SIR ROYALTY INCOME FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

FIRST QUARTER

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2008

SIR ROYALTY INCOME FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

(For the 3-month period ended March 31, 2008)

Executive Summary

Highlights for the 3-month period ended March 31, 2008 ("Q1") for SIR Royalty Income Fund (the "Fund") include:

- Net earnings of the Fund for Q1 2008 increased to $1.8 million from $1.7 million in Q1 2007. Net earnings per Fund Unit were $0.34 and $0.32 for Q1 2008 and Q1 2007, respectively.
- Distributable cash(1) per Fund Unit, both on a basic and diluted basis increased to $0.34 for Q1 2008 from $0.32 for Q1 2007.
- The payout ratio(1) of 97.5 % in Q1 of 2008 remained unchanged from Q1 of 2007.
- Pooled Revenue increased by 6.5% in Q1 of 2008 to $42.0 million, from $39.5 million in Q1 of 2007.
- Same store sales growth(2) ("SSSG") for restaurants in the Royalty pool for Q1of 2008 was 1.7%.
- SSSG(2) was positive 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. Snowfall in southern Ontario during Q1 was significantly higher than average which SIR's Management believes had a negative effect on the SSSG(2). For Q1, Jack Astor's SSSG(2) was 1.7%, Canyon Creek SSSG(2) was 0.3%, Alice Fazooli's! SSSG(2) was 0.9% and the Signature Restaurants' SSSG(2) was 4.2%.
- 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. SIR is expected to open a new Jack Astor's restaurant in the former Brasserie Frisco location during fiscal 2008.
- 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. FOUR is an extension 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™.
- Subsequent to Q1, 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. 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 being developed in the same location 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 three additional new restaurants: two new Jack Astor's restaurants, expected to open in 2008 and one new Canyon Creek restaurant, expected to open in 2009.
- 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 Q2 unaudited consolidated financial statements and MD&A are listed having a filing date of March 26, 2008.

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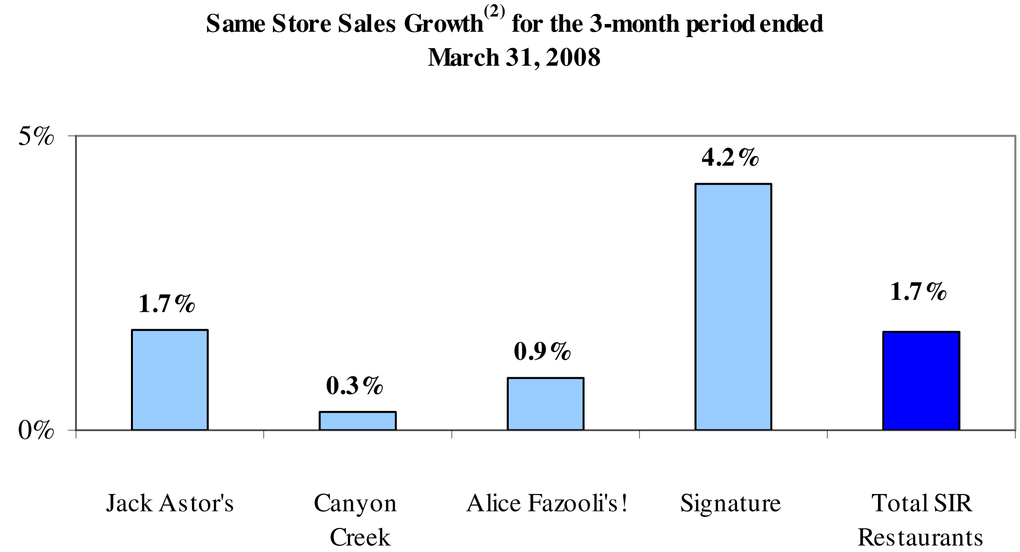
(1) Distributable cash and payout ratio are non-GAAP financial measures and do not have a standardized meaning prescribed by GAAP. However, the Fund believes that distributable cash and the payout ratio are useful measures as they provide investors with an indication of cash available for distribution. 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).

Same Store Sales Growth[2]

(unaudited)



SIR reported to the Fund that SSSG[2] was 1.7% for Q1 2008, which is over and above the SSSG[2] of 2.9% experienced in the prior year (please see the table below). Snowfall in southern Ontario during Q1 was significantly higher than average and SIR's Management believes that this had a negative effect on the 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 1.7% during Q1 2008. This growth was achieved on top of the SSSG[2] of 1.4% 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 0.3% during Q1 2008 as compared to SSSG[2] of 5.9% in Q1 2007 and Alice Fazooli's! experienced SSSG[2] of 0.9% during Q1 2008 as compared to SSSG[2] of 5.9% in Q1 2007.

During Q1, the Signature Restaurants, which are located in downtown Toronto, had SSSG[2] of 4.2% as compared to 4.9% in Q1 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 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. Brasserie Frisco was closed in December 2007 and is not included in the SSSG[2] calculation for Q1 2008.

SSSG[2] for Restaurants in the Royalty pool	**3-month period ended March 31, 2008** (unaudited)	**3-month period ended March 31, 2007** (unaudited)
Jack Astor's	1.7%	1.4%
Canyon Creek	0.3%	5.9%
Alice Fazooli's!	0.9%	5.9%
Signature Restaurants	4.2%	4.9%
Overall SSSG[2]	**1.7%**	**2.9%**

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

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). As at March 31, 2008, 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.

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 and Alice Fazooli's! continued with radio-based advertising during Q1 2008.

New and Closed Restaurants

Subsequent to Q1, a Jack Astor's and a Canyon Creek restaurant were opened near the Toronto Pearson International Airport, under one lease, in April 2008 and a Jack Astor's was opened at the corner of Yonge and Dundas Streets in Toronto, Ontario, in May 2008. It is expected that these restaurants will be added to the Royalty Pooled Restaurants effective January 1, 2009 as New Additional Restaurants.

In 2008, SIR expects to open a new Jack Astor's restaurant in the former Brasserie Frisco location, which closed on December 22, 2007. After evaluating a range of options, SIR determined that converting Brasserie Frisco into a new Jack Astor's is the best use of this prime downtown Toronto location. Brasserie Frisco was treated as a 2007 Closed Restaurant and it is expected that the new Jack Astor's will be added to the Royalty Pooled Restaurants effective January 1, 2009 as a New Additional Restaurant. SIR was required to pay a Make-Whole Payment from the date of closure to December 31, 2007.

A new Jack Astor's restaurant is also expected to open in Don Mills, Ontario in the second half of fiscal 2008. SIR has secured a site in the "lifestyle mall" which is currently being developed in the same location 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 three new sites for Jack Astor's and Canyon Creek restaurants. Two sites are expected to open in fiscal 2008 and include a Jack Astor's at the corner of Yonge and Bloor Streets in Toronto, Ontario, and a Jack Astor's in Boisbriand, Quebec. The third site is a Canyon Creek in Brampton, Ontario and is expected to open in fiscal 2009.

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 was closed on September 29, 2007. With respect to the closed Burlington restaurant location, SIR was required to pay a Make-Whole Payment from the date of closure to December 31, 2007. The closed restaurant was removed from the Royalty Pooled Restaurants as a New Closed Restaurant, on January 1, 2008. The new site has provided higher revenues and therefore an increased Royalty stream to the Partnership.

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. In 2006, the Trustees authorized an increase from $0.10 per Unit to $0.105 per Unit beginning with the distribution paid in June 2006 and in 2007 the Trustees authorized an increase to $0.110 per Unit beginning with the distribution paid in June 2007. The estimated annualized distribution for 2008 is now $1.32 per Unit.

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

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 both Q1 of 2008 and Q1 of 2007 was 97.5 %.

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 December 2007 through February 2008. Subsequent to March 31, 2008, distributions of $0.11 per Unit were declared and paid for the month of March 2008 and a distribution of $0.11 per Unit was declared for the month of April 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 March 31, 2008, SIR operated more than 40 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 March 31, 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%).

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.

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(1) See footnote (1) on page 2

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 March 31, 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.

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.

For the 3-month period from January 1, 2008 to March 31, 2008, the Fund declared and paid a distribution of $0.11 per Unit for each of the months from December 2007 through February 2008. Subsequent to March 31, 2008, the Fund declared and paid a distribution of $0.11 per Unit for the month of March 2008. The Fund also declared a distribution of $0.11 per Unit for the month of April 2008, payable in May 2008.

Summary of Quarterly Financial Information

(in thousands of dollars except restaurants and per Unit amounts) (unaudited)	**3-month periods ended** **March 31, 2008**	**December 31, 2007**	**September 30, 2007**	**June 30, 2007**	**March 31, 2007**	**December 31, 2006**	**September 30, 2006**	**June 30, 2006**
Restaurants in the Royalty pool	39	38	38	38	38	36	36	36
Pooled Revenue generated by SIR	42,024	42,132	40,814	40,956	39,451	38,716	36,447	37,506
6% of Pooled Revenue	2,521	2,528	2,449	2,457	2,367	2,323	2,190	2,250
Make-Whole Payment(3)	-	34	-	-	-	42	41	18
Total Royalty income to Partnership	2,521	2,562	2,449	2,457	2,367	2,365	2,231	2,268
Partnership other income	17	15	15	14	14	13	13	12
Partnership expenses	(43)	(16)	(27)	(22)	(39)	(45)	(21)	(41)
Partnership earnings	2,495	2,561	2,437	2,449	2,342	2,333	2,223	2,239
SIR's interest (Class A, B and C GP Units)	(1,308)	(1,355)	(1,252)	(1,238)	(1,220)	(1,343)	(1,090)	(1,090)
Partnership income allocated to Fund(4)	1,187	1,206	1,185	1,211	1,122	990	1,133	1,149
Interest income(5)	750	750	750	750	750	750	750	750
Total income of the Fund	1,937	1,956	1,935	1,961	1,872	1,740	1,883	1,899
General & administrative expenses	(124)	(89)	(85)	(167)	(142)	(99)	(123)	(135)
Net earnings before income taxes of the Fund	1,813	1,867	1,850	1,794	1,730	1,641	1,760	1,764
Future income taxes	-	56	-	(853)	-	-	-	-
Net earnings for the period	1,813	1,923	1,850	941	1,730	1,641	1,760	1,764
Basic earnings per Fund Unit (5,356,667 Units)	0.34	0.36	0.35	0.18	0.32	0.31	0.33	0.33
Diluted earnings per Fund Unit (2008 – 7,005,211 Units; 2007 - 6,811,676 Units; 2006 – 6,390,672 Units)(6)	0.34	0.36	0.35	0.18	0.32	0.31	0.33	0.33

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(3) *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.*

(4) *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.*

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

(6) *Diluted earnings per Fund Unit 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 $2.4 million for the 3-month period ended March 31, 2008 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 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 and $1.7 million for the 3-month periods ended December 31, 2006, September 30, 2006 and June 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]

(in thousands of dollars except per Unit amounts and payout ratio[1]*)* *(unaudited)*	**3-month periods ended** March 31, 2008	December 31, 2007	September 30, 2007	June 30, 2007	March 31, 2007	December 31, 2006	September 30, 2006	June 30, 2006
Cash provided by operating activities	1,768	1,768	1,768	1,714	1,687	1,687	1,687	1,634
Add/(deduct): Net change in non-cash working capital items[7]	45	99	82	80	43	(46)	73	130
Distributable cash[1]	**1,813**	**1,867**	**1,850**	**1,794**	**1,730**	**1,641**	**1,760**	**1,764**
Cash distributed for the period	**1,768**	**1,768**	**1,768**	**1,714**	**1,687**	**1,687**	**1,687**	**1,634**
Surplus/ (shortfall) of distributable cash[1]	**45**	**99**	**82**	**80**	**43**	**(46)**	**73**	**129**
Payout ratio[1][8]	97.5%	94.7%[10]	95.6%	95.5%	97.5%	102.8%[10]	95.9%	92.6%
Distributable cash[1] per Fund Unit basic (5,356,667 Units)	0.34	0.35	0.35	0.33	0.32	0.31	0.33	0.33
Distributable cash[1] per Fund Unit diluted (2008 - 7,005,211; 2007 – 6,811,676 Units; 2006 - 6,390,672 Units)[9]	0. 34	0. 35	0.35	0.33	0.32	0.31	0.33	0.33

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. On May 24, 2006, the Trustees Authorized a 5% distribution increase to Unitholders. The monthly distributions increased from $0.10 per Unit to $0.105 per Unit beginning with the distribution paid in June 2006. This increased the estimated annualized distribution from $1.20 to $1.26. On May 23, 2007, the Trustees authorized a further 4.8% increase to the distributions to Unitholders. This increased the monthly distributions from $0.105 per Unit to $0.110 per Unit beginning with the distribution paid in June 2007. This increased the estimated annualized distribution from $1.26 to $1.32.

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 periods ended March 31, 2008 and March 31, 2007, the payout ratio[1] was the same at 97.5%.

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

(7) *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.*

(8) *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.*

(9) *Diluted distributable cash per Fund Unit is calculated as follows: Distributable cash for the period plus the distributions related to the Class A GP Units, which together total $2.4 million for the 3-month period ended March 31, 2008 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, $2.1 million and $2.1 million for the 3-month periods ended December 31, 2006, September 30, 2006, and June 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.*

(10) *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).*

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 March 31, 2008	3-month period ended March 31, 2007
	(in thousands of dollars) (unaudited)	
Cash provided by operating activities	1,768	1,687
Net income	1,813	1,730
Cash distributed for the period	1,768	1,687
Excess (shortfall) of cash provided by operating activities over cash distributed for the period(11)	-	-
Excess of net income over cash distributions paid(12)	**45**	**43**

Balance Sheet

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

(in thousands of dollars) (unaudited)	March 31, 2008	December 31, 2007	September 30, 2007	June 30, 2007	March 31, 2007	December 31, 2006	September 30, 2006	June 30, 2006
Total assets	52,432	52,406	52,306	52,229	52,104	52,106	52,155	52,042
Unitholders' equity	51,534	51,489	51,334	51,252	52,025	51,982	52,028	51,955

Results of Operations - Fund

The Fund's revenue of $1.9 million for the 3-month period ended March 31, 2008 ($1.9 million for the 3-month period ended March 31, 2007) is comprised of distribution income from the Partnership of $1.2 million ($1.1 million for the 3-month period ended March 31, 2007) and interest income of $0.8 million ($0.8 million for the 3-month period ended March 31, 2007). Distribution income from the Partnership is the pro rata share of the residual distributions of the Partnership for the 3-month periods ended March 31, 2008 and March 31, 2007. Interest income is interest earned for the 3-month periods ended March 31, 2008 and March 31, 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 $0.1 million for the 3-month periods ended March 31, 2008 and March 31, 2007, respectively. These expenses include professional fees, directors' and officers' liability insurance premium, Trustees' fees, certain public company costs and other administrative fees.

Net earnings were $1.8 million or $0.34 per Fund Unit (basic and diluted basis) for the 3-month period ended March 31, 2008, and $1.7 million or $0.32 per Fund Unit (basic and diluted basis) for the 3-month period ended March 31, 2007.

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(11) 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.

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

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 March 31, 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-month periods ended March 31, 2008 and March 31, 2007:

Summary of Pooled Revenue

(in thousands of dollars except number of restaurants included in Pooled Revenue) (Unaudited)	3-month period ended March 31, 2008		3-month period ended March 31, 2007	
	Pooled Revenue	Restaurants included in Pooled Revenue	Pooled Revenue	Restaurants included in Pooled Revenue
Jack Astor's	26,049	24	23,200	22
Canyon Creek	6,720	7	6,699	7
Alice Fazooli's!	4,632	5	4,593	5
Signature	4,623	3	4,959	4
Total included in Pooled Revenue	42,024	39	39,451	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 March 26, 2008 (SIR's most recent interim filing date), SIR reported that it had drawn an aggregate of $4.6 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-month periods ended March 31, 2008 and March 31, 2007, the Fund distributed $1.8 million and $1.7 million to Unitholders, respectively. Subsequent to March 31, 2008, distributions of $0.6 million ($0.11 per Unit) were declared and paid for the month of March 2008 and a distribution of $0.6 million ($0.11 per Unit) was declared for the month of April 2008.

The Fund did not have any capital expenditures in Q1 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 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 second quarter are listed having a filing date of March 26, 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 (13) *(in thousands of dollars) (unaudited)*	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)	3rd Quarter Ended May 7, 2006 (12 weeks)
Net cash from (used in) continuing operations	1,876	594	3,902	457	3,087	136	2,400	1,420
Net cash used in continuing investing activities	(2,746)	(2,722)	(3,202)	(2,765)	(2,309)	(2,847)	(3,286)	(3,897)
Net cash from (used in) continuing financing activities	285	2,016	(650)	39	(122)	(642)	4,924	(86)
Increase (decrease) in cash and cash equivalents during the period	(583)	(115)	(186)	(1,953)	661	(3,357)	4,060	(2,548)
Cash and cash equivalents – Beginning of period	3,262	3,377	3,563	5,516	4,855	8,212	4,152	6,700
Cash and cash equivalents – End of period	2,679	3,262	3,377	3,563	5,516	4,855	8,212	4,152

(13) Information presented is derived solely from documents filed with the Canadian securities regulatory authorities by SIR in its interim Q2 MD&A filed on March 26 , 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.

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.

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.

Transactions with Related Parties

During the 3-month period ended March 31, 2008, the Fund earned distribution income of $1.2 million from the Partnership (March 31, 2007 – $1.1 million). 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 period ended March 31, 2008, the Fund earned interest income of $0.8 million, from the SIR Loan (March 31, 2007 – $0.8 million). 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 periods ended March 31, 2008 and March 31, 2007.

As at March 31, 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 $1.0 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 March. The amounts due from the Partnership represent distributions receivable of $2.3 million (December 31, 2007- $2.2 million) partially offset by advances payable of $1.3 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 period ended March 31, 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. CICA Handbook Section 3863, Financial Instruments – Presentation, carries forward the same presentation standards as Section 3861; therefore there has been no impact in the period ended March 31, 2008. The disclosures required in Section 3862 are contained in the Funds notes to financial statements for the 3 month period ended March 31, 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, the SIR Loan, investment in the Partnership, accounts payable and accrued liabilities, and amounts due from related parties. 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 $48.1 million based on the market value of the Fund Units as of the close of business on March 31, 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 May 12, 2008 and March 31, 2008:

	May 12, 2008		**March 31, 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 flow-through entities ("FTE's"), including income funds, are taxed. The proposed changes to the current legislation would have certain distributions of FTEs' income subject to tax at corporate income tax rates and investors in the FTE 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 FTE's are permitted to experience without jeopardizing its deferral of these new proposed taxation rules. The 2011 date will hold for those FTE's whose equity capital growth does not exceed the greater of $50 million and the FTE'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.

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 ten 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. Subsequent to Q1, a new Jack Astor's and a new Canyon Creek restaurant were opened in April 2008, both located near the Toronto Pearson International Airport and a Jack Astor's was opened in May 2008, at the corner of Yonge and Dundas Streets in Toronto, Ontario.

SIR expects to reopen the Jack Astor's location in Don Mills, Ontario in the second half of fiscal 2008. SIR has also secured new sites for two new Jack Astor's restaurants and one Canyon Creek restaurant. The Jack Astor's sites are expected to open in fiscal 2008 and are at Yonge and Bloor Streets in Toronto, Ontario and in Boisbriand Quebec. It is expected that the site in Don Mills, Ontario and Boisbriand, Quebec will open on or before November 1, 2008 and therefore it is expected that they will be added to the Royalty pool on January 1, 2009. The Jack Astor's at Yonge and Bloor Streets is not scheduled to open until after November 1, 2008 and as such, is expected to be added to the Royalty pool on January 1, 2010. The Canyon Creek site is in Brampton, Ontario and is expected to open in fiscal 2009 and is expected to be added to the Royalty pool on January 1, 2010.

SIR closed Brasserie Frisco on December 22, 2007. After evaluating a range of options, SIR determined that converting Brasserie Frisco into a new Jack Astor's is the best use of this prime downtown Toronto location. This new Jack Astor's located on John Street in downtown Toronto is expected to open in fiscal 2008. Brasserie Frisco has been treated as a 2007 Closed Restaurant and, in accordance with the License and Royalty Agreement, was removed from the Royalty pool on January 1, 2008.

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.

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.

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

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.

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 at the time that the restaurants are added to SIR's Royalty Pooled Restaurants 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 revenues of the three Canyon Creek and two Jack Astor's restaurants added to SIR's Royalty Pooled Restaurants on January 1, 2007 and January 1, 2006, respectively, exceeded the initial estimated amount and as a result, a Conversion Distribution of $0.08 million and $0.23 million was declared in December 2007 and December 2006, respectively. These Conversion Distributions affected the net earnings, distributable cash(1) and the payout ratios(1) in Q4 of 2007 and 2006. These distributions were paid in January 2008 and January 2007, respectively. 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.

SIR has entered into a 7-year credit agreement with a Canadian Schedule 1 bank, for a maximum principal amount of $16.0 million, which is designed primarily to facilitate construction of new restaurants by SIR (see Liquidity and Capital Resources section).

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.

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. 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.

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(1) See footnote (1) on page 2

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