,534 | 51,489 | 51,334 | 51,252 | 52,025 | 51,982 | 52,028 |

*(1) See footnote (1) on page 2.*

*(12) Excess (shortfall) of cash provided by operating activities over cash distributed for the period is calculated by subtracting the cash distributed for the period from cash provided by operating activities.*

*(13) Excess (shortfall) of net income over cash distributions paid is calculated by subtracting cash distributed for the period from net income.*

## *Results of Operations - Fund*

The Fund's revenue of $2.1 million for the 3-month period ended June 30, 2008 ($2.0 million for the 3-month period ended June 30, 2007) is comprised of distribution income from the Partnership of $1.4 million ($1.2 million for the 3-month period ended June 30, 2008) and interest income of $0.8 million ($0.8 million for the 3-month period ended June 30, 2007). Revenue of $4.0 million for the 6-month period ended June 30, 2008 ($3.8 million for the 6-month period ended June 30, 2007) is comprised of distribution income from the Partnership of $2.5 million ($2.3 million for the 6-month period ended June 30, 2007) and interest income of $1.5 million ($1.5 million for the 6-month period ended June 30, 2007). 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, 2008 and June 30, 2007. Interest income is interest earned for the 3-month and 6-month periods ended June 30, 2008 and June 30, 2007 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 and $0.2 million for the 3-month and 6-month periods ended June 30, 2008, respectively ($0.2 million and $0.3 million for the 3-month and 6-month periods ended June 30, 2007, respectively.) These expenses include professional fees, directors' and officers' liability insurance premium, Trustees' fees, certain public company costs and other administrative fees.

In fiscal 2007, the legislation to tax certain publicly traded income trusts was substantively enacted, which required the Fund to record future income taxes in respect of the temporary differences related to the Fund's investment in the Partnership. As a result, the Fund recorded a future income tax expense of $0.9 million in Q2 2007.

Net earnings for the 3-month period ended June 30, 2008 were $2.0 million ($0.9 million for the 3-month period ended June 30, 2007) and were $3.8 million ($2.7 million for the 6-month period ended June 30, 2007). Earnings per Fund Unit on both a basic and diluted basis were $0.37 for the 3-month period ended June 30, 2008 ($0.18 per Fund Unit for the 3-month period ended June 30, 2007). Earnings per Fund Unit on both a basic and diluted basis were $0.71 for the 6-month period ended June 30, 2008 ($0.50 for the 6-month period ended June 30, 2007).

## *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. As at June 30, 2008, there were 39 restaurants included in Pooled Revenue. 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 and 6-month periods ended June 30, 2008 and June 30, 2007:

### *Summary of Pooled Revenue*

| *(in thousands of dollars except number of restaurants included in Pooled Revenue) (Unaudited)* | 3-month period ended June 30, 2008 | | 3-month period ended June 30, 2007 | | 6-month period ended June 30, 2008 | | 6-month period ended June 30, 2007 | |
|---|---|---|---|---|---|---|---|---|
| | Pooled Revenue | Restaurants included in Pooled Revenue | Pooled Revenue | Restaurants included in Pooled Revenue | Pooled Revenue | Restaurants included in Pooled Revenue | Pooled Revenue | Restaurants included in Pooled Revenue |
| Jack Astor's | 29,133 | 24 | 24,889 | 22 | 55,182 | 24 | 48,089 | 22 |
| Canyon Creek | 6,698 | 7 | 6,307 | 7 | 13,418 | 7 | 13,006 | 7 |
| Alice Fazooli's! | 5,455 | 5 | 5,045 | 5 | 10,087 | 5 | 9,638 | 5 |
| Signature | 4,138 | 3 | 4,715 | 4 | 8,761 | 3 | 9,674 | 4 |
| **Total included in Pooled Revenue** | 45,424 | 39 | 40,956 | 38 | 87,448 | 39 | 80,407 | 38 |

## *Liquidity and Capital Resources*

The Fund has no third party debt. SIR currently has the $40 million SIR Loan owed to the Fund (which SIR can surrender its Class C GP Units in the Partnership as consideration for principal payments under the loan), certain debt related to U.S. operations which is recorded on the consolidated financial statements of SIR and also a credit agreement with a Canadian Schedule 1 bank, a copy which has been filed on SEDAR. The bank 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 bank. 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 trade-marks and related intellectual property in return for royalty payments based on revenues, has been effected pursuant to the terms of an Interlender Agreement, a copy of which has also been filed on SEDAR.

The Credit Agreement is a 7-year facility for a maximum principal amount of $16.0 million, and is designed primarily to facilitate construction of new restaurants by SIR. These new restaurants are expected to become part of the Royalty pool, subject to the License and Royalty Agreement, over the next few years as they are completed, and thus benefit the Fund both as a result of diversification, increased scale and because new restaurant growth is designed to be accretive to Fund Unitholders. The loan is secured by substantially all of the assets of SIR and most of its subsidiaries, which are also guarantors. The Partnership and the Fund have not guaranteed the Credit Facility.

The credit agreement provides, as part of the total $16.0 million availability, for a $2.0 million revolving facility and a $1.0 million treasury management facility to hedge the construction facility, leaving $13.0 million for construction purposes. The construction component provides for interest payments only during the first two years of the facility, absent, among other things, default, asset dispositions or further equity or debt issues by SIR. The structure of the facility may be in the form of direct advances, Bankers' Acceptances, Letters of Credit or Guarantee, and a fixed term loan (up to a five-year term). The rates of interest on the financing are Bankers' Acceptance rate plus 1.75% and Prime rate plus 0.25%. Certain financial covenants will apply to SIR, including a maximum senior cash flow leverage ratio and a minimum fixed charge coverage ratio. Annual capital expenditures by SIR are also subject to a cap. As at June 18, 2008 (SIR's most recent interim filing date), SIR reported that it had drawn an aggregate of $6.8 million under these facilities.

Under the Interlender Agreement, absent an event of default under the credit agreement, ordinary payments to the Partnership and the Fund can continue. However, if 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 bank is pursuing remedies). The Interlender Agreement also contains various other typical covenants of the Fund and the Partnership.

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 intentions, 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 6.0% Royalty to the Partnership 21 days after the end of the four-week period for which the Royalty is determined.

During the 3 and 6-month periods ended June 30, 2008, the Fund distributed $1.8 million and $3.6 million to Unitholders, respectively. Subsequent to June 30, 2008, a distribution of $0.6 million ($0.115 per Unit) was declared and paid for the month of June 2008 and a distribution of $0.6 million ($0.115 per Unit) was declared for the month of July 2008.

The Fund did not have any capital expenditures in YTD 2008 and by its nature is not expected to have significant capital expenditures in the future. Capital expenditures related to the Royalty Pooled Restaurants are borne at the operating company (SIR) level. The Fund's operating and administrative expenses are expected to be fairly stable and predictable and are considered to be in the ordinary course of business.

Management believes that there are sufficient cash resources retained in the Partnership in order to meet its current obligations and pay distributions to its Unitholders.

While SIR is not owned by the Fund, the Fund's income is derived from interest income on the SIR Loan and distributions from the Partnership and accordingly the Fund is economically dependent upon SIR. Credit risk arises from the potential default of SIR on the SIR Loan. Management monitors the SIR Loan for credit risk and to date a provision for uncollectible amounts has not been necessary. For information regarding SIR and its liquidity, SIR files its interim unaudited and annual audited consolidated financial statements and MD&A which, can be found on SEDAR under the Fund's listing named "Other". The most recent unaudited consolidated financial statements and MD&A for SIR's third quarter are listed having a filing date of June 18, 2008. The following table is an excerpt of the previous eight quarters of SIR's consolidated statement of cash flows information:

| ***SIR's Selected Consolidated Statement of Cash Flows Information***[14] *(in thousands of dollars) (unaudited)* | 3rd Quarter Ended May 4, 2008 (12 weeks) | 2nd Quarter Ended February 10, 2008 (12 weeks) | 1st Quarter Ended November 18, 2007 (12 weeks) | 4th Quarter Ended August 26, 2007 (16 weeks) | 3rd Quarter Ended May 6, 2007 (12 weeks) | 2nd Quarter Ended February 11, 2007 (12 weeks) | 1st Quarter Ended November 19, 2006 (12 weeks) | 4th Quarter Ended August 27, 2006 (16 weeks) |
|---|---|---|---|---|---|---|---|---|
| **Net cash from continuing operations** | 1,841 | 1,876 | 594 | 3,902 | 457 | 3,087 | 136 | 2,400 |
| **Net cash used in continuing investing activities** | (3,391) | (2,746) | (2,722) | (3,202) | (2,765) | (2,309) | (2,847) | (3,286) |
| **Net cash from (used in) continuing financing activities** | 1,890 | 285 | 2,016 | (650) | 39 | (122) | (642) | 4,924 |
| Increase (decrease) in cash and cash equivalents during the period | 340 | (583) | (115) | (186) | (1,953) | 661 | (3,357) | 4,060 |
| Cash and cash equivalents – Beginning of period | 2,679 | 3,262 | 3,377 | 3,563 | 5,516 | 4,855 | 8,212 | 4,152 |
| **Cash and cash equivalents – End of period** | 3,019 | 2,679 | 3,262 | 3,377 | 3,563 | 5,516 | 4,855 | 8,212 |

## *Controls and Procedures*

As at December 31, 2007, an evaluation was carried out under the supervision of and with the participation of the SIR GP Inc. management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the Fund's disclosure controls and procedures. Based on that evaluation, the CEO and the CFO concluded that, to their knowledge, the design and operation of these disclosure controls and procedures were effective as at December 31, 2007 to provide reasonable assurance that material information relating to the Fund and its consolidated subsidiaries would be made known to them by others within those entities.

An evaluation was carried out under the supervision of and with management, including the CEO and CFO, of internal controls over financial reporting as at December 31, 2007. Based on this evaluation, the CEO and the CFO have concluded that, internal controls over financial reporting have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with GAAP.

There has been no material change to disclosure controls and procedures or internal controls over financial reporting since these evaluations.

The Fund does not own, control or consolidate SIR and therefore, the Fund's disclosure controls and procedures and the internal controls over financial reporting do not encompass SIR or SIR's disclosure controls and procedures or SIR's internal controls over financial reporting.

## *Off-Balance Sheet Arrangements*

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

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*(14) Information presented is derived solely from documents filed with the Canadian securities regulatory authorities by SIR in its interim Q3 MD&A filed on June 18, 2008 and has not been approved by the Fund or its trustees, officers, SIR GP Inc., or SIR Holdings Trust, or their respective trustees, managing general partners, directors, or officers.*

## *Transactions with Related Parties*

During the 3-month and 6-month periods ended June 30, 2008, the Fund earned distribution income of $1.4 and 2.5 million, respectively from the Partnership ($1.2 million and $2.3 million for the 3 and 6-month periods ended June 30, 2007). 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, 2008, the Fund earned interest income of $0.8 million and $1.5 million, respectively, from the SIR Loan ($0.8 million and $1.5 million for the 3-month and 6-month period ended June 30, 2007). A description of the terms of the SIR Loan is included in the notes to the consolidated financial statements of the Fund for the 3-month and 6-month periods ended June 30, 2008 and June 30, 2007.

As at June 30, 2008, the Fund had amounts receivable from SIR of $0.2 million (December 31, 2007 - $0.2 million) and amounts receivable from the Partnership of $1.2 million (December 31, 2007- $1.0 million). The amounts receivable 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 $2.7 million (December 31, 2007- $2.2 million) partially offset by advances payable of $1.5 million (December 31, 2007 - $1.2 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, 2007.

## *Changes in Accounting Policies, Including Initial Adoption*

Effective January 1, 2008, the Fund adopted CICA Handbook Section 1535, Capital Disclosures, Section 3862, Financial Instruments – Disclosures and Section 3863, Financial Instruments – Presentation.

CICA Handbook Section 1535, Capital Disclosures, requires disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital and whether the entity has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance. The disclosures required in Section 1535 are contained in the Fund's notes to consolidated financial statements for the 3-month and 6-month periods ended June 30, 2008.

CICA Handbook Section 3862, Financial Instruments - Disclosures, modifies the disclosure requirements for financial instruments that were included in Section 3861, Financial Instruments – Disclosure and Presentation. The new standard places greater emphasis on disclosure about risks related to recognized and unrecognized financial instruments and how those risks are managed. The disclosures required in Section 3862 are contained in the Funds notes to financial statements for the 3-month and 6-month periods ended June 30, 2008.

CICA Handbook Section 3863, Financial Instruments – Presentation, replaces the existing requirements on presentation of financial instruments which have been carried forward unchanged to this new section. There has been no impact in the period ended June 30, 2008.

## *Recently Issued Accounting Standards*

Handbook Section 3064, Goodwill and intangible assets replaces Handbook Section 3062, Goodwill and intangible assets and Handbook Section 3450, Research and development costs and establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The provisions relating to the definition and initial recognition of intangible assets, including internally generating intangible assets, are equivalent to the corresponding provisions of IFRS IAS 38, Intangible assets. This standard is effective for the Fund for interim and annual financial statements beginning on January 1, 2009. Management has not yet determined the impact of the adoption of this change on the disclosure in its consolidated financial statements.

The CICA plans to converge Canadian GAAP with International Financial Reporting Standards (IFRS) over a transition period expected to end in 2011. Management is reviewing the transition to IFRS on the Fund's financial statements and has not yet determined the impact.

## *Financial Instruments and Other Instruments*

The Fund's financial instruments consist of cash and cash equivalents, amounts due from related parties, the SIR Loan, investment in the Partnership, accounts payable and accrued liabilities. Management estimates that the fair values of these financial instruments approximate their carrying values due to their short-term maturity except for the SIR Loan and the investment in the Partnership. The fair values of the SIR Loan and the investment in the Partnership could only be determined through a valuation of the individual assets. The aggregate fair value of the SIR Loan and the investment in the Partnership is approximately $51.0 million based on the market value of the Fund Units as of the close of business on June 30, 2008.

The loan receivable from SIR has a fixed interest rate of 7.5% per annum and therefore changes in interest rates would not impact interest income on the consolidated statements of earnings and comprehensive income. However, the fair value of the loan receivable from SIR will vary with changes in interest rates.

## *Disclosure of Outstanding Unit Data*

The following summarizes the ownership structure of the Fund as at August 14, 2008 and June 30, 2008:

| | **August 14, 2008** | | **June 30, 2008** | |
|---|---|---|---|---|
| | **Number of Fund Units** | **Amount $** | **Number of Fund Units** | **Amount $** |
| Units issued | 5,356,667 | 51,166,670 | 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. 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. Please refer to the prospectus dated October 1, 2004 and the March 31, 2008 Annual Information Form for further discussion on risks and uncertainties related to the Fund and SIR.

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. On October 31, 2006, the Federal Department of Finance announced a plan that proposes changes to the manner in which distributions from certain publicly listed specified investment flow-through ("SIFT") trusts including income funds, are taxed. The proposed changes to the current legislation would have certain distributions of SIFT trusts' income subject to tax at corporate income tax rates and investors in the SIFT trusts would be taxed as though the distributions were dividends. Existing Income Trusts would not be subject to this proposed taxation of distributions until the 2011 taxation year as long as the Fund meets the requirements for "normal growth". On December 15, 2006, the Federal Department of Finance released guidance provisioning the amount of growth that SIFT trust's are permitted to experience without jeopardizing its deferral of these new proposed taxation rules. The 2011 date will hold for those SIFT trusts whose equity capital growth does not exceed the greater of $50 million and the SIFT trust's market capitalization as of the end of trading on October 31, 2006. The proposed legislation has since received a third reading and therefore is considered to be substantively enacted. On July 14, 2008, further draft legislation relating to the conversion of SIFT trusts to corporations was proposed that will allow certain conversions, that occur within a specified time period, to occur on a tax deferred basis without any undue tax consequences to the SIFT trust or its Unitholders.

The Fund is considering the possible impact of the proposed rules to the Fund. The proposed rules may adversely affect the value and marketability of the Fund's Units and the ability to undertake financings, and at such time as the proposed rules apply to the Fund, the distributable cash of the Fund may be materially reduced. The proposed rules may, as a result, adversely affect the Fund and its Unitholders as well as SIR, as the holder of Partnership interests, and the Fund intends to continue to assess and plan for their expected impact. Changes may prove necessary to seek to adapt to any new tax laws with a view to attempting, where practicable, to minimize their overall adverse effects.

## *Outlook*

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 has opened twelve new restaurants since the Fund's Initial Public Offering. Two Jack Astor's restaurants were opened in fiscal 2005, three Canyon Creek restaurants were opened in fiscal 2006, and three Jack Astor's restaurants were opened in fiscal 2007. In Q2, a new Jack Astor's and a new Canyon Creek restaurant were opened, both located near the Toronto Pearson International Airport and a Jack Astor's was opened at the corner of Yonge and Dundas Streets in Toronto, Ontario. Subsequent to Q2, a Jack Astor's was opened on John Street in Toronto in the former Brasserie Frisco location. These restaurants opened in 2008 are expected to be added to the Royalty pool on January 1, 2009.

SIR expects to reopen the Jack Astor's location in Don Mills, Ontario in fiscal 2008 and it is expected that this restaurant will also be added to the Royalty pool on January 1, 2009.

SIR has also secured new sites for five additional new restaurants. A Jack Astor's restaurant is expected to open, in fiscal 2008, at one of Toronto's busiest and most highly-visible locations; the corner of Yonge and Bloor Streets. It is expected that this location will open after November 1, 2008 and therefore it is expected to be added to the Royalty pool effective January 1, 2010. A Jack Astor's site in Boisbriand, Quebec and a Canyon Creek site in Brampton, Ontario are expected to open in fiscal 2009 and are also expected to be added to the Royalty pool on January 1, 2010. Lastly, two new sites at the corner of Yonge and Gerrard Streets, in Toronto, Ontario are expected to open in 2011.

During Q2 of 2007, SIR completed a major renovation at the Canyon Creek restaurant located across from Sherway Gardens in Etobicoke, Ontario. Management is pleased with the results of the renovation. During Q3 2007, SIR renovated the Armadillo Texas Grill/the Loose Moose Tap & Grill and is now operating the entire space as the Loose Moose Tap & Grill. Subsequent to this renovation, SSSG(2) at the new Loose Moose Tap & Grill have improved. Renovations also took place during Q4 2007 at Soul of the Vine in order for SIR to introduce an innovative bakery concept, Petit Four. This new bakery targets the lucrative catering and take-out markets in the downtown Toronto core. Petit Four replaced the take-out portion of Soul of the Vine. In Q1 2008, renovations began in the remaining space of Soul of the Vine, converting it into FOUR restaurant. The restaurant was closed for 32 days for renovation, and reopened on February 27, 2008. FOUR is a new healthy upscale restaurant focusing on guilt-free dining, with each dish having less than 650 calories. Petit Four and FOUR have not being treated as New Restaurants under the License and Royalty Agreement. The revenue for both restaurants has been added to Pooled Revenue from their dates of opening and SIR did not and will not be converting any Class B GP Units into Class A GP Units of the Partnership in exchange for these additional revenue streams. Subsequent to Q2 2008, the Jack Astor's located near the Square One mall in Mississauga, Ontario was closed to make exterior and audio visual updates and modifications to the bar and lobby area.

Snowfall in southern Ontario in Q1 of fiscal 2008 was significantly higher than average. SIR Management believes that this had a negative effect on the SSSG(2) of SIR's Concept and Signature Restaurants In particular, in the Greater Toronto Area (GTA), where the majority of SIR's restaurants are located, the snowfall received in Q1 of fiscal 2008 was nearly double the average snowfall received in Q1 of the preceding five years.

On January 1, 2008, the three (2007 – three) new restaurants were added to the Royalty Pool in accordance with the License and Royalty Agreement. As consideration for the additional Royalty associated with the addition of three (2007 – three) new restaurants on January 1, 2008, as well as the Second Incremental Adjustment for the three (2006 – two) new SIR restaurants added to the Royalty Pooled Restaurants on January 1, 2007, SIR converted its Class B GP Units into Class A GP Units based on the formula in the Partnership agreement. The number of Class B GP Units that were converted to Class A GP Units on January 1, 2008 was reduced by an adjustment for the closure of two (2006 – one) SIR Restaurants during the prior calendar year. The net effect of these adjustments to the Royalty Pooled Restaurants was that SIR converted 193,535 (2007 – 421,004) Class B GP Units of the Partnership into 193,535 (2007- 421,004) Class A GP Units of the Partnership. The adjustments for new revenues that will be part of the Royalty pool are designed to be accretive for Fund Unitholders.

With regards to the Jack Astor's restaurant and Brasserie Frisco that closed in fiscal 2007, and under the terms of the License and Royalty Agreement, SIR was required to pay a Make-Whole Payment to the Partnership from their dates of closure until December 31, 2007.

During fiscal 2008, SIR expects to continue to make significant investments in both new and existing restaurants, although a smaller percentage of capital spending is expected to be directed toward renovations. This will set in place a foundation for anticipated sales growth. SIR management is committed to maximizing the performance of all of its restaurants.

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

*(2) See footnote (2) on page 2.*

Management continues to monitor the strength of the U.S. economy and evaluate its potential impact on the Canadian business environment, particularly in relation to consumer confidence and availability of credit. While SIR is currently on pace to meet its expansion targets, management may reevaluate SIR's growth rate and temporarily scale back expansion plans if such action is warranted by economic conditions.

## *Forward Looking Information*

Statements in this report, 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 securities laws. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Fund, the Trust, the Partnership, SIR, the SIR Restaurants, or industry results, 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 may include, among other language, such words as "may", "will", "expect", "believe", "plan", "anticipate", "intend", "estimate" and other similar terminology. 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. These forward-looking statements involve a number of risks and uncertainties. The following are some of the factors that could cause actual results to differ materially from those expressed in or underlying such forward-looking statements: competition; changes in demographic trends; changing consumer preferences and discretionary spending patterns; changes in national and local business and economic conditions; 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. Readers are cautioned that forward-looking statements are not guarantees of future performance, and should not place undue reliance on them. The Fund and SIR expressly disclaim any obligation or undertaking to publicly release any updates or revisions to any forward-looking statements contained herein to reflect any change in expectations, estimates and projections with regard thereto or any changes in events, conditions or circumstances on which any statement is based, except as expressly required by law.

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 industry conditions, general levels of economic activity (including in downtown Toronto), regulations (including those regarding employees, food safety, tobacco and alcohol), weather, taxes, foreign exchange rates and interest rates, that there will be no pandemics or other material outbreaks of disease or safety issues affecting humans or animals or food products, and that there will be no unplanned material changes in its facilities, equipment, customer and employee relations, or credit arrangements. These assumptions, although considered reasonable by Management at the time of preparation, may prove to be incorrect. In particular, in estimating the revenues for the three new Jack Astor's restaurants, Management has assumed that they will operate consistent with other Jack Astor's restaurants. For more information concerning the Fund's risks and uncertainties, please refer to the October 2004 final prospectus, and/or its March 31, 2008 Annual Information Form, all of which are available under the Fund's profile at www.sedar.com.

***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***