SIR ROYALTY INCOME FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

SECOND QUARTER
UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED JUNE 30, 2017

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MANAGEMENT'S DISCUSSION AND ANALYSIS

(FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED JUNE 30, 2017)

Executive Summary

Highlights for the three-month period ended June 30, 2017 ("Q2 2017") and the six-month period ended June 30, 2017 ("YTD 2017") for SIR Royalty Income Fund (the "Fund") include:

- Net earnings of the Fund were $2.6 million and $4.9 million for Q2 2017 and YTD 2017, respectively, as compared to $2.3 million and $4.3 million for the three-month period ended June 30, 2016 ("Q2 2016") and the six-month period ended June 30, 2016 ("YTD 2016"), respectively. Net earnings per Fund unit were $0.31 and $0.59 for Q2 2017 and YTD 2017, respectively, as compared to $0.31 and $0.57 for Q2 2016 and YTD 2016.
- Distributable cash[(1)] per Fund unit, both on a basic and diluted basis, was $0.32 and $0.59 for Q2 2017 and YTD 2017, respectively, up from $0.31 and $0.57 for Q2 2016 and YTD 2016, respectively. Please refer to the Distributions section on page 6 and Distributable Cash[(1)] on page 11.
- The Fund's payout ratio[(1)] decreased from 92.4% in Q2 2016 to 90.4% in Q2 2017, and decreased from 100.3% in YTD 2016 to 96.6% in YTD 2017. The payout ratio[(1)] since the Fund's inception, up to and including Q2 2017, is 99.3%.
- Pooled Revenue decreased by 0.4% to $74.5 million, down from $74.8 million in Q2 2016. Pooled Revenue for YTD 2017 increased by 0.7% to $139.0 million, up from $138.0 million in YTD 2016. Please refer to the Pooled Revenue disclosure beginning on page 14 for a detailed explanation of the Q2 2017 and YTD 2017 variances.
- SIR has reported to the Fund that the Royalty Pooled Restaurants generated same store sales growth ("SSSG")[(2)] of 0.4% and 1.5% in Q2 2017 and YTD 2017, respectively.
- Jack Astor's®, which accounted for approximately 75% of Pooled Revenue in Q2 2017, had a decline in same store sales ("SSS")[(2)] of 1.4% in Q2 2017 and generated SSSG[(2)] of 0.4% in YTD 2017. Canyon Creek® generated SSSG[(2)] of 1.4% in Q2 2017 and had a decline in SSS[(2)] of 0.7% in YTD 2017. Scaddabush generated SSSG[(2)] of 14.1% and 13.2% in Q2 2017 and YTD 2017, respectively. SIR's Signature Restaurants generated SSSG[(2)] of 7.7% and 6.5% in Q2 2017 and YTD 2017, respectively.
- During Q2 2017, SIR completed renovations at three Jack Astor's locations. These locations (on Front Street in downtown Toronto, and in Vaughan, and Brampton, Ontario) were closed for a combined total of 39 days during the quarter.
- During Q2 2017, effective June 18, 2017, SIR permanently closed the Alice Fazooli's restaurant in Vaughan, Ontario. A new Scaddabush restaurant was opened at this location subsequent to the quarter on July 5, 2017.
- During Q1 2017, SIR completed renovations at two Jack Astor's locations. These locations (Barrie and Whitby, Ontario) were closed for a combined total of 16 days during the quarter. Also during Q1 2017, effective March 19, 2017, SIR permanently closed the Alice Fazooli's restaurant in Oakville, Ontario. A new Scaddabush restaurant opened at this location on April 5, 2017.

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(1) Distributable cash and payout ratio are non-GAAP financial measures and do not have standardized meanings prescribed by International Financial Reporting Standards ("IFRS"). 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 including a reserve for income taxes payable and the net change in the distribution receivable from the SIR Royalty Limited Partnership.

(2) Same store sales ("SSS") and same store sales growth ("SSSG") are non-GAAP financial measures and do not have standardized meanings prescribed by IFRS. 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. SSSG is the percentage increase in SSS over the prior comparable period. SSS includes revenue from all SIR Restaurants included in Pooled Revenue except for those locations that were not open for the entire comparable periods in fiscal 2017 and fiscal 2016. The seasonal Abbey's Bakehouse and Abbey's Bakehouse retail outlet are not SIR Restaurants. SSS for Scaddabush includes three Scaddabush restaurants.

- SIR has elected, as is its option, under the License and Royalty Agreement, to treat the Alice Fazooli's restaurants in Oakville and Vaughan, Ontario as New Closed Restaurants and to treat the Scaddabush restaurants in Oakville and Vaughan as New Additional Restaurants. SIR is obligated to pay a Make-Whole Payment from the effective dates of closure to December 31, 2017. The Alice Fazooli's restaurants in Oakville and Vaughan will cease to be part of Royalty Pooled Restaurants on January 1, 2018, and the two new Scaddabush restaurants at these locations will be added to Royalty Pooled Restaurants on January 1, 2018.
- On January 1, 2017, the Scaddabush restaurant in Scarborough, Ontario that opened on July 12, 2016 was added to Royalty Pooled Restaurants, and the Far Niente®/FOUR®/Petit Four® restaurant in downtown Toronto that was permanently closed effective October 15, 2016 was removed from Royalty Pooled Restaurants. The Scaddabush restaurant on Front Street in downtown Toronto that opened on November 3, 2016 is expected to be added to Royalty Pooled Restaurants on January 1, 2018.
- SIR currently has one commitment in place to lease a property, upon which it plans to build a Reds® restaurant in Mississauga, Ontario, which is expected to open in 2017. There can be no assurance that this restaurant will be opened or will become part of Royalty Pooled Restaurants.
- 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 ("MD&A") on SEDAR under the Fund's SEDAR profile under the heading "Other". SIR's third quarter unaudited interim consolidated financial statements and MD&A were filed on SEDAR on June 21, 2017.
- SIR continues to monitor economic conditions and consumer confidence and has advised the Fund that it is considering new restaurants developments and renovations to existing restaurants where appropriate and subject to availability of acceptable long-term financing. Based on its assessment of these conditions, the timing of new restaurant construction and renovations as well as related opening schedules will be reviewed regularly by SIR and adjusted as necessary.

Same Store Sales(2) ("SSS")

SIR reported to the Fund SSSG(2) of 0.4% and 1.5% in Q2 2017 and YTD 2017, respectively. SSSG(2) by operating segment are summarized in the following table.

SSSG(2) for the Royalty Pooled Restaurants (unaudited)	**Three-month period ended June 30, 2017**	**Three-month period ended June 30, 2016**	**Six-month period ended June 30, 2017**	**Six-month period ended June 30, 2016**
Jack Astor's	(1.4%)	0.7%	0.4%	0.8%
Canyon Creek	1.4%	3.2%	(0.7%)	3.6%
Scaddabush	14.1%	13.5%	13.2%	14.7%
Signature Restaurants	7.7%	12.7%	6.5%	15.2%
Overall SSSG(2)	**0.4%**	**2.7%**	**1.5%**	**3.2%**

Jack Astor's, which accounted for approximately 75% of Pooled Revenue in Q2 2017, had a decline in SSS(2) of 1.4% in Q2 2017 and generated SSSG(2) of 0.4% in YTD 2017. Jack Astor's SSS(2) in Q2 2017 were impacted by the temporary closure of three locations during the quarter to complete renovations. The location on Front Street in Toronto, one of SIR's highest volume Jack Astor's locations, completed a renovation that was more extensive than other locations, resulting in a longer than normal closure. This location was closed for 20 days in Q2 2017. The locations in Vaughan and Brampton, Ontario were closed for a combined total of 19 days in the quarter. Only one location was closed in Q2 2016, for 11 days, to complete renovations. Jack Astor's sales in Q2 2017 and YTD 2017 were favourably impacted by improved sales performance at certain locations that have been recently renovated, including increases in beverage sales at these locations, as SIR has implemented enhanced beverage programs as part of its renovation program. SIR plans to continue with renovations at additional Jack Astor's to drive SSSG(2). Jack Astor's SSS(2) in Q2 2017 continued to be impacted by two restaurants affected by their weakened local economies (Jack Astor's in Calgary, Alberta and Jack Astor's in St. John's, Newfoundland). In addition to the aforementioned factors that impacted SSS(2) in Q2 2017, YTD 2017 SSSG(2) were impacted by the closure of two other Jack Astor's locations for renovations (Barrie and Whitby, Ontario), for a combined total of 16 days, compared to no additional renovations in YTD 2016.

Canyon Creek had SSSG(2) of 1.4% in Q2 2017 and a decline in SSS(2) of 0.7% in YTD 2017. The Q2 2017 SSSG(2) is primarily the result of the downtown Toronto Canyon Creek location benefiting from a local marketing campaign during the quarter. The YTD 2017 decline is primarily due to the impact of a significant competitive intrusion at one of the eight Canyon Creek locations, which had a decline in SSS(2) of 12.6% in YTD 2017.

Scaddabush SSSG(2) performance for Q2 2017 includes three Scaddabush locations (Richmond Hill, Ontario, Mississauga, Ontario, and Yonge and Gerrard in downtown Toronto, Ontario). Scaddabush generated SSSG(2) of 14.1% and 13.2% in Q2 2017 and YTD 2017, respectively, reflecting the continued strong performance of the Scaddabush brand. During Q1 2017, effective March 19, 2017, SIR permanently closed the Alice Fazooli's location in Oakville, Ontario and opened a new Scaddabush restaurant at this location at the beginning of Q2 2017 on April 5, 2017. During Q2 2017, effective June 18, 2017, SIR permanently closed the Alice Fazooli's location in Vaughan, Ontario and opened a new Scaddabush restaurant at this location subsequent to Q2 2017 on July 5, 2017. Beginning in the quarter that each of these Alice Fazooli's restaurants were closed, their respective sales will be excluded, retroactively, from the calculation of SSS(2), similar to any permanently closed location. Accordingly, the Q2 2017 and YTD 2017 SSSG(2) performance for Scaddabush does not include the Alice Fazooli's locations in Oakville or Vaughan, Ontario. The new Scaddabush locations in Scarborough, Ontario and on Front Street in downtown Toronto are also excluded from the calculation of SSSG(2) in Q2 2017 and YTD 2017, since they were not open for the entire comparable periods in 2017 and 2016.

The downtown Toronto Signature Restaurants generated SSSG(2) of 7.7% and 6.5% in Q2 2017 and YTD 2017, respectively, primarily driven by the Loose Moose Tap & Grill®, which continues to post strong SSSG(2). The Q2 2017 and YTD 2017 SSSG(2) for the Signature Restaurants does not include Far Niente/FOUR/Petit Four, as this location was closed effective October 15, 2016. The Signature Restaurants' SSSG(2) of 15.2% in YTD 2016 included SSSG(2) of 25.9% from Far Niente/FOUR/Petit Four. The high SSSG(2) for Far Niente/FOUR/Petit Four during YTD 2016 was primarily due to its 40 day closure in Q1 2015 due to a flood.

Restaurant Renovations

During Q2 2017, SIR completed renovations to three Jack Astor's locations: Front Street in downtown Toronto, Vaughan, and Brampton, Ontario. These locations were closed for 20, 11, and eight days, respectively, in the quarter.

During Q1 2017, SIR completed renovations to two Jack Astor's locations, in Barrie and Whitby, Ontario. These locations were closed for seven and nine days, respectively, in the quarter.

During the calendar year 2016, SIR completed renovations to six Jack Astor's locations. The location in Halifax, Nova Scotia was closed for a total of 11 days in Q2 2016. The location at Square One in Mississauga, Ontario was closed for a total of five days in Q3 2016. The locations in Pickering, Etobicoke, Kingston, and St. Catharines, Ontario were closed for a combined total of 25 days in Q4 2016.

SIR's Management is committed to maximizing the performance of all of its restaurants. SIR's Management is pleased with the performance at the recently renovated Jack Astor's locations and plans to continue to implement similar renovations at additional Jack Astor's locations in the future.

New and Closed Restaurants

During Q2 2017, effective June 18, 2017, SIR permanently closed the Alice Fazooli's location in Vaughan, Ontario and opened a new Scaddabush restaurant at this location, subsequent to Q2 2017, on July 5, 2017. During Q1 2017, effective March 19, 2017, SIR permanently closed the Alice Fazooli's location in Oakville, Ontario and opened a new Scaddabush restaurant at this location, at the beginning of Q2 2017, on April 5, 2017. SIR has elected, as is its option, under the License and Royalty Agreement, to treat these Alice Fazooli's locations as New Closed Restaurants and to treat the resulting new Scaddabush locations as New Additional Restaurants. These two closed Alice Fazooli's locations will cease to be part of Royalty Pooled Restaurants on January 1, 2018, and the two new Scaddabush restaurants will be added to Royalty Pooled Restaurants on January 1, 2018.

During Q3 2016, on July 12, 2016, SIR opened a new Scaddabush restaurant in Scarborough, Ontario, which was added to Royalty Pooled Restaurants on January 1, 2017. During Q4 2016, on November 3, 2016, SIR opened a new Scaddabush restaurant on Front Street in downtown Toronto. This Scaddabush restaurant is expected to be added to Royalty Pooled Restaurants on January 1, 2018.

SIR expects the impact to Royalty Pool Revenue in 2018 and beyond, resulting from the closure of two Alice Fazooli's restaurants, to be offset by the anticipated positive contributions from the addition of new Scaddabush restaurants to the Royalty Pool going forward, and from continued investments by SIR to drive future same store sales growth.

SIR currently has plans to open a new Reds restaurant at the Square One Shopping Centre in Mississauga, Ontario in 2017. There can be no assurance that this new additional restaurant will be opened or will become part of Royalty Pooled Restaurants.

During Q4 2016, effective October 15, 2016, SIR permanently closed Far Niente/FOUR/Petit Four, located in downtown Toronto. On January 1, 2017, SIR converted the same number of Class A GP units that it received for this restaurant when it was added to the Royalty Pooled Restaurants at the time of the Fund's initial public offering in October 2004, into Class B GP units. This had the net effect of increasing the Fund's share of the Partnership's earnings. Far Niente/FOUR/Petit Four ceased to be a part of Royalty Pooled Restaurants on January 1, 2017.

SIR expects the impact to Royalty Pool Revenue in 2017 and beyond, resulting from the closure of Far Niente/FOUR/Petit Four, to be offset by the aforementioned conversion of Class A GP units to Class B GP units and the anticipated positive contributions from the addition of new restaurants to the Royalty Pool going forward, and from continued investments by SIR to drive future same store sales growth.

SIR Management continues to monitor economic conditions and consumer confidence. Based on its assessment of these conditions, the timing of restaurant construction and opening schedules will be reviewed regularly by SIR Management and adjusted as necessary.

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. It is the Fund's intention 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.

During Q2 2017, monthly distributions of $0.8 million, or $0.095 per unit, were declared and paid in each of the months of April, May, and June. Subsequent to June 30, 2017, distributions of $0.095 per unit were declared and paid in the month of July, and declared in the month of August 2017.

The payout ratio(1) of cash distributed to distributable cash(1) is intended to average 100% per annum over the long 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 or could be lower than 100%. The payout ratios(1) of cash distributed to distributable cash(1) for Q2 2017 and YTD 2017 were 90.4% and 96.6%, respectively, compared to 92.4% and 100.3% in Q2 2016 and YTD 2016, respectively. The payout ratio(1) since the Fund's inception in 2004 up to and including Q2 2017 is 99.3%, in line with Fund's target payout ratio of 100%.

Please refer to pages 11 and 12 for distributable cash(1) and a summary of monthly distributions since inception, and page 13 for a description of the Fund's payout ratio(1).

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 trade-marks (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 Royalty Pooled Restaurants (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 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, 2017, SIR owned 60 Concept Restaurants and Signature Restaurants in Canada (in Ontario, Quebec, Alberta, Nova Scotia, and Newfoundland). The Concept Restaurants are Jack Astor's Bar and Grill®, Canyon Creek Chop House®, and Scaddabush Italian Kitchen & Bar®. The "Signature" group of restaurants located in downtown Toronto are Reds® Wine Tavern, Reds® Midtown Tavern, and the Loose Moose Tap & Grill®. SIR also owns a Duke's Refresher® & Bar located in downtown Toronto. Duke's Refresher is not part of the Royalty Pooled Restaurants. SIR also owns one seasonal restaurant: Abbey's Bakehouse®, in addition to one seasonal Abbey's Bakehouse retail outlet, which are not part of Royalty Pooled Restaurants. SIR owns 100% of its Canadian restaurants. As at June 30, 2017, 57 SIR Restaurants were included in Royalty Pooled Restaurants (55 operating restaurants and two closed restaurants).

SIR believes that Duke's Refresher has multi-unit growth potential and has advised the Fund that Duke's Refresher should be considered as a potential New Concept Restaurant brand. As such, the earliest that any Duke's Refresher would be added to the Royalty pool would be the Adjustment Date following the earlier of: (i) the date that four Duke's Refresher restaurants are open for business at the same time, and (ii) 90 days following the end of SIR's fiscal year in which revenues from all Duke's Refresher restaurants in Canada first exceed $12.0 million (the "Trigger Event"). As neither of these events are expected to occur in 2017, Duke's Refresher is not expected to be added to the Royalty pool on January 1, 2018.

The Partnership has the option for a period of six months following delivery of notice of the Trigger Event by SIR to purchase, effective on the next Adjustment Date, any and all associated Canadian trade-mark rights in respect of Duke's Refresher (the "Duke's Refresher Rights"), subject to the Partnership licensing the Duke's Refresher Rights back to SIR for a period of 99 years. SIR and the Partnership have the opportunity to negotiate and agree upon the amount of the consideration to be paid to SIR for the Duke's Refresher Rights. Under circumstances that are similar to those involving the SIR Rights, it is expected that the principles underlying the valuation of the Royalty and the Determined Amount as they relate to the SIR Rights shall apply, with necessary changes, to the extent deemed appropriate under the circumstances. If the Partnership elects not to exercise its option, or if the Partnership and SIR fail to agree on the terms of the purchase of the Duke's Refresher Rights, the Partnership shall have a right of first refusal, so long as the License and Royalty Agreement concerning the SIR Rights remains in effect, and exercisable for a period of 30 days from the date the Partnership receives notice and details of the proposed terms of the third party offer, to purchase the Duke's Refresher Rights should SIR wish to sell, directly or indirectly, all or substantially all of the Duke's Refresher Rights to a third party dealing at arm's length with SIR.

If the Partnership elects not to exercise the foregoing option, then, subject to the right of first refusal, SIR shall be free to operate the business relating to Duke's Refresher and exploit the Duke's Refresher Rights on its own behalf or otherwise.

On January 1 of each year (the "Adjustment Date"), the restaurants subject to the Partnership 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 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 Initial Adjustment Date'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 Initial Adjustment Date's estimated revenue. On January 1 of each year, SIR will reconvert the Class A GP Units received to Class B GP Units for the permanent closure of a SIR Restaurant.

In December of each year, an additional distribution will be payable to the Class B GP Unitholders based on actual revenues of the new SIR Restaurants exceeding 80% of the Initial Adjustment Date'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 Date's estimated revenue. The additional 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 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 Royalty Pooled Restaurants. The Partnership also issued its own securities to SIR in return for the SIR Rights acquired.

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 Royalty Pooled Restaurant. SIR is not required to pay a "Make-Whole Payment" in respect of a permanently closed Royalty Pooled Restaurant following the date on which the number of restaurants in Royalty Pooled Restaurants 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 permanently closed restaurants after such date by SIR, depending upon the circumstances. SIR was required to pay Make-Whole Payments for the Far Niente/FOUR/Petit Four restaurant in Toronto, Ontario which was closed effective October 15, 2016, and the Alice Fazooli's restaurants in Oakville and Vaughan, Ontario which were closed effective March 19, 2017 and June 18, 2017, respectively.

On January 1, 2017, one (January 1, 2016 - two) new SIR Restaurant was added to Royalty Pooled Restaurants in accordance with the Partnership Agreement. As consideration for the additional Royalty associated with the addition of one new SIR Restaurant on January 1, 2017 (January 1, 2016 - two), as well as the Second Incremental Adjustment for two new SIR Restaurants added to Royalty Pooled Restaurants on January 1, 2016 (January 1, 2015 - two), SIR converted its Class B GP Units for Class A GP Units based on the formula defined in the Partnership Agreement. In addition, there was a re-conversion of Class A GP Units into Class B GP Units for the permanent closure of one (January 1, 2016 - nil) SIR Restaurant during the prior year. The net effect of these adjustments to Royalty Pooled Restaurants was that SIR exchanged 79,481 Class A GP Units for 79,481 Class B GP Units (January 1, 2016 – SIR converted 322,676 Class B GP Units into 322,676 Class A GP Units) on January 1, 2017 at a value of $0.016 million (January 1, 2016 - $4.2 million).

In addition, the revenues of the two new SIR Restaurants added to Royalty Pooled Restaurants on January 1, 2016 were less than 80% of the Initial Adjustment's estimated revenue (January 1, 2015 – revenues of two new SIR Restaurants exceeded 80% of the Initial Adjustment's estimated revenue) and, as a result, the distributions on the Class A GP Units were reduced by a special conversion refund of $0.0005 million in December 2016 and paid in January 2017 (a special conversion distribution of $0.1 million was declared on the Class B GP Units in December 2015 and paid in January 2016).

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 years for 2016 and 2017 both consist of 52 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 is to pay even distributions in order to reduce the effect of seasonality, and if possible, allow the Fund to maintain consistent monthly distributions to unitholders.

Selected Consolidated Financial Information

The consolidated financial statements of the Fund are presented in Canadian dollars, and are prepared in accordance with IFRS. The consolidated financial statements 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 audited 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 table sets out selected financial information of the Fund and the Partnership:

Financial Highlights

(in thousands of dollars or units, except restaurants and per unit amounts) *(unaudited)*	**Three-month period ended June 30, 2017**	**Three-month period ended June 30, 2016**	**Six-month period ended June 30, 2017**	**Six-month period ended June 30, 2016**
Royalty Pooled Restaurants	57	57	57	57
Pooled Revenue generated by SIR	74,477	74,757	138,951	138,012
Royalty income to Partnership - 6% of Pooled Revenue	4,469	4,485	8,337	8,281
Make-Whole Payment(3)	99	-	229	-
Total Royalty income to Partnership	4,568	4,485	8,566	8,281
Partnership other income	6	6	12	12
Partnership expenses	(21)	(12)	(44)	(31)
Partnership earnings	4,553	4,479	8,534	8,262
SIR's interest (Class A, B and C GP Units)	(1,599)	(1,927)	(3,088)	(3,669)
Partnership income allocated to Fund(4)	2,954	2,552	5,446	4,593
Interest income	750	750	1,500	1,500
Total income of the Fund	3,704	3,302	6,946	6,093
General & administrative expenses	(118)	(108)	(235)	(209)
Net earnings before income taxes of the Fund	3,586	3,194	6,711	5,884
Income tax expense	(961)	(854)	(1,795)	(1,575)
Net earnings for the period	2,625	2,340	4,916	4,309
Basic earnings per Fund unit	$0.31	$0.31	$0.59	$0.57
Weighted average number of Fund units outstanding – Basic	8,376	7,626	8,376	7,626
Net earnings for the period – Diluted	3,246	3,203	6,079	5,897
Weighted average number of Class A GP Units	1,981	2,811	1,981	2,811
Weighted average number of Fund units outstanding – Diluted	10,357	10,437	10,357	10,437
Diluted earnings per Fund unit	$0.31	$0.31	$0.59	$0.57

(3) The Far Niente/FOUR/Petit Four restaurant in Toronto, Ontario was closed effective October 15, 2016, and the Alice Fazooli's restaurants in Oakville and Vaughan, Ontario were closed effective March 19, 2017 and June 18, 2017, respectively. Under the terms of the License and Royalty Agreement, SIR is required to pay a Make-Whole Payment for these locations equal to the amount of the royalty otherwise payable from the date of the closure until December 31st of the year of closure.

(4) The Fund, indirectly through the Trust, holds all of the Ordinary LP Units and Class A LP Units of the Partnership. The holders of the Ordinary LP Units and Class A LP Units are entitled to receive a pro rata share of all residual distributions of the Partnership.

Summary of Quarterly Financial Information

(in thousands of dollars or units, except restaurants and per unit amounts) *(unaudited)*	Three-month periods ended							
	June 30, 2017	**March 31, 2017**	**December 31, 2016**	**September 30, 2016**	**June 30, 2016**	**March 31, 2016**	**December 31, 2015**	**September 30, 2015**
Royalty Pooled Restaurants	57	57	57	57	57	57	55	55
Pooled Revenue generated by SIR	74,477	64,474	67,534	72,489	74,757	63,255	67,250	70,127
Royalty income to Partnership - 6% of Pooled Revenue	4,469	3,868	4,053	4,349	4,485	3,795	4,035	4,208
Make-Whole Payment[(3)]	99	130	77	-	-	-	-	-
Total Royalty income to Partnership	4,568	3,998	4,130	4,349	4,485	3,795	4,035	4,208
Partnership other income	6	6	6	6	6	6	6	5
Partnership expenses	(21)	(23)	(14)	(20)	(12)	(18)	(21)	(20)
Partnership earnings	4,553	3,981	4,122	4,335	4,479	3,783	4,020	4,193
SIR's interest (Class A, B and C GP Units)	(1,599)	(1,489)	(1,544)	(1,768)	(1,927)	(1,742)	(1,799)	(1,758)
Partnership income allocated to Fund[(4)]	2,954	2,492	2,578	2,567	2,552	2,041	2,221	2,435
Interest income	750	750	750	750	750	750	750	750
Total income of the Fund	3,704	3,242	3,328	3,317	3,302	2,791	2,971	3,185
General & administrative expenses	(118)	(117)	(102)	(99)	(108)	(101)	(93)	(94)
Net earnings before income taxes of the Fund	3,586	3,125	3,226	3,218	3,194	2,690	2,878	3,091
Income tax expense	(961)	(834)	(1,016)	(860)	(854)	(721)	(770)	(828)
Net earnings for the period	2,625	2,291	2,210	2,358	2,340	1,969	2,108	2,263
Basic earnings per Fund unit	$0.31	$0.27	$0.26	$0.30	$0.31	$0.26	$0.28	$0.30
Weighted average number of Fund units outstanding – Basic	8,376	8,376	8,376	7,935	7,626	7,626	7,626	7,626
Net earnings for the period – Diluted	3,246	2,833	2,754	3,105	3,203	2,695	2,796	3,002
Weighted average number of Class A GP Units	1,981	1,981	2,061	2,502	2,811	2,811	2,488	2,488
Weighted average number of Fund units outstanding – Diluted	10,357	10,357	10,437	10,437	10,437	10,437	10,114	10,114
Diluted earnings per Fund unit	$0.31	$0.27	$0.26	$0.30	$0.31	$0.26	$0.28	$0.30

For the six-month period from January 1, 2017 to June 30, 2017, the Fund declared and paid distributions of $0.57 per unit. The Fund declared and paid a distribution of $0.095 per unit in each of the months of January to June 2017 inclusive. Subsequent to June 30, 2017, distributions of $0.095 per unit were declared and paid in the month of July 2017 and declared in August 2017.

Distributable Cash(1)

(in thousands of dollars or units, except per unit amounts and payout ratio(1)) *(unaudited)*	**Three-month period ended June 30, 2017**	**Three-month period ended June 30, 2016**	**Six-month period ended June 30, 2017**	**Six-month period ended June 30, 2016**
Cash provided by operating activities	2,250	2,137	4,723	3,945
Add/(deduct): Net change in non-cash working capital items(5)	50	(108)	(252)	(184)
Net change in income tax payable(5)	(115)	(21)	25	395
Net change in distribution receivable from the Partnership(5)	454	344	448	177
Distributable cash(1)	2,639	**2,352**	**4,944**	**4,333**
Cash distributed for the period	2,387	**2,173**	**4,774**	**4,347**
Surplus/(shortfall) of distributable cash(1)	252	**179**	**170**	**(14)**
Payout ratio(1), (6)	90.4%	92.4%	96.6%	100.3%
Weighted average number of Fund units outstanding – Basic	8,376	7,626	8,376	7,626
Distributable cash(1) per Fund unit – Basic	$0.32	$0.31	$0.59	$0.57
Distributable cash(1) for the period – Diluted(7)	3,260	3,215	6,107	5,922
Weighted average number of Class A GP Units(7)	1,981	2,811	1,981	2,811
Weighted average number of Fund units outstanding – Diluted(7)	10,357	10,437	10,357	10,437
Distributable cash(1) per Fund unit – Diluted(7)	$0.32	$0.31	$0.59	$0.57

(5) *Distributable cash is adjusted to exclude the net change in non-cash working capital items, the net change in income tax payable, and the net change in the distribution receivable from the Partnership, as the Fund's working capital requirements are not permanent and are primarily due to the timing of payments.*

(6) *It is the Fund's intention 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 SIR's business, and it is anticipated that the payout ratio will decrease on average during the warm weather months.*

(7) *Diluted distributable cash per Fund unit is as follows: Distributable cash for the period, plus the distributions, net of income tax expense (recovery), related to the Class A GP Units, divided by the weighted average number of Fund units outstanding. The weighted average number of Fund units outstanding represents the weighted average number of Fund units outstanding (basic) plus the weighted average number of convertible Class A GP Units.*

Distributable Cash[1]

(in thousands of dollars or units, except per unit amounts and payout ratio[1]*) (unaudited)*	Three-month periods ended							
	June 30, 2017	**March 31, 2017**	**December 31, 2016**	**September 30, 2016**	**June 30, 2016**	**March 31, 2016**	**December 31, 2015**	**September 30, 2015**
Cash provided by operating activities	2,250	2,473	2,214	2,484	2,137	1,808	2,307	2,308
Add/(deduct): Net change in non-cash working capital items[5]	50	(302)	482	(358)	(108)	(76)	83	(96)
Net change in income tax payable[5]	(115)	140	(93)	(17)	(21)	416	(108)	(163)
Net change in distribution receivable from the Partnership[5]	454	(6)	(245)	262	344	(167)	(161)	227
Distributable cash[1]	**2,639**	**2,305**	**2,358**	**2,371**	**2,352**	**1,981**	**2,121**	**2,276**
Cash distributed for the period	**2,387**	**2,387**	**2,388**	**2,244**	**2,173**	**2,173**	**2,174**	**2,173**
Surplus/(shortfall) of distributable cash[1]	**252**	**(82)**	**(30)**	**127**	**179**	**(192)**	**(53)**	**103**
Payout ratio[1], [6]	90.4%	103.6%	101.2%	94.7%	92.4%	109.7%	102.5%	95.5%
Weighted average number of Fund units outstanding – Basic	8,376	8,376	8,376	7,935	7,626	7,626	7,626	7,626
Distributable cash[1] per Fund unit – Basic	$0.32	$0.28	$0.28	$0.30	$0.31	$0.26	$0.28	$0.30
Distributable cash[1] for the period – Diluted[7]	3,260	2,847	2,902	3,117	3,215	2,707	2,809	3,015
Weighted average number of Class A GP Units[7]	1,981	1,981	2,061	2,502	2,811	2,811	2,488	2,488
Weighted average number of Fund units outstanding – Diluted[7]	10,357	10,357	10,437	10,437	10,437	10,437	10,114	10,114
Distributable cash[1] per Fund unit – Diluted[7]	$0.32	$0.28	$0.28	$0.30	$0.31	$0.26	$0.28	$0.30

A history of distributions is as follows:

Months Paid	Distribution per Unit
Inception to May 2006	$0.100
June 2006 to May 2007	$0.105
June 2007 to May 2008	$0.110
June 2008 to January 2011	$0.115
February 2011 to May 2012	$0.083[8]
June 2012 to May 2013	$0.088
June 2013 to date	$0.095
December 2012 Special Distribution	$0.05[9]

Beginning with the payment in June 2013, the Fund raised its monthly unitholder distributions from $0.088 per unit to $0.095 per unit, representing $1.14 per unit on an annualized basis.

(8) As a result of certain legislative changes to the tax treatment of income trusts, corporate income taxes became applicable to the taxable income of the Fund effective January 1, 2011. Accordingly, the distributions, starting with the January 2011 distribution (declared and paid in February 2011), were reduced for the impact of income taxes.

(9) The special 2012 year-end distribution of $0.05 per unit declared in December 2012 and paid in January 2013 was declared because the Fund expected that the taxable income generated in 2012 would exceed the aggregate monthly distributions declared by the Fund.

The payout ratio(1) of cash distributed to distributable cash(1) for Q2 2017 was 90.4%, compared to 92.4% in Q2 2016. The decrease in the payout ratio(1) is primarily the result of the immediate recognition of a Make-Whole payment of $0.1 million in the quarter, related to the closure of the Alice Fazooli's restaurant in Vaughan, Ontario, which will be paid from the date of closure to December 31, 2017. The payout ratio(1) of cash distributed to distributable cash(1) for YTD 2017 was 96.6%, compared to 100.3% in YTD 2016. The decrease in the payout ratio(1) is primarily the result of the immediate recognition of two full Make-Whole payments for a total of $0.2 million in YTD 2017 from SIR to the Partnership, for the closure of the Alice Fazooli's locations in Oakville, Ontario in Q1 2017 and Vaughan, Ontario in Q2 2017, respectively, that will be paid from the date of closure to December 31, 2017. In addition, same store sales growth in both Q2 2017 and YTD 2017 have contributed to the decreases. The Fund's quarterly payout ratios vary over the course of a year due to seasonal fluctuations in revenues. For example, the first quarter typically has lower sales volumes than the second and third quarters which include warmer summer months when patios are open.

Since the Fund's inception in October 2004 up to and including Q2 2017, the Fund has generated $93.6 million in cumulative distributable cash(1) and has paid cumulative cash distributions of $92.9 million, representing a cumulative payout ratio(1) (the ratio of cumulative cash distributions paid since inception to cumulative distributable cash(1) generated) of 99.3%. Based on current business and economic conditions, the Fund's Trustees intend to maintain its current distribution levels at this time. However, should the distributions from the Partnership decline, or the expenses of the Fund increase, the Fund may have to reduce distributions.

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

(in thousands of dollars) *(unaudited)*	**Three-month period ended June 30, 2017**	**Three-month period ended June 30, 2016**	**Six-month period ended June 30, 2017**	**Six-month period ended June 30, 2016**
Cash provided by operating activities	2,250	2,137	4,723	3,945
Net earnings for the period	2,625	2,340	4,916	4,309
Cash distributed for the period	2,387	2,173	4,774	4,347
Shortfall of cash provided by operating activities over cash distributed for the period(10)	**(137)**	**(36)**	**(51)**	**(402)**
Excess (shortfall) of net earnings for the period over cash distributed for the period(11)	**238**	**167**	**142**	**(38)**

The $0.1 million shortfall of cash provided by operating activities over cash distributed for Q2 2017 is primarily attributable to an unfavorable variance in the net change in working capital items and timing of income tax payments. The $0.1 million shortfall of cash provided by operating activities over cash distributed for YTD 2017 is primarily attributable to the timing of income tax payments.

The $0.2 million and $0.1 million excess of net earnings for the period over cash distributed for Q2 2017 and YTD 2017 is primarily due to an increase in net earnings related to an increase in the Fund's share of the earnings of the Partnership.

(10) 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.

(11) Excess (shortfall) of net earnings for the period over cash distributed for the period is calculated by subtracting cash distributed for the period from net earnings for the period.

Balance Sheet

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

(in thousands of dollars) *(unaudited)*	**June 30, 2017**	**March 31, 2017**	**December 31, 2016**	**September 30, 2016**	**June 30, 2016**	**March 31, 2016**	**December 31, 2015**	**September 30, 2015**
Total assets	95,460	95,160	95,069	95,463	84,366	84,075	84,598	84,606
Unitholders' equity	90,377	90,139	90,235	90,411	79,685	79,518	79,723	79,788

Results of Operations - Fund

The Fund's revenue of $3.7 million for Q2 2017 ($3.3 million for Q2 2016) comprises equity income from the Partnership of $3.0 million ($2.6 million for Q2 2016) and interest income of $0.8 million ($0.8 million for Q2 2016). Revenue of $6.9 million for YTD 2017 ($6.1 million for YTD 2016) is comprised of equity income from the Partnership of $5.4 million ($4.6 million for YTD 2016) and interest income of $1.5 million ($1.5 million for YTD 2016). Equity income from the Partnership is the pro rata share of the residual distributions of the Partnership for the three-month and six-month periods ended June 30, 2017 and June 30, 2016. The increase in equity income from the Partnership is due to an increase in the earnings of the Partnership driven by SSSG(2), as well as an increase in the number of Class A LP Units of the Partnership owned by the Fund compared to Q2 2016 and YTD 2016. Interest income is interest earned for the three-month and six-month periods ended June 30, 2017 and June 30, 2016 from the $40.0 million SIR Loan which bears interest at 7.5% per annum.

The Fund's operating expenses, which are limited to general and administration expenses, totaled $0.1 million and $0.2 million for Q2 2017 and YTD 2017, respectively ($0.1 million and $0.2 million for Q2 2016 and YTD 2016, respectively). These expenses include professional fees, directors' and officers' liability insurance premiums, Trustees' fees, certain public company costs and other administrative fees.

The Fund recorded a current income tax expense of $0.9 million and $1.8 million for Q2 2017 and YTD 2017, respectively ($0.9 million and $1.6 million for Q2 2016 and YTD 2016, respectively).

Net earnings were $2.6 million and $4.9 million for Q2 2017 and YTD 2017, respectively ($2.3 million and $4.3 million for Q2 2016 and YTD 2016, respectively). Earnings per Fund unit on both a basic and diluted basis were $0.31 and $0.59 for Q2 2017 and YTD 2017, respectively ($0.31 and $0.57 for Q2 2016 and YTD 2016, respectively).

Pooled Revenue

The Fund is indirectly dependent on the amount of the Royalty paid by SIR to the Partnership. The amount of this Royalty is dependent on Pooled Revenue. Pooled Revenue is the revenue of the SIR Restaurants included in Royalty Pooled Restaurants. As at June 30, 2017, there were 57 restaurants included in Pooled Revenue (55 operating restaurants and two closed restaurants). Increases or decreases in Pooled Revenue are derived from SSS(2) growth or declines, and new or permanently closed SIR Restaurants subject to the SIR Rights. Pooled Revenue is affected by the risks associated with the operations and financial condition of SIR, the commercial foodservice industry generally and the casual and fine dining segment of the commercial foodservice industry in particular.

The following table sets out Pooled Revenue for the three-month and six-month periods ended June 30, 2017 and June 30, 2016:

Summary of Pooled Revenue

(in thousands of dollars except number of restaurants included in Pooled Revenue) (unaudited)	Three-month period ended June 30, 2017		Three-month period ended June 30, 2016		Six-month period ended June 30, 2017		Six-month period ended June 30, 2016	
	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	55,590	40	56,402	40	102,487	40	102,095	40
Canyon Creek	6,941	8	6,845	8	13,733	8	13,835	8
Scaddabush/Alice Fazooli's	6,540	6	5,331	5	12,605	6	10,074	5
Signature	5,406	3	6,179	4	10,126	3	12,008	4
Total included in Pooled Revenue	74,477	57	74,757	57	138,951	57	138,012	57

Pooled Revenue from Scaddabush/Alice Fazooli's includes four Scaddabush restaurants and two closed Alice Fazooli's restaurants, up to their date of closure. The Scaddabush restaurants consist of two new Scaddabush restaurants and two Scaddabush restaurants that were converted from Alice Fazooli's restaurants. For greater certainty, the Scaddabush/Alice Fazooli's Pooled Revenue for the three-month and six-month periods ended June 30, 2017 excludes the revenue of the new Scaddabush restaurants in Toronto (Front Street), Oakville, and Vaughan, Ontario, all of which are expected to be added to Royalty Pooled Restaurants on January 1, 2018.

Pooled Revenue decreased by 0.4% to $74.5 million in Q2 2017, down from $74.8 million in Q2 2016. Pooled Revenue increased by 0.7% to $139.0 million in YTD 2017, up from $138.0 million in YTD 2016.

The Q2 2017 decline in Pooled Revenue for Jack Astor's is due to the decline in SSS(2) of 1.4%, primarily the result of a significant decline in SSS(2) at one of SIR's highest volume Jack Astor's locations in Toronto due to its temporary closure for a major renovation in the quarter. The Q2 2017 increase in Pooled Revenue for Canyon Creek is the result of SSSG(2) of 1.4% in the quarter. The Q2 2017 increase in Pooled Revenue for Scaddabush/Alice Fazooli's is primarily the result of the Pooled Revenue contribution resulting from the addition of the Scaddabush restaurant in Scarborough, Ontario to the Royalty Pool on January 1, 2017, along with SSSG(2) of 14.1%, partially offset by the closures of the Alice Fazooli's locations in Oakville and Vaughan, Ontario in Q1 2017 and Q2 2017, respectively. Although these latter two restaurants no longer contribute to Pooled Revenue, a Make-Whole payment is made until they cease to be part of Royalty Pooled Restaurants, expected to occur on January 1, 2018. The Q2 2017 decline in Pooled Revenue for the Signature restaurants is primarily the result of the removal of Far Niente/FOUR/Petit Four from the Royalty Pool on January 1, 2017 after its closure in 2016, partially offset by SSSG(2) of 7.7% in the quarter.

YTD 2017 Pooled Revenue was impacted by the above mentioned factors, but strong SSSG(2) of 2.7% in Q1 2017 helped to offset the decline in Pooled Revenue in Q2 2017, resulting in an increase in Pooled Revenue for YTD 2017.

Liquidity and Capital Resources

The Fund has no third party debt. SIR currently has the $40.0 million SIR Loan owed to the Fund (which SIR can surrender its Class C GP Units as consideration for principal payments under the loan) and a credit agreement (Credit Agreement) with a Schedule I Canadian chartered bank (the Lender), a copy of which has been filed on SEDAR. The credit agreement 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 Lender. This subordination, which includes a subordination of the Partnership's rights under the License and Royalty Agreement between the Partnership and SIR whereby the Partnership licenses to SIR the right to use trade-marks and related intellectual property in return for royalty payments based on revenues, has been effected pursuant to the terms of the Intercreditor Agreement. A copy of the Intercreditor Agreement has also been filed on SEDAR.

The Credit Agreement between SIR and the Lender provides for a three-year facility for a maximum principal amount of $30.0 million consisting of a $20.0 million revolving term credit facility (Credit Facility 1), and a $10.0 million revolving term loan (Credit Facility 2). SIR and the Lender have also entered into a purchase card agreement providing credit of up to an additional $5.0 million.

Credit Facility 1 is for general corporate and operating purposes, including capital spending on new and renovated restaurants, bearing interest at the prime rate plus 2.25% and/or the bankers' acceptance rate plus 3.25%, principal repaid in one bullet repayment on July 6, 2018. A standby fee of 0.65% is charged on the undrawn balance of Credit Facility 1. Provided SIR is in compliance with the Credit Agreement, the principal amount of Credit Facility 1 can be repaid and reborrowed at any time during the term of the agreement. Credit Facility 2 bears interest at the prime rate plus 2.25% and/or the bankers' acceptance rate plus 3.25%. The initial advance on Credit Facility 2 is repayable in quarterly instalments of $0.5 million, with the remaining outstanding principal balance due on July 6, 2018. Subsequent advances on Credit Facility 2 may be requested (subject to availability and lender approval), in minimum multiples of $1.0 million, annually on the anniversary of the closing date of the Credit Agreement (July 6), to finance capital spending on new and renovated restaurants. Each subsequent advance will be repayable in equal quarterly instalments based on a five year amortization, with the remaining outstanding principal balance due on July 6, 2018. During 2016, the Lender approved SIR's request for an advance of $2.0 million on Credit Facility 2. SIR has not yet drawn on this advance.

The Credit Agreement 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 Agreement.

Under the Intercreditor Agreement, absent a default or event of default under the Credit Agreement, ordinary payments to the Fund and the Partnership can continue and the Partnership can exercise any and all of its rights to preserve the trademarks and related intellectual property governed by the License and Royalty Agreement. However, if a default or an event of default were to occur, the Fund and the Partnership agree not to take actions on their security until the Lender has been repaid in full. However, payments by SIR, to the Fund and the Partnership, will be permitted for such amounts as are required to fund their monthly operating expenses, up to an annual limit. In addition, the Fund, the Partnership and SIR will have the right, acting cooperatively, to reduce payments of Royalties and/or interest on the SIR Loan without triggering a cross default under the Credit Agreement, by up to 50% for a period of up to nine consecutive months. SIR and each Obligor provided an undertaking to cooperate and explore all options with the Fund to maximize value to the Fund's unitholders and SIR and its shareholders in exchange for the Subordinating Parties not demanding repayment or enforcing security as a result of any such Related Party Obligation Default. The Intercreditor Agreement also contains various other typical covenants of the Fund and the Partnership.

SIR believes and has advised the Fund that it expects to be able to comply with the covenants under the debt and service the debt, as well as meet its other obligations. However, there can of course be no assurance of this. If SIR were to be unable to do so, this could have material adverse consequences on SIR and the Fund, and SIR in such circumstances would seek to cooperate with the Fund to protect stakeholder interests.

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 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 or five-week period for which the Royalty is determined.

The Fund did not have any capital expenditures in Fiscal 2016 or in YTD 2017 and by its nature is not expected to have significant capital expenditures in the future. Capital expenditures related to 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 currently believes that there are sufficient cash resources retained in the Partnership in order to meet its current obligations and pay distributions to its unitholders. The Fund intends to continue to pay monthly distributions consistent with the most recent distribution declared in May 2017 for the near future. However, should the distributions from the Partnership decline, or the expenses of the Fund increase, the Fund may have to reduce distributions.

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. The Fund also depends on the distributions from the Partnership, which are dependent upon SIR paying the Royalty to the Partnership. Information regarding SIR and its liquidity can be found in SIR's unaudited interim and audited annual consolidated financial statements and MD&A, which can be found on SEDAR under the Fund's listing named "Other". The most recent unaudited interim consolidated financial statements and MD&A for SIR's third quarter are listed having a filing date of June 21, 2017.

The following table is an excerpt of the previous eight quarters of SIR's consolidated statement of cash flows information:

Selected Unaudited Consolidated Statement of Cash Flows Information[12]	**3rd Quarter Ended May 7, 2017 (12 weeks)**	**2nd Quarter Ended February 12, 2017 (12 weeks)**	**1st Quarter Ended November 20, 2016 (12 weeks)**	**4th Quarter Ended August 28, 2016 (16 weeks)**	**3rd Quarter Ended May 8, 2016 (12 weeks)**	**2nd Quarter Ended February 14, 2016 (12 weeks)**	**1st Quarter Ended November 22, 2015 (12 weeks)**	**4th Quarter Ended August 30, 2015 (16 weeks)**
	(in thousands of dollars) (unaudited)							
Cash provided by (used in) operations	4,334	(1,404)	(1,478)	8,313	3,110	3,182	(2,645)	6,020
Cash used in investing activities	(2,709)	(2,660)	(3,245)	(3,611)	(2,092)	(1,634)	(2,323)	(3,106)
Cash provided by (used in) financing activities	(1,928)	3,151	4,651	(3,725)	(1,463)	(1,948)	855	(3,426)
Decrease in cash and cash equivalents during the period	(303)	(913)	(72)	977	(445)	(400)	(4,113)	(512)
Cash and cash equivalents – Beginning of period	2,903	3,816	3,888	2,911	3,356	3,756	7,869	8,381
Cash and cash equivalents – End of period	2,600	2,903	3,816	3,888	2,911	3,356	3,756	7,869

Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and includes controls and procedures designed to ensure that information required to be disclosed is accumulated and communicated to management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), as appropriate to allow timely decisions regarding required disclosures.

Internal controls over financial reporting are designed by management, under the supervision of, and with the participation of, the Fund's CEO and CFO, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Management carried out an evaluation of the appropriateness of the financial disclosure, the design and effectiveness of the Fund's disclosure controls and procedures, and the design and effectiveness of internal controls over financial reporting as defined in National Instrument 52-109, "Certification of Disclosure in Issuer's Annual and Interim Filings", as at December 31, 2016 and under the supervision and with the participation of the Fund's CEO and CFO. The evaluation was conducted using the framework and criteria established in Internal Control - Integrated Framework: 2013, issued by the Committee of Sponsoring Organizations of the Treadway Commission in May 2013.

Based on the evaluation, the CEO and CFO concluded that internal controls over financial reporting are effective and there are no material weaknesses in the Fund's internal controls over financial reporting as at December 31, 2016. There have been no substantive changes in the Fund's internal controls over financial reporting that occurred during the most recent interim period beginning April 1, 2017 and ending June 30, 2017, that have materially affected, or are reasonably likely to materially affect the Fund's internal control over financial reporting. 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.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

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(12) Information presented is in accordance with IFRS and is derived solely from documents filed with the Canadian securities regulatory authorities by SIR in its interim Q2 2017 MD&A filed on March 29, 2017 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.

Off-Balance Sheet Arrangements

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

Transactions with Related Parties

During the three-month and six-month periods ended June 30, 2017, the Fund earned equity income of $3.0 million and $5.4 million, respectively, from the Partnership ($2.6 million and $4.6 million for the three-month and six-month periods ended June 30, 2016, respectively). The Fund, indirectly through the Trust, is entitled to receive a pro rata share of all residual distributions. The Fund's equity income is dependent upon the revenue generated by the SIR Restaurants subject to the License and Royalty Agreement.

During the three-month and six-month periods ended June 30, 2017, 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 three-month and six-month periods ended June 30, 2016). A description of the terms of the SIR Loan is included in the notes to the unaudited interim consolidated financial statements of the Fund for three-month and six-month periods ended June 30, 2017.

As at June 30, 2017, the Fund had amounts receivable from SIR of $0.3 million (December 31, 2016 – $0.3 million) and distributions receivable from the Partnership of $3.9 million (December 31, 2016 – $3.5 million). The amount receivable from SIR relates primarily to the interest owing to the Fund on the SIR Loan for the month of June. As at June 30, 2017, the Fund had advances payable to the Partnership of $3.0 million (December 31, 2016 - $2.8 million). All advances were conducted as part of the normal course of business operations.

Critical Accounting Estimates

Management believes 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, 2016.

Changes in Accounting Policies, Including Initial Adoption

There have been no changes in accounting policies during the period.

IFRS Issued But Not Yet Effective

IFRS 9, Financial Instruments – Classification and Measurement: In July 2014, the International Accounting Standards Board (IASB) issued the final version of IFRS 9, Financial Instruments, bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39, Financial Instruments: Recognition and Measurement. The mandatory effective date of IFRS 9 would be annual periods beginning on or after January 1, 2018, with early adoption permitted. Management is evaluating the standard and has not yet determined the impact on its consolidated financial statements.

IFRS 7, Financial Instruments – Disclosure: has been amended to require additional disclosures on transition from IAS 39 to IFRS 9. This amendment is effective on adoption of IFRS 9. Management is evaluating the amendment and has not yet determined the impact on its consolidated financial statements.

Financial Instruments

There have been no changes in the Fund's financial instruments for the three-month and six-month periods ended June 30, 2017 as described in the Fund's MD&A for the year ended December 31, 2016.

Disclosure of Outstanding Unit Data

As at June 30, 2017 and August 8, 2017, the number of outstanding units of the Fund was 8,375,567.

Risks and Uncertainties

The performance of the Fund is directly dependent upon the interest payments the Fund receives from SIR under the SIR Loan and upon the Royalty received by the Partnership from SIR. The amount of the Royalty is dependent upon Pooled Revenue, which is subject to a number of factors that affect the restaurant industry generally and the casual and/or fine dining sectors of this industry in particular. The restaurant industry generally, and in particular, the casual and fine dining segment of this industry, is intensely competitive with respect to price, service, location, food quality and qualified staff. Increases in minimum wage rates and other labour legislation may affect the growth and profitability of SIR, as a significant portion of its restaurant employees are paid at wage rates related to minimum wage. There are many well-established competitors with greater financial and other resources than SIR. Competitors include national and regional chains, as well as individually owned restaurants. Recently, competition has increased in the mid-price, full-service, casual and fine dining sectors in which many of the SIR Restaurants operate. Some of SIR's competitors have been in existence for a substantially longer period than SIR and may be better established in the markets where SIR Restaurants are or may be located. 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 or interest on the SIR Loan may be impaired. Please refer to the March 14, 2017 Annual Information Form for further discussion on risks and uncertainties related to the Fund and SIR.

The Fund's distributions are subject to change based on a number of factors, including the cash reserves of the Fund, the Trust and the Partnership. The Trustees will continue their practice of regularly reviewing the Fund's distribution levels.

Outlook

SIR, which stands for Service Inspired Restaurants, is a privately held Canadian corporation in the business of creating, owning and operating full service restaurants in Canada. All of SIR's restaurants are corporately owned. SIR does not franchise any of its existing brands. SIR remains committed to the corporately owned restaurant model as it believes that the corporate restaurant structure gives it better control over its brands and improved agility to respond to changes in market conditions. SIR would expect its future sales growth to be driven similarly to its past unit growth through a combination of measured new unit growth and same store sales growth, over the long term.

Restaurants Canada estimates that total sales in the full-service category, the category in which SIR competes, grew at a 1.0% higher rate in 2016 than it did in 2015, but that rate of growth will slow by about 0.5% in 2017 compared to 2016. The Canadian full-service category has become increasingly competitive in recent years. While SIR believes it is well positioned to compete in this category, it will continue monitoring the economy and consumer confidence and their effects on the full-service category.

Currently, SIR owns 60 restaurants and one seasonal retail outlet in Canada. Since the Fund's Initial Public Offering in October 2004, SIR has opened 34 new restaurants (22 Jack Astor's, four Canyon Creek restaurants, five Scaddabush restaurants, one Reds restaurant, one Duke's Refresher, and one seasonal Abbey's Bakehouse restaurant) and one seasonal Abbey's Bakehouse retail outlet, and closed eight restaurants (three Jack Astor's, three Alice Fazooli's restaurants, and two Signature restaurants). Duke's Refresher, the seasonal Abbey's Bakehouse restaurant and retail outlet are not part of Royalty Pooled Restaurants. The two Abbey's Bakehouse locations did not open during the 2016 season. SIR opened both Abbey's Bakehouse locations for the 2017 season.

SIR completed renovations of six Jack Astor's locations during Fiscal 2016, two Jack Astor's locations in Q1 2017, and three additional Jack Astor's locations in Q2 2017. SIR is pleased with the performance of the recently renovated Jack Astor's and intends to implement similar renovations at the other Jack Astor's locations as part of its ongoing focus on strengthening its flagship brand and driving same store sales growth.

SIR has converted its Alice Fazooli's concept brand into the more popular Scaddabush brand. To date, SIR has converted four Alice Fazooli's locations (Mississauga, Richmond Hill, Oakville, and Vaughan, Ontario) to Scaddabush locations. During Q1 2017, effective March 19, 2017, SIR permanently closed the Alice Fazooli's restaurant in Oakville, Ontario and opened a Scaddabush restaurant at this location on April 5, 2017. During Q2 2017, effective June 18, 2017, SIR permanently closed the last Alice Fazooli's restaurant in Vaughan, Ontario and opened a Scaddabush restaurant at this location subsequent to Q2 2017, on July 5, 2017.

SIR has elected, as is its option, under the License and Royalty Agreement, to treat the Alice Fazooli's restaurants in Oakville and Vaughan, Ontario as New Closed Restaurants and to treat the resulting new Scaddabush restaurants as New Additional Restaurants. SIR is obligated to pay a Make-Whole Payment equal to the amount of the royalty otherwise payable from their date of closure to December 31, 2017. These Alice Fazooli's restaurants will cease to be part of Royalty Pooled Restaurants on January 1, 2018 and the new Scaddabush restaurants will be added to Royalty Pooled Restaurants, as New Additional Restaurants, on January 1, 2018.

SIR opened its first Scaddabush restaurant that was not previously an Alice Fazooli's location at the corner of Yonge Street and Gerrard Street in downtown Toronto on February 18, 2014. The second new (non-converted) Scaddabush restaurant was opened in Scarborough, Ontario on July 12, 2016 and the third new (non-converted) Scaddabush location was opened on Front Street in downtown Toronto on November 3, 2016. The Scaddabush restaurant in Scarborough, Ontario was added to Royalty Pooled Restaurants on January 1, 2017 and the Scaddabush restaurant on Front Street in Toronto is expected to be added to Royalty Pooled Restaurants on January 1, 2018.

Scaddabush has generated strong sales performance at each location to date, and SIR and the Fund should benefit from the positive future revenue contributions from the new Scaddabush restaurants opened in calendar year 2016 and the closure of the remaining two Alice Fazooli`s locations which have reopened as Scaddabush restaurants during calendar year 2017.

At the current date, SIR has plans to build one new Reds restaurant, to be located in the Square One Shopping Centre in Mississauga, Ontario, which is expected to open in 2017. There can be no assurance that this restaurant will be opened or will become part of Royalty Pooled Restaurants.

The Ontario government is proposing increases to minimum wage starting January 1, 2018 that will materially increase the cost of hourly labour in the majority of SIR's restaurants. SIR is working with industry groups to lobby the government for certain changes that could mitigate the impact of some of these proposed changes to Ontario labour legislation. SIR's Management is evaluating alternatives to offset the impact of these increases in an effort to reduce the price increases that otherwise may have to be implemented to mitigate anticipated cost increases.

SIR continues to monitor economic conditions and consumer confidence and has advised the Fund that it is considering new restaurants developments and renovations to existing restaurants where appropriate and subject to availability of acceptable long-term financing. Based on its assessment of these conditions, the timing of new restaurant construction and renovations as well as related opening schedules will be reviewed regularly by SIR and adjusted as necessary.

Forward-Looking Information

Certain statements contained in this report, or incorporated herein by reference, including the information set forth as to the future financial or operating performance of the Fund or SIR, that are not current or historical factual statements may constitute forward-looking information within the meaning of applicable securities laws ("forward-looking statements"). Statements concerning the objectives, goals, strategies, intentions, plans, beliefs, expectations and estimates, and the business, operations, financial performance and condition of the Fund, the Trust, the Partnership, SIR, the SIR Restaurants or industry results, are forward-looking statements. The words "may", "will", "should", "would", "expect", "believe", "plan", "anticipate", "intend", "estimate" and other similar terminology and the negative of such expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of Fund, the Trust, the Partnership, SIR, the SIR Restaurants or industry results, to differ materially from the anticipated results, performance, achievements or developments expressed or implied by such forward-looking statements. These statements reflect Management's current expectations, estimates and projections regarding future events and operating performance and speak only as of the date of this document. Readers should not place undue importance on forward-looking statements and should not rely upon this information as of any other date. Risks related to forward-looking statements include, among other things, challenges presented by a number of factors, including: market conditions at the time of this filing; competition; changes in demographic trends; weather; changing consumer preferences and discretionary spending patterns; changes in consumer confidence; changes in national and local business and economic conditions; changes in foreign exchange; changes in availability of credit; legal proceedings and challenges to intellectual property rights; dependence of the Fund on the financial condition of SIR; legislation and governmental regulation, including the cost and/or availability of labour as it relates to changes in minimum wage rates or other changes to labour legislation; 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. There can be no assurance that SIR will remain compliant in the future with all of its financial covenants under the Credit Agreement and imposed by the lender. Given these uncertainties, readers are cautioned that forward-looking statements are not guarantees of future performance, and should not place undue reliance on them. The Fund and SIR expressly disclaim any obligation or undertaking to publicly disclose or release any updates or revisions to any forward looking statements, except as required by securities legislation. Forward-looking statements are based on Management's current plans, estimates, projections, beliefs and opinions, and the Fund and SIR do not undertake any obligation to update forward-looking statements should assumptions related to these plans, estimates, projections, beliefs and opinions change, except as expressly required by applicable securities laws. This Management's Discussion and Analysis is provided as of August 8, 2017.

In formulating the forward-looking statements contained herein, Management has assumed that business and economic conditions affecting SIR's restaurants and the Fund will continue substantially in the ordinary course, including without limitation with respect to general industry conditions, competition, general levels of economic activity (including in downtown Toronto), regulations (including those regarding employees, food safety, tobacco and alcohol), weather, taxes, foreign exchange rates and interest rates, that there will be no pandemics or other material outbreaks of disease or safety issues affecting humans or animals or food products, and that there will be no unplanned material changes in its facilities, equipment, customer and employee relations, or credit arrangements. These assumptions, although considered reasonable by Management at the time of preparation, may prove to be incorrect. In particular, Management has assumed that the tax effects on distributions will remain consistent with current regulations or pronouncements, and also in estimating the revenue for new restaurants, Management has assumed that they will operate consistent with other similar SIR restaurants, and has assumed that SIR will remain compliant in the future with all of its financial covenants under the Credit Agreement and imposed by the lender. For more information concerning the Fund's risks and uncertainties, please refer to the March 14, 2017 Annual Information Form, for the period ended December 31, 2016, which is available under the Fund's profile at www.sedar.com.

All of the forward-looking statements made in this report are qualified by these cautionary statements and other cautionary statements or factors contained herein, and there can be no assurance that the actual results or developments will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, the Fund or SIR.

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