SIR ROYALTY INCOME FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2012

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(For the 12-month period ended December 31, 2012)

Executive Summary

Highlights for the 3-month period ended December 31, 2012 ("Q4") and the 12-month period ended December 31, 2012 ("YTD") for SIR Royalty Income Fund (the "Fund") include:

- Net earnings of the Fund were $1.5 million and $5.9 million for Q4 and YTD 2012, respectively, as compared to $1.4 million and $5.5 million for Q4 and YTD 2011, respectively. Net earnings per Fund unit were $0.27 and $1.08 for Q4 and YTD 2012, respectively as compared to $0.27 and $1.02 for Q4 and YTD 2011, respectively.
- Distributable cash(1) per Fund unit, both on a basic and diluted basis was $0.27 and $1.09 for Q4 and YTD 2012, respectively as compared to $0.27 and $1.03 for Q4 and YTD 2011, respectively. Please refer to the Distributions section on page 6.
- The payout ratio(1) increased from 91.6% in Q4 2011 to 98.7% in Q4 2012 and decreased from 99.9% in YTD 2011 to 95.1% in YTD 2012. The payout ratio(1) since the Fund's inception, up to and including Q4 2012 is 98.5%.
- During Q4 2012, the Fund issued 523,900 Fund units. Such units were issued in exchange for Class A GP Units held by SIR Corp. ("SIR"). The Fund units were subsequently sold by SIR at a price of $13.00 per Fund unit; gross proceeds totaled $6.8 million. The Fund then converted the Class A GP units into Class A LP units of the SIR Royalty Limited Partnership (the "Partnership"), which are entitled to a pro rata share of the residual income of the Partnership. As the Fund's investment in the Partnership has increased, this transaction did not have a dilutive effect on the Fund unitholders. The number of outstanding Fund units increased by 523,900 or 9.8%, from 5,356,667 to 5,880,567 units.
- On June 12, 2012, the Trustees authorized a 6.0% distribution increase to unitholders. The monthly distributions increased from $0.083 to $0.088 per unit beginning with the distribution paid in June 2012. Going forward, this will increase the estimated annualized distribution from $0.996 to $1.056.
- On December 17, 2012, the Fund declared a special year-end cash distribution of $0.05 per unit. The distribution was paid on January 11, 2013 to unitholders of record at the close of business on December 31, 2012.
- Pooled Revenue decreased by 0.5% in Q4 2012 to $54.4 million from $54.7 million in Q4 2011. Pooled revenue increased by 3.2% in Q4 YTD 2012 to $215.8 million from $209.2 million in Q4 YTD 2011.
- SIR has reported to the Fund that same store sales(2) ("SSS") for the Royalty Pooled Restaurants remained flat for Q4 2012. For YTD 2012, SIR reported that same store sales growth(2) ("SSSG") was 2.8%.
- Jack Astor's®, which accounts for approximately 70% of Pooled Revenue in Q4 2012, experienced SSSG(2) of 1.0% and 5.0% in Q4 and YTD 2012, respectively. Canyon Creek® experienced declines in SSS(2) of 3.7% and 1.0% in Q4 and YTD 2012, respectively. Alice Fazooli's® had declines in SSS(2) of 4.5% and 3.9% in Q4 and YTD 2012, respectively. Signature Restaurants experienced SSSG(2) of 1.7% and a decline in SSS(2) of 4.4% in Q4 and YTD 2012, respectively.
- During Q2 2011, SIR opened a new Jack Astor's restaurant in London, Ontario. This restaurant was added to Royalty Pooled Restaurants on January 1, 2012.
- During Q1 2012, SIR closed the Alice Fazooli's restaurant located on Adelaide Street in Toronto and the Jack Astor's restaurant located in Kitchener, Ontario. SIR was required to pay a Make-Whole Payment for these locations from their date of closures until December 31, 2012. On January 1, 2013, the lost revenue of the closed restaurants were netted against the revenue of the new SIR Restaurants opened from November 2, 2011 to November 1, 2012, which determined the number of Class B GP Units of the Partnership, held by SIR, which can be converted into Class A GP Units of the Partnership.

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(1) Distributable cash and payout ratio are non-GAAP financial measures and do not have standardized meanings prescribed by 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. 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 2012 and fiscal 2011.

- During Q2 2012, on May 16, 2012, SIR opened a new Jack Astor's restaurant in Toronto (on Front Street near the St. Lawrence Market). During Q4 2012, on October 4, 2012 and on November 2, 2012, SIR opened a new Jack Astor's restaurant in Laval, Quebec and in Kingston, Ontario, respectively. These restaurants, along with the Jack Astor's restaurant that opened during Q4 2011, on Argentia Road in Mississauga, Ontario, for a total of four new SIR Restaurants, were added to Royalty Pooled Restaurants on January 1, 2013.
- The net effect of adding these four new restaurants to Royalty Pooled Restaurants on January 1, 2013, the Second Incremental Adjustment for the restaurant added on January 1, 2012 and the adjustment for the permanent closure of two SIR Restaurants during the prior year, SIR converted 296,459 Class B GP Units into 296,459 Class A GP Units on January 1, 2013.
- SIR is expecting to open five new restaurants in 2013, including two Jack Astor's, to be located in north Toronto and Pickering, Ontario. The other three new restaurants are expected to be opened in the Aura condominium development located at Yonge and Gerrard Streets in Toronto. SIR expects to open an additional new Jack Astor's restaurant in 2014.
- Subsequent to Q4 2012, on March 4, 2013, SIR opened the new Jack Astor's restaurant in Kitchener, Ontario. This restaurant will be added to Royalty Pooled Restaurants on January 1, 2014.
- Subsequent to Q4 2012, the Fund filed a short-form prospectus to qualify the distribution of 895,000 Fund units by SIR. On March 14, 2013, SIR converted 895,000 of its Class A GP Units in the Partnership into Fund units and sold these Fund units generating gross proceeds of approximately $11.0 million. As a result of the conversion of the Class A GP Units into Fund units, SIR's interest in the Partnership changed to 24.4%. The Class A GP Units received by the Fund in exchange for the Fund units issued were converted to Class A LP Units of the Partnership, which are entitled to a pro rata share of the residual income of the Partnership. Accordingly, this transaction does not have a dilutive effect on the Fund unitholders.
- 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 listing named "Other". SIR's Q2 2013 unaudited consolidated financial statements and MD&A in accordance with IFRS are listed having a filing date of March 27, 2013.

Same Store Sales(2) ("SSS")

(unaudited)

SIR reported to the Fund that SSS(2) were flat in Q4 2012. For YTD 2012, SIR reported that same store sales growth(2) ("SSSG") was 2.8%. SSSG(2) by operating segment are summarized in the following table.

SSSG(2) for the Royalty Pooled Restaurants	3-month period ended December 31, 2012	3-month period ended December 31, 2011	12-month period ended December 31, 2012	12-month period ended December 31, 2011
Jack Astor's	1.0%	7.3%	5.0%	3.9%
Canyon Creek	(3.7%)	(0.7%)	(1.0%)	0.4%
Alice Fazooli's	(4.5%)	(0.9%)	(3.9%)	(4.5%)
Signature Restaurants	1.7%	3.3%	(4.4%)	5.7%
Overall SSS(2)	**0.0%**	**5.0%**	**2.8%**	**2.8%**

Jack Astor's, which accounted for approximately 70% of Pooled Revenue in Q4 2012, generated SSSG(2) of 1.0% and 5.0% for Q4 2012 and YTD 2012, respectively. The Signature Restaurants generated SSSG(2) of 1.7% in Q4 2012 and experienced a decline in SSS(2) of 4.4% for YTD 2012, respectively. Sales in Q4 2012 were negatively impacted by the National Hockey League (the "NHL") lock-out, which has generally impacted all Jack Astor's locations, but the effect is most significant at the eight SIR Restaurants located in close proximity to NHL venues (four Jack Astor's, one Canyon Creek and three Signature restaurants). In addition, part of the YTD decline in the Signature Restaurants was attributed to a decline in sales at Reds, as the landlord of the building in which Reds is located refaced the entire building and the construction work has had an ongoing significant impact on the restaurant's YTD sales. SIR completed a major renovation and repositioning of Reds in September 2012 to enhance sales of this prime downtown property. As a result, Reds was closed for 32 days, reopening on October 2, 2012 as Reds® Wine Tavern. Canyon Creek experienced a decline in SSS(2) of 3.7% in Q4 2012 and a decline of 1.0% in YTD 2012. Alice Fazooli's reported a decline of 4.5% in Q4 2012 and a decline of 3.9% YTD 2012. Management continues to review initiatives to enhance value at both of these concepts.

SIR competes within the full-service category of commercial foodservice in Canada. The Canadian Restaurant and Foodservice Association ("CRFA") estimates that sales in the full-service category will grow by 4.1% in 2012 and by 3.9% in 2013. The CRFA estimates that growth in the full-service category will then average 4.0% over the next three years. Management continues to monitor the economy and consumer confidence and their effects on the full-service restaurant category.

Restaurant Renovations

Two Jack Astor's restaurants were renovated in fiscal 2012, one in Q2 2012 and one in Q4 2012. During Q3 2012, SIR completed a major renovation and repositioning of Reds. As a result, Reds was closed for 32 days, reopening on October 2, 2012 as Reds Wine Tavern.

Subsequent to Q4 2012, SIR completed a renovation and rebranding of the Loose Moose Tap & Grill®. The Loose Moose reopened on February 1, 2013.

Five restaurants were renovated in fiscal 2011, two in Q2 2011, one in Q3 2011, and two in Q4 2011.

SIR's Management is committed to maximizing the performance of all of its restaurants.

New and Closed Restaurants

SIR opened new Jack Astor's restaurants in Toronto (on Front Street near the St. Lawrence Market) on May 16, 2012, in Laval, Quebec on October 4, 2012, and in Kingston, Ontario on November 2, 2012.

During Q2 2011, SIR opened a Jack Astor's in London, Ontario on May 2, 2011. This restaurant was added to Royalty Pooled Restaurants on January 1, 2012 as a New Additional Restaurant. The three new Jack Astor's restaurants that opened in 2012 (in Toronto, Ontario in Q2, in Laval, Quebec in Q4 and Kingston, Ontario also in Q4), along with the Jack Astor's restaurant that opened during Q4 2011, on Argentia Road in Mississauga, Ontario were added to Royalty Pooled Restaurants on January 1, 2013. During Q2 2012, SIR also opened two new seasonal Signature Restaurants: Duke's Refresher and Abbey's Bakehouse™. These two restaurants, located in Muskoka, Ontario, operate as seasonal businesses and are not part of Royalty Pooled Restaurants.

During Q1 2012, SIR closed the Alice Fazooli's restaurant located on Adelaide Street in Toronto and the Jack Astor's restaurant located in Kitchener, Ontario. SIR was required to pay a Make-Whole Payment for these locations from their date of closures until December 31, 2012. On January 1, 2013, the lost revenue of the closed restaurants were netted against the revenue of the four new SIR Restaurants opened from November 3, 2011 to November 2, 2012, which determined the number of Class B GP Units of the Partnership, held by SIR, which can be converted into Class A GP Units of the Partnership.

SIR is expecting to open five new restaurants in 2013, including two Jack Astor's, to be located in north Toronto and Pickering, Ontario. The other three new restaurants are expected to be opened in the Aura condominium development located at Yonge and Gerrard Streets in Toronto, which is one of the largest condominium developments in Canada. SIR expects to open an additional new Jack Astor's restaurant in 2014. There can be no assurance that these restaurants will be opened or will become part of the Royalty Pooled Restaurants.

Subsequent to Q4 2012, on March 4, 2013, SIR opened a new Jack Astor's restaurant in Kitchener, Ontario. This restaurant will be added to Royalty Pooled Restaurants on January 1, 2014.

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. On June 12, 2012, the Trustees authorized a 6.0% distribution increase to unitholders. The monthly distributions increased from $0.083 to $0.088 per unit beginning with the distribution paid in June 2012.

During the quarter, monthly distributions of $0.5 million or $0.088 per unit were declared and paid in the months of October, November, and December 2012. A special year-end distribution of $0.05 per unit was declared in December 2012 and subsequently paid in January 2013. The special distribution was declared because the Fund expects that the taxable income generated in 2012 will exceed the aggregate monthly distributions declared by the Fund. Following the special distribution, the Fund does not expect to pay income tax on undistributed taxable income related to the 2012 taxation year. Subsequent to December 31, 2012, distributions of $0.088 per unit were declared and paid in the months of January, February, and March 2013. Please refer to the chart on page 12 for a summary of monthly distributions since inception.

The payout ratio[1] of cash distributed to distributable cash[1] is intended to average 100% per annum over the longer term. Since the Fund pays even monthly distributions when its underlying cash flow from the Partnership is subject to seasonal fluctuations (as experienced by SIR), there are times during the year when the payout ratio[1] may exceed or could be lower than 100%. The payout ratio[1] for Q4 2012 and YTD 2012 was 98.7% and 95.1%, respectively compared to 91.6% and 99.9% in Q4 2011 and YTD 2011, respectively. The payout ratio[1] since the Fund's inception up to and including Q4 2012 is 98.5%.

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 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.

Subsequent to Q4 2012, on March 7, 2013, the Fund filed a final short-form prospectus to qualify the distribution of 895,000 Fund units by SIR. On March 14, 2013, SIR converted 895,000 of its Class A GP Units in the Partnership into Fund units and sold these Fund units generating gross proceeds of approximately $11.0 million. As a result of the conversion of the Class A GP Units into Fund units, SIR's interest in the Partnership changed to 24.4%. The Class A GP Units received by the Fund in exchange for the Fund units issued were converted to Class A LP Units of the Partnership, which are entitled to a pro rata share of the residual income of the Partnership. Accordingly, this transaction does not have a dilutive effect on the Fund unitholders. The Fund and the Partnership did not receive any proceeds pursuant to this transaction. SIR intends to use approximately $1.0 million to $2.0 million of the net proceeds to fund renovation activities of select existing restaurants within the Royalty Pooled Restaurants. SIR has four commitments to lease new properties, on which it plans to build six new restaurants over fiscals 2013 and 2014. SIR has begun the early stages of construction of five of these restaurants to be built, which it expects to open in 2013. SIR intends to use the remaining net proceeds to fund a portion of the construction and development costs of these new restaurants.

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 December 31, 2012, SIR operated 51 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 located in downtown Toronto are Reds Wine Tavern, Far Niente®/ FOUR®/Petit Four® and the Loose Moose Tap & Grill®. SIR also owns and operates two new seasonal Signature restaurants: Abbey's Bakehouse and Duke's Refresher. These two restaurants, both located in Muskoka, Ontario, operate as seasonal businesses and are not part of Royalty Pooled Restaurants. SIR owns 100% of its Canadian restaurants. As at December 31, 2012, 47 SIR Restaurants were included in Royalty Pooled Restaurants, consisting of 45 operating and two closed restaurants.

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 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, 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'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 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.

During Q2 2011, SIR opened a Jack Astor's in London, Ontario on May 2, 2011. This restaurant was added to Royalty Pooled Restaurants on January 1, 2012 as a New Additional Restaurant. The three new Jack Astor's restaurants that opened in 2012 (in Toronto, Ontario in Q2, in Laval, Quebec in Q4 and Kingston, Ontario also in Q4), along with the Jack Astor's restaurant that opened during Q4 2011, on Argentia Road in Mississauga, Ontario were added to Royalty Pooled Restaurants on January 1, 2013. During Q1 2012, SIR closed its Alice Fazooli's restaurant located on Adelaide Street in Toronto and its Jack Astor's restaurant located in Kitchener, Ontario. SIR was required to pay a Make-Whole Payment for these locations from their date of closures until December 31, 2012. On January 1, 2013, the revenue of the closed restaurants was netted against the revenue of the new SIR Restaurants which had been open for at least 60 days prior to the Adjustment Date, which determined the number of Class B GP Units of the Partnership, held by SIR, which can be converted into Class A GP Units of the Partnership.

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.

On January 1, 2013, four (January 1, 2012 - one) new SIR Restaurants were added to Royalty Pooled Restaurants in accordance with the Partnership Agreement. As consideration for the additional Royalty associated with the addition of four (January 1, 2012 – one) new SIR Restaurants on January 1, 2012, as well as the Second Incremental Adjustment for the one (January 1, 2011 – one) new SIR Restaurant added to Royalty Pooled Restaurants on January 1, 2012, 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 permanent closure of two (January 1, 2012 – nil) SIR Restaurants during the prior year. The net effect of these adjustments to Royalty Pooled Restaurants was that SIR converted 296,459 (January 1, 2012 – 203,878) Class B GP Units into 296,459 (January 1, 2012 – 203,878) Class A GP Units on January 1, 2013 at an estimated fair value of $4.3 million (January 1, 2012 - $1.9 million).

The revenues of the one new SIR Restaurant added to Royalty Pooled Restaurants on January 1, 2012 exceeded 80% of the Initial Adjustment's estimated Revenue and, as a result, an additional distribution of $0.02 million was declared in December 2012 (December 2011 - $0.03 million) and paid the following January.

As at January 1, 2013, SIR retained a 34.4% (January 1, 2012 – 38.2%) interest in the Partnership as the holder of the 3,082,951 (January 1, 2012 – 3,310,392) Class A GP Units. 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.

Subsequent to Q4 2012, on March 7, 2013, the Fund filed a short-form prospectus to qualify the distribution of 895,000 Fund units by SIR. On March 14, 2013, SIR converted 895,000 of its Class A GP Units in the Partnership into Fund units and sold these Fund units generating gross proceeds of approximately $11.0 million. As a result of the conversion of the Class A GP Units into Fund units, SIR's interest in the Partnership changed to 24.4%. The Class A GP Units received by the Fund in exchange for the Fund units issued were converted to Class A LP Units of the Partnership, which are entitled to a pro rata share of the residual income of the Partnership. Accordingly, this transaction does not have a dilutive effect on the Fund unitholders. The Fund and the Partnership did not receive any proceeds pursuant to this transaction. SIR intends to use approximately $1.0 million to $2.0 million of the net proceeds to fund renovation activities of select existing restaurants within the Royalty Pooled Restaurants. SIR has four commitments to lease new properties, on which it plans to build six new restaurants over fiscals 2013 and 2014. SIR has begun the early stages of construction of five of these restaurants to be built, which it expects to open in 2013. SIR intends to use the remaining net proceeds to fund a portion of the construction and development costs of these new restaurants.

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 2013 and 2012 years each 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 annual audited 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 except restaurants and per unit amounts) (unaudited)	**12-month period ended December 31, 2012**	**12-month period ended December 31, 2011**
Royalty Pooled Restaurants	47	46
Pooled Revenue generated by SIR	215,822	209,187
6% of Pooled Revenue	12,949	12,551
Make-Whole Payment(3)	339	-
Total Royalty Income to Partnership	13,288	12,551
Partnership other income	39	37
Partnership expenses	(78)	(79)
Partnership earnings	13,249	12,509
SIR's interest (Class A, B and C GP Units)	(7,832)	(7,475)
Partnership income allocated to Fund(4)	5,417	5,034
Interest income(5)	3,000	3,000
Total income of the Fund	8,417	8,034
General & administrative expenses	(374)	(376)
Net earnings before income taxes of the Fund	8,043	7,658
Income tax expense	(2,181)	(2,191)
Net earnings for the period	5,862	5,467
Basic earnings per Fund unit (2012 – 5,422,155 units; 2011 – 5,356,667 units)	$1.08	$1.02
Diluted earnings per Fund unit (2012 – 8,667,059 units; 2011 – 8,463,181 units) (6)	$1.08	$1.02

(3) *The Alice Fazooli's restaurant in Toronto and the Jack Astor's restaurant in Kitchener, Ontario were closed on January 27, 2012 and February 13, 2012, respectively. Under the terms of the License and Royalty Agreement, SIR is required to pay a Make-Whole Payment for these locations from the dates of their closure until December 31st of the year of closure.*

(4) *The Fund, indirectly through the Trust, holds all of the Ordinary LP Unit 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.*

(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 for 2012 is calculated as follows: Net earnings for the period plus the distributions related to the Class A GP Units plus (less) income tax recovery (expense), which together total $9.4 million for the 12-month period ended December 31, 2012, divided by the weighted average number of Fund units outstanding of 8,667,059 Units. The weighted average number of Fund units outstanding represents the weighted average number of Fund units outstanding of 5,422,155 plus the weighted average number of convertible Class A GP Units of 3,244,904.*

Diluted earnings per Fund unit for 2011 is calculated as follows: Net earnings for the period plus the distributions related to the Class A GP Units plus (less) income tax recovery (expense), which together total $8.6 million for the 12-month period ended December 31, 2011, divided by the weighted average number of Fund units outstanding of 8,463,181 Units. The weighted average number of Fund units outstanding represents Fund units outstanding of 5,356,667 plus the convertible Class A GP Units of 3,106,514.

Summary of Quarterly Financial Information

(in thousands of dollars except restaurants and per unit amounts) (unaudited)	**3-month period ended**							
	December 31, 2012	**September 30, 2012**	**June 30, 2012**	**March 31, 2012**	**December 31, 2011**	**September 30, 2011**	**June 30, 2011**	**March 31, 2011**
Royalty Pooled Restaurants	47	47	47	47	46	46	46	46
Pooled Revenue generated by SIR	54,396	54,017	55,333	52,076	54,667	52,647	53,779	48,094
6% of Pooled Revenue	3,263	3,241	3,320	3,125	3,279	3,159	3,227	2,886
Make-Whole Payment[3]	93	93	91	62	-	-	-	-
Total Royalty Income to Partnership	3,356	3,334	3,411	3,187	3,279	3,159	3,227	2,886
Partnership other income	10	9	9	11	13	8	8	8
Partnership expenses	(20)	(21)	(25)	(12)	(13)	(22)	(20)	(24)
Partnership earnings	3,346	3,322	3,395	3,186	3,279	3,145	3,215	2,870
SIR's interest (Class A, B and C GP Units)	(1,911)	(1,987)	(2,000)	(1,934)	(1,948)	(1,871)	(1,889)	(1,767)
Partnership income allocated to Fund[4]	1,435	1,335	1,395	1,252	1,331	1,274	1,326	1,103
Interest income[5]	750	750	750	750	750	750	750	750
Total income of the Fund	2,185	2,085	2,145	2,002	2,081	2,024	2,076	1,853
General & administrative expenses	(85)	(82)	(121)	(86)	(73)	(91)	(113)	(99)
Net earnings (loss) before income taxes of the Fund	2,100	2,003	2,024	1,916	2,008	1,933	1,963	1,754
Income tax expense	(585)	(531)	(550)	(515)	(564)	(556)	(568)	(503)
Net earnings (loss) for the period	1,515	1,472	1,474	1,401	1,444	1,377	1,395	1,251
Basic earnings per Fund unit	$0.27	$0.27	$0.28	$0.26	$0.27	$0.26	$0.26	$0.23
Weighted average number of Fund units outstanding – Basic	5,619	5,357	5,357	5,357	5,357	5,357	5,357	5,357
Diluted earnings per Fund unit (2012 – 8,667,059 units; 2011 – 8,463,181 units) [7]	$0.27	$0.27	$0.28	$0.26	$0.27	$0.26	$0.26	$0.23

(7) *Diluted earnings per Fund unit for 2012 is calculated as follows: Net earnings for the period plus the distributions related to the Class A GP Units plus (less) income tax recovery (expense), which together total $2.3 million, $2.4 million, $2.4 million and $2.3 million for the 3-month periods ended December 31, 2012, September 30, 2012, June 30, 2012 and March 31, 2012, respectively, divided by the weighted average number of Fund units outstanding of 8,667,059 Units. The weighted average number of Fund units outstanding for the 3-month period ended December 31, 2012 represents the weighted average number of Fund units outstanding of 5,618,617 plus the weighted average number of convertible Class A GP Units of 3,048,442. The weighted average number of Fund units outstanding for the 3-month periods ending September 30, 2012, June 30, 2012 and March 31, 2012 represents Fund units outstanding of 5,356,667 plus the convertible Class A GP Units of 3,310,392.*

Diluted earnings per Fund unit for 2011 is calculated as follows: Net earnings for the period plus the distributions related to the Class A GP Units plus (less) income tax recovery (expense), which together total $2.2 million, $2.2 million, $2.2 million and $2.0 million for the 3-month periods ended December 31, 2011, September 30, 2011, June 30, 2011 and March 31, 2011, respectively, divided by the weighted average number of Fund units outstanding of 8,463,181 Units. The weighted average number of Fund units outstanding represents Fund units outstanding of 5,356,667 plus the convertible Class A GP Units of 3,106,514.

For the 12-month period from January 1, 2012 to December 31, 2012, the Fund declared and paid distributions of $1.031 per Unit. The Fund declared and paid a distribution of $0.083 per unit in each of the months of January to May 2012 inclusive and a distribution of $0.088 per unit in each of the months of June to December 2012 inclusive. In addition, a special year-end distribution of $0.05 per unit was declared in December 2012 and subsequently paid in January 2013. The special distribution was declared because the Fund expects that the taxable income generated in 2012 will exceed the aggregate monthly distributions declared by the Fund. Following the special distribution, the Fund does not expect to pay income tax on undistributed taxable income related to the 2012 taxation year. Subsequent to Q4 2012, the Fund also declared and paid a distribution of $0.088 per unit in the months of January, February and March 2013.

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 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.

Distributable Cash(1)

(in thousands of dollars except per unit amounts and payout ratio(1)) *(unaudited)*	**12-month period ended December 31, 2012**	**12-month period ended December 31, 2011**
Cash provided by operating activities	3,831	7,607
Add/(deduct): Net change in non-cash working capital items(8)	(162)	(92)
Net change in income tax payable	2,151	(2,144)
Net change in distribution receivable from the Partnership(8)	86	142
Distributable cash(1)	**5,906**	**5,513**
Cash distributed for the period	**5,615**	**5,507**
Surplus/ (shortfall) of distributable cash(1)	**291**	**6**
Payout ratio(1), (9)	95.1%	99.9%
Distributable cash(1) per Fund unit basic (2012 – 5,422,155 units; 2011 – 5,356,667 units)	$1.09	$1.03
Distributable cash(1) per Fund unit diluted (2012 – 8,667,059 units; 2011 – 8,463,181 units) (10)	$1.09	$1.03

The Fund had a net change in the income tax payable for YTD 2012 of $2.2 million. This is as a result of the Fund paying the 2011 income tax liability as well as the quarterly tax installments for 2012 in YTD 2012.

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(8) Distributable cash is adjusted to exclude changes in non-cash working capital items and the 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 between related parties.

(9) 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 the business, and it is anticipated that the payout ratio will decrease on average during the warm weather months.

(10) Diluted distributable cash per Fund unit for 2012 is as follows: Distributable cash for the period plus the distributions related to the Class A GP Units plus (less) income tax recovery (expense), which together total $9.4 million for the 12-month period ended December 31, 2012, divided by the weighted average number of Fund units outstanding of 8,667,059. The weighted average number of Fund units outstanding represents the weighted average number of Fund units outstanding of 5,422,155 plus the weighted average number of convertible Class A GP Units of 3,244,904.

Diluted distributable cash per Fund unit for 2011 is as follows: Distributable cash for the period plus the distributions related to the Class A GP Units plus (less) income tax recovery (expense), which together total $8.6 million for the 12-month period ended December 31, 2011, divided by the weighted average number of Fund units outstanding of 8,463,181. The weighted average number of Fund units outstanding represents Fund units of 5,356,667 plus the convertible Class A GP Units of 3,106,514.

Distributable Cash[1]

(in thousands of dollars except per unit amounts and payout ratio[1]) *(unaudited)*	**3-month periods ended** December 31, 2012	September 30, 2012	June 30, 2012	March 31, 2012	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011
Cash provided by (used in) operating activities	1,385	1,313	1,850	(717)	2,151	1,759	1,849	1,848
Add/(deduct): Net change in non-cash working capital items[8]	780	(83)	(659)	(200)	124	(3)	(113)	(99)
Net change in income tax payable	(38)	16	(2)	2,175	(553)	(544)	(557)	(491)
Net change in distribution receivable from the Partnership[8]	(601)	237	296	154	(267)	176	228	5
Distributable cash[1]	**1,526**	**1,483**	**1,485**	**1,412**	**1,455**	**1,388**	**1,407**	**1,263**
Cash distributed for the period	**1,506**	**1,414**	**1,361**	**1,334**	**1,334**	**1,334**	**1,334**	**1,505**
Surplus/(shortfall) of distributable cash[1]	**20**	**69**	**124**	**78**	**121**	**54**	**73**	**(242)**
Payout ratio[1], [9]	98.7%	95.4%	91.6%	94.4%	91.6%	96.1%	94.8%	119.2%[11]
Distributable cash[1] per Fund unit basic	$0.27	$0.28	$0.28	$0.26	$0.27	$0.26	$0.26	$0.24
Weighted average number of Fund units outstanding – Basic	5,619	5,357	5,357	5,357	5,357	5,357	5,357	5,357
Distributable cash[1] per Fund unit diluted (2012 – 8,667,059 units; 2011 – 8,463,181 units) [12]	$0.27	$0.28	$0.28	$0.26	$0.27	$0.26	$0.26	$0.24

Cash used in operating activities in Q1 2012 was $0.7 million as a result of the Fund paying the 2011 income tax liability as well as the first quarterly tax installment for 2012 in Q1 2012.

A history of monthly distributions is as follows:

Months Paid	Monthly 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
June 2012 to date	$0.088
December 2012 Special Distribution	$0.005

(11) The payout ratio for the 3-month period ended March 31, 2011 was impacted by the effect of seasonality in SIR's business as well as the cash distributed for the period being affected by the December 2010 distribution that was declared and paid in January 2011 at a rate of $0.115 per unit, when the distributable cash was decreased by the obligation to pay income taxes.

(12) Diluted distributable cash per Fund unit for 2012 is as follows: Distributable cash for the period plus the distributions related to the Class A GP Units plus (less) income tax recovery (expense), which together total $2.3 million, $2.4 million, $2.4 million and $2.3 million for the 3-month periods ended December 31, 2012, September 30, 2012, June 30, 2012 and March 31, 2012, respectively, divided by the weighted average number of Fund units outstanding of 8,667,059. The weighted average number of Fund units outstanding for the 3-month period ended December 31, 2012 represents the weighted average number of Fund units outstanding of 5,618,617 plus the weighted average number of convertible Class A GP Units of 3,048,442. The weighted average number of Fund units outstanding for the 3-month periods ended September 30, 2012, June 30, 2012 and March 31, 2012 represents Fund units outstanding of 5,356,667 plus the convertible Class A GP Units of 3,310,392.

Diluted distributable cash per Fund unit for 2011 is as follows: Distributable cash for the period plus the distributions related to the Class A GP Units plus (less) income tax recovery (expense), which together total $2.3 million, $2.2 million, $2.2 million and $2.0 million for the 3-month periods ended December 31, 2011, September 30, 2011, June 30, 2011 and March 31, 2011, respectively divided by the weighted average number of Fund units outstanding of 8,463,181. The weighted average number of Fund units outstanding represents Fund units of 5,356,667 plus the convertible Class A GP Units of 3,106,514.

The distributions, starting with the January 2011 distribution (declared and paid in February 2011), were reduced for the impact of income taxes, which took effect for the Fund, starting January 1, 2011. On June 12, 2012, the Trustees authorized a 6.0% distribution increase to unitholders beginning with the distribution paid in June 2012. The current distribution is $0.088 per unit per month.

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[1] may exceed or be lower than 100%. For the 3-month and the 12-month periods ended December 31, 2012, the payout ratio[1] was 98.7% and 95.1%, respectively. For the 3-month and 12-month periods ended December 31, 2011, the payout ratio[1] was 91.6% and 99.9%. The payout ratio[1] since the Fund's inception up to and including Q4 2012 is 98.5%. The Trustees continue to review the appropriateness of distributions on an on-going basis.

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)*	**12-month period ended December 31, 2012**	**12-month period ended December 31, 2011**
Cash provided by operating activities	3,831	7,607
Net earnings for the period	5,862	5,467
Cash distributed for the period	5,615	5,507
Excess (shortfall) of cash provided by operating activities over cash distributed for the period[13]	**(1,784)**	**2,100**
Excess (shortfall) of net earnings for the period over cash distributions paid[14]	**247**	**(40)**

There is a shortfall of cash provided by operating activities over cash distributed of $1.8 million for the 12-month period ended December 31, 2012. This shortfall is a result of the Fund paying the 2011 income tax liability as well as the quarterly tax installments for 2012 in fiscal 2012.

The shortfall of net earnings for the period over cash distributed for the period for the 12-month period ended December 31, 2011 of $0.04 million is a result of the Fund paying a distribution of $0.115 per Fund unit in January 2011 when the distributable cash[1] was decreased by the obligation to pay income taxes.

Balance Sheet

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

(in thousands of dollars) *(unaudited)*	**December 31, 2012**	**September 30, 2012**	**June 30, 2012**	**March 31, 2012**	**December 31, 2011**	**September 30, 2011**	**June 30, 2011**	**March 31, 2011**
Total assets	59,435	52,612	52,527	52,396	54,481	53,815	53,195	52,646
Unitholders' equity	57,726	51,201	51,143	51,030	50,962	50,852	50,809	50,748

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

(14) 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.

Results of Operations - Fund

The Fund's revenue of $2.2 million for the 3-month period ended December 31, 2012 ($2.1 million for the 3-month period ended December 31, 2011) is comprised of equity income from the Partnership of $1.4 million ($1.3 million for the 3-month period ended December 31, 2011) and interest income of $0.8 million ($0.8 million for the 3-month period ended December 31, 2011). Revenue of $8.4 million for the 12-month period ended December 31, 2012 ($8.0 million for 12-month period ended December 31, 2011) is comprised of equity income from the Partnership of $5.4 million ($5.0 million for the 12-month period ended December 31, 2011) and interest income of $3.0 million ($3.0 million for the 12-month period ended December 31, 2011). Equity income from the Partnership is the pro rata share of the residual distributions of the Partnership for the 3-month and 12-month periods ended December 31, 2012 and December 31, 2011. Interest income is interest earned for the 3-month and 12-month periods ended December 31, 2012 and December 31, 2011 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 $0.4 million for the 3-month and 12-month periods ended December 31, 2012, respectively ($0.1 million and $0.4 million for the 3-month and 12-month periods ended December 31, 2011, respectively). These expenses include professional fees, directors' and officers' liability insurance premiums, Trustees' fees, certain public company costs and other administrative fees.

As a result of certain changes to the tax treatment of income trusts in Canada, beginning on January 1, 2011, the Fund became subject to income taxes at the prevailing corporate income tax rates. As a result, the Fund recorded a current income tax expense of $0.6 million and $2.2 million for the 3-month and 12-month periods ended December 31, 2012, respectively ($0.6 million and $2.2 million for the 3-month and 12-month periods ended December 31, 2011, respectively).

Net earnings were $1.6 million and $5.9 million for the 3-month and 12-month periods ended December 31, 2012, respectively ($1.4 million and $5.5 million for the 3-month and 12-month periods ended December 31, 2011, respectively). Earnings per Fund unit on both a basic and diluted basis were $0.27 and $1.08 for the 3-month and 12-month periods ended December 31, 2012, respectively ($0.27 and $1.02 for the 3-month and 12-month periods ended December 31, 2011, 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 December 31, 2012, there were 47 restaurants included in Pooled Revenue, consisting of 45 operating and two closed restaurants. Increases or decreases in Pooled Revenue are derived from SSS[(2)] growth or decline, 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 3-month and 12-month periods ended December 31, 2012 and December 31, 2011:

Summary of Pooled Revenue
(in thousands of dollars except number of restaurants included in Pooled Revenue) (unaudited)

	3-month period ended December 31, 2012		3-month period ended December 31, 2011		12-month period ended December 31, 2012		12-month period ended December 31, 2011	
	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	38,291	31	37,525	30	157,629	31	147,004	30
Canyon Creek	7,620	8	7,916	8	27,682	8	27,948	8
Alice Fazooli's	3,933	5	4,753	5	15,159	5	18,180	5
Signature	4,551	3	4,473	3	15,352	3	16,055	3
Total included in Pooled Revenue	54,395	47	54,667	46	215,822	47	209,187	46

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 with a Commercial Financing Company, 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 Commercial Financing Company. 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 First Amendment of the Subordination and Postponement Agreement, a copy of which has also been filed on SEDAR.

SIR has a term loan and a development loan (Amended Credit Agreement) that are due on November 14, 2016. Interest on the Amended Credit Agreement is calculated as the greater of 6% per annum and the 3-month Canadian bankers' acceptance rate plus 5.75% per annum, calculated monthly, not in advance. As at February 10, 2013, $20.0 million and $11.0 million were outstanding on SIR's Amended Credit Agreement for the term loan and development loan, respectively.

The Amended Credit Agreement is collateralized by a general security agreement and entitles the lender to a first charge on all of the SIR's assets, including a pledge of all shares and the investment in the Partnership and a specific assignment of the rights under the Licence and Royalty Agreement. However, the lender does not have a pledge over the assets of the Partnership. The Partnership and the Fund did not guarantee the Amended Credit Agreement.

Under the First Amendment to the Subordination and Postponement Agreement, absent a default or event of default under the Amended Credit Agreement, ordinary payments to the Partnership and the Fund are permitted. However, if a default or an event of default were to occur, then payments to the Fund and the Partnership are likely to 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 lender is pursuing remedies). The First Amendment to the Subordination and Postponement Agreement also contains various other typical covenants of the Fund and the Partnership. In addition, SIR entered into an agreement with the Fund and the Partnership to restrict the amount of additional debt that SIR can incur without the consent of the Fund and the Partnership (which consent shall not be unreasonably withheld).

In November 2012, SIR converted 523,900 Class A GP Units into Fund units and subsequently sold these Fund units, generating gross proceeds of $6.8 million. The proceeds from the sale of Fund units must be used to fund the costs associated with constructing new restaurants and renovating existing restaurants.

As a result of SIR exercising its right to convert these Class A GP Units into Fund units, the Fund issued 523,900 Fund units to SIR in exchange for an increased interest in the Partnership. Accordingly, this transaction does not have a dilutive effect on the Fund unitholders. In addition, the number of outstanding Fund units increased by 523,900, from 5,356,667 units to 5,880,567 units.

Subsequent to Q4 2012, on March 7, 2013, the Fund filed a short-form prospectus to qualify the distribution of 895,000 Fund units by SIR. On March 14, 2013, SIR converted 895,000 of its Class A GP Units in the Partnership into Fund units and sold these Fund units generating gross proceeds of approximately $11.0 million. As a result of the conversion of the Class A GP Units into Fund units, SIR's interest in the Partnership changed to 24.4%. The Class A GP Units received by the Fund in exchange for the Fund units issued were converted to Class A LP Units of the Partnership, which are entitled to a pro rata share of the residual income of the Partnership. Accordingly, this transaction does not have a dilutive effect on the Fund unitholders. The Fund and the Partnership did not receive any proceeds pursuant to this transaction. SIR intends to use approximately $1.0 million to $2.0 million of the net proceeds to fund renovation activities of select existing restaurants within the Royalty Pooled Restaurants. SIR has four commitments to lease new properties, on which it plans to build six new restaurants over fiscals 2013 and 2014. SIR has begun the early stages of construction of five of these restaurants to be built, which it expects to open in 2013. SIR intends to use the remaining net proceeds to fund a portion of the construction and development costs of these new restaurants.

SIR believes and has advised the Fund that it expects to be able to comply with the covenants under the Amended Credit Agreement 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. SIR has reported to the Fund that it is in compliance with these covenants as at SIR's last reporting date to their lender.

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 period for which the Royalty is determined.

During the 3-month and 12-month periods ended December 31, 2012, the Fund distributed $1.5 million and $5.6 million, respectively to unitholders. A special year-end distribution of $0.05 per unit was declared in December 2012 and subsequently paid in January 2013. The special distribution was declared because the Fund expects that the taxable income generated in 2012 will exceed the aggregate monthly distributions declared by the Fund. Following the special distribution, the Fund does not expect to pay income tax on undistributed taxable income related to the 2012 taxation year. Subsequent to December 31, 2012, a distribution of $0.5 million ($0.088 per unit) was declared and paid in the month of January 2013, a distribution of $0.5 million ($0.088 per unit) was declared and paid in the month of February 2013, and a distribution of $0.5 million ($0.088 per unit) was declared and paid in the month of March 2013.

The Fund did not have any capital expenditures in 2012 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 obligations and pay distributions to its unitholders. The Fund intends to continue to pay monthly distributions consistent with the most recent distribution paid in March 2013 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. Information regarding SIR and its liquidity can be found in SIR's 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 27, 2013. 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(15)	2nd Quarter Ended February 10, 2013 (12 weeks)	1st Quarter Ended November 18, 2012 (12 weeks)	4th Quarter Ended August 26, 2012 (16 weeks)	3rd Quarter Ended May 6, 2012 (12 weeks)	2nd Quarter Ended February 12, 2012 (12 weeks)	1st Quarter Ended November 20, 2011 (12 weeks)	4th Quarter Ended August 28, 2011 (16 weeks)	3rd Quarter Ended May 8, 2011 (12 weeks)
	(in thousands of dollars) (unaudited)							
Cash provided by (used in) continuing operations	3,278	31	6,603	1,210	3,567	970	5,556	3,350
Cash used in continuing investing activities	(1,202)	(3,494)	(4,515)	(1,767)	(2,957)	(1,865)	(3,784)	(915)
Cash provided by (used in) continuing financing activities	(2,011)	(2,030)	4,490	(1,092)	(1,049)	1,609	(2,056)	(1,808)
Increase (decrease) in cash and cash equivalents during the period	65	(5,493)	6,578	(1,649)	(439)	772	187	550
Cash and cash equivalents – Beginning of period	5,002	10,495	3,917	5,566	6,005	5,233	5,046	4,496
Cash and cash equivalents – End of period	5,067	5,002	10,495	3,917	5,566	6,005	5,233	5,046

(15) *Information presented is in accordance with International Financial Reporting Standards (IFRS) and is derived solely from documents filed with the Canadian securities regulatory authorities by SIR in its interim Q2 MD&A filed on March 27, 2013 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

Disclosure 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 and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures. Management carried out an evaluation of the effectiveness of the design and operation of the Fund's disclosures controls and procedures, as defined in National Instrument 52-109, "Certification of Disclosure in Issuer's Annual and Interim Filings", as at December 31, 2012 under the supervision of and with the participation of the Fund's Chief Executive Officer and Chief Financial Officer.

Based on that evaluation, the Fund's Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are effective as at December 31, 2012.

Internal controls over financial reporting:

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS and includes those policies and procedures that:

a) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of assets;

b) are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that receipts and expenditures are being made only in accordance with authorizations of management and directors; and

c) are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the financial statements.

Management carried out an evaluation of the effectiveness of the design and operation of the Fund's 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, 2012 and under the supervision and with the participation of the Fund's Chief Executive Officer and Chief Financial Officer. The evaluation was conducted using the framework and criteria established in Internal Control - Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on the evaluation, the Chief Executive Officer and Chief Financial Officer 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, 2012. There have been no substantive changes in the Fund's internal controls over financial reporting that occurred during the most recent interim period beginning October 1, 2012 and ending December 31, 2012, 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.

Off-Balance Sheet Arrangements

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

Transactions with Related Parties

During the 3-month and 12-month periods ended December 31, 2012, the Fund earned equity income of $1.4 million and $5.4 million, respectively from the Partnership ($1.3 million and $5.0 million for the 3-month and 12-month periods ended December 31, 2011, 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 3-month and 12-month periods ended December 31, 2012, the Fund earned interest income of $0.8 million and $3.0 million, respectively from the SIR Loan ($0.8 million and $3.0 million for the 3-month and 12-month periods ended December 31, 2011, respectively). A description of the terms of the SIR Loan is included in the notes to the consolidated financial statements of the Fund for the 3-month and 12-month periods ended December 31, 2012 and December 31, 2011.

As at December 31, 2012, the Fund had amounts receivable from SIR of $0.2 million (December 31, 2011 - $0.3 million) and amounts receivable from the Partnership of $0.9 million (December 31, 2011 - $0.9 million). The amount receivable from SIR relates primarily to the interest owing to the Fund on the SIR Loan for the month of December. The amounts due from the Partnership represent distributions receivable of $3.0 million (December 31, 2011 - $2.9 million) partially offset by advances payable of $2.1 million (December 31, 2011 - $1.9 million). All advances were conducted as part of the normal course of business operations.

Critical Accounting Estimates

The Fund makes estimates and assumptions concerning the future that will by definition seldom equal actual results. The following are estimates and judgments have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Investment in the Partnership/consolidation of special purpose entities

The determination of the entity having the power to govern the financial and operating policies of the Partnership required significant judgment. Based on an evaluation of the activities of the Partnership and the Partnership Agreement, management concluded the substance of the relationships between the Partnership, SIR and the Fund indicates the Partnership is controlled by SIR. In addition, the evaluation of whether or not the Fund has significant influence over the Partnership is a matter of significant judgment. Based on a review of the operating and financing activities of the Partnership, management has concluded that the Fund is able to significantly influence these activities. Management has reevaluated its policy upon the acquisition of an additional investment in the Class A LP Units and has concluded that this subsequent acquisition does not require a change in its accounting policy for the investment in the Partnership. Accordingly, the Fund's investment in the Partnership is accounted for as an investment in an associate.

Valuation of the SIR Loan and investment in the Partnership

Management reviews for objective evidence whether there may be an impairment of the SIR loan or the investment in the Partnership. The review includes a review of the earnings, cash flows and available cash of SIR on a prospective basis to assess SIR's ability to meet its obligations to the Fund for interest payments on the SIR loan and to the Partnership for the Royalty. Based on the analysis completed during the years ended December 31, 2012 and 2011, no impairments have been recorded in the consolidated financial statements.

Changes in Accounting Policies, Including Initial Adoption

There have been no changes in accounting policies to the Fund's consolidated financial statements.

Recently Issued IFRS Not Yet Effective

IFRS 9, Financial Instruments - Classification and Measurement (IFRS 9), is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39, Financial Instruments - Recognition and Measurement. IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is measured using amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest; otherwise, it is measured at fair value through profit or loss. IFRS 9 is effective for years beginning on or after January 1, 2015. Management is evaluating the standard and has not yet determined the impact on its consolidated financial statements.

In May 2011, the International Accounting Standards Board issued the following standards, which have not yet been adopted by the Fund: IFRS 10, Consolidated Financial Statements; IFRS 11, Joint Arrangements; IFRS 12, Disclosure of Interests in Other Entities; IAS 27, Separate Financial Statements; IFRS 13, Fair Value Measurement; and amended IAS 28, Investments in Associates and Joint Ventures. Each of the new standards is effective for annual periods beginning on or after January 1, 2013.

The following is a brief summary of the new standards:

IFRS 10, Consolidated Financial Statements: IFRS 10 requires an entity to consolidate an investee when it is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC 12, Consolidation - Special Purpose Entities, and parts of IAS 27. Management is evaluating this standard and has not yet determined the impact on its consolidated financial statements.

IFRS 11, Joint Arrangements: IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC 13, Jointly Controlled Entities - Non-monetary Contributions By Venturers. Management has determined that this standard will not have an impact on its consolidated financial statements.

IFRS 12, Disclosure of Interests in Other Entities: IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off-balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. Management is evaluating this standard and has not yet determined the impact on its consolidated financial statements.

IFRS 13, Fair Value Measurement: IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. Management is evaluating this standard and has not yet determined the impact on its consolidated financial statements.

Amendments to other standards:

In addition, there have been amendments to existing standards, including IAS 27 and IAS 28. IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 through 13. Management is evaluating this standard and has not yet determined the impact on its consolidated financial statements.

IAS 1, Presentation of Financial Statements, has been amended to change the disclosure of items presented in other comprehensive income, including a requirement to separate items presented in other comprehensive income into two groups based on whether or not items may be recycled to profit or loss in the future. The standard is effective for years beginning on or after July 1, 2012. Management has determined that this standard has no impact on its consolidated financial statements.

Financial Instruments

The Fund's financial instruments consist of cash, distributions and interest receivable from related parties, the SIR Loan, accounts payable and accrued liabilities, advances payable to related parties and distributions payable to unitholders. 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. 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 SIR Loan will vary with changes in interest rates. The fair values of the SIR Loan could only be determined through a valuation of the individual assets. The aggregate fair values of the SIR Loan and the investment in the Partnership is estimated to be approximately $72.3 million based on the market value of the Fund units as of the close of business on December 31, 2012.

Disclosure of Outstanding Unit Data

The following summarizes the ownership structure of the Fund as at March 28, 2013 and December 31, 2012:

	Number of Fund units	
	March 28, 2013	**December 31, 2012**
Units issued	6,775,567	5,880,567

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 the industry, is intensely competitive with respect to price, service, location, food quality and qualified staff. 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. Effective August 2, 2011, the Government of Ontario has passed amendments to Regulation 719 under the Liquor Licence Act. The amendments, among other things, remove the requirement for a licensed establishment to have the service and sale of food and liquor as their primary use. This may impact the competitive environment for the SIR Restaurants in Ontario. 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 28, 2013 Annual Information Form for further discussion on risks and uncertainties related to the Fund and SIR.

As a result of certain legislative changes to the tax treatment of income trusts, commonly referred to as Specified Investment Flow Through ("SIFT") entities, effective January 1, 2011, corporate income taxes are applicable to the taxable income of the Fund. This SIFT tax applies to the Fund at the estimated prevailing corporate tax rate of approximately 26.5% (2011 - 28.25%) and, as a result, cash available for the Fund to distribute to unitholders is effectively reduced by that amount. 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.

Effective fiscal 2011, taxable income of the Fund allocated to unitholders is classified as eligible dividends. Unitholders who are Canadian residents and hold their units in a non-tax deferred account may claim the dividend tax credit for eligible dividends, which would if applicable reduce the after tax impact of the SIFT tax. Unitholders of the Fund have been advised to consult their own tax advisors to determine the impact of this change in tax laws on the distributions from their investment in the Fund.

Outlook

SIR competes within the full-service category of commercial foodservice in Canada. The Canadian Restaurant and Foodservice Association ("CRFA") estimates that growth in the full service category will grow by 4.1% in 2012 and 3.9% in 2013. The CRFA estimates that growth in the full-service category will then average 4.0% over the next three years. Management continues to monitor the economy and consumer confidence and their effects on the full-service restaurant category.

SIR has a term loan and a development loan (Amended Credit Agreement) that are due on November 14, 2016. As at February 10, 2013, $20.0 million and $11.0 million were outstanding on SIR's Amended Credit Agreement for the term loan and development loan, respectively. Please see the Liquidity and Capital Resources section.

In November 2012, SIR converted 523,900 Class A GP Units into Fund units and subsequently sold these Fund units, generating gross proceeds of $6.8 million. The proceeds from the sale of Fund units must be used to fund the costs associated with constructing new restaurants and renovating existing restaurants.

As a result of SIR exercising its right to convert these Class A GP Units into Fund units, the Fund issued 523,900 Fund units to SIR in exchange for an increased interest in the Partnership. Accordingly, this transaction does not have a dilutive effect on the Fund unitholders. In addition, the number of outstanding Fund units increased by 523,900, from 5,356,667 units to 5,880,567 units.

Subsequent to Q4 2012, the Fund filed a short-form prospectus to qualify the distribution of 895,000 Fund units by SIR. On March 14, 2013, SIR converted 895,000 of its Class A GP Units in the Partnership into Fund units and sold these Fund units generating gross proceeds of approximately $11.0 million. As a result of the conversion of the Class A GP Units into Fund units, SIR's interest in the Partnership changed to 24.4%. The Class A GP Units received by the Fund in exchange for the Fund units issued were converted to Class A LP Units of the Partnership, which are entitled to a pro rata share of the residual income of the Partnership. Accordingly, this transaction does not have a dilutive effect on the Fund unitholders. The Fund and the Partnership did not receive any proceeds pursuant to this transaction. SIR intends to use approximately $1.0 million to $2.0 million of the net proceeds to fund renovation activities of select existing restaurants within the Royalty Pooled Restaurants. SIR has four commitments to lease new properties, on which it plans to build six new restaurants over fiscals 2013 and 2014. SIR has begun the early stages of construction of five of these restaurants to be built, which it expects to open in 2013. SIR intends to use the remaining net proceeds to fund a portion of the construction and development costs of these new restaurants.

As at December 31, 2012, SIR had 51 restaurants open in Canada and since October 2004, the Fund's Initial Public Offering, SIR has opened 22 new restaurants (16 new Jack Astor's, four new Canyon Creek restaurants, and two Signature restaurants). The two new Signature restaurants are not currently subject to the License and Royalty Agreement.

During Q2 2011, SIR opened a Jack Astor's restaurant in London, Ontario. This restaurant was added to Royalty Pooled Restaurants on January 1, 2012 as a New Additional Restaurant.

SIR opened new Jack Astor's restaurants in Toronto (on Front Street near the St. Lawrence Market) on May 16, 2012, Laval, Quebec on October 4, 2012, and in Kingston, Ontario on November 2, 2012. These three new locations that opened in 2012, along with the Jack Astor's restaurant that opened during Q4 2011, on Argentia Road in Mississauga, Ontario were added to Royalty Pooled Restaurants on January 1, 2013.

SIR is expecting to open five new restaurants in 2013, including two Jack Astor's, to be located in north Toronto and Pickering, Ontario. The other three new restaurants are expected to be opened in the Aura condominium development located at Yonge and Gerrard Streets in Toronto. SIR expects to open an additional new Jack Astor's restaurant in 2014.

Subsequent to Q4 2012, on March 4, 2013, SIR opened a new Jack Astor's restaurant in Kitchener, Ontario. This restaurant will be added to Royalty Pooled Restaurants on January 1, 2014.

During Q1 2012, SIR closed its Alice Fazooli's restaurant located on Adelaide Street in Toronto and its Jack Astor's restaurant located in Kitchener, Ontario. SIR was required to pay a Make-Whole Payment for these locations from their date of closures until December 31, 2012. On January 1, 2013, the revenues of the New Closed Restaurants were netted against the revenue of the New Additional Restaurants opened from November 3, 2011 to November 2, 2012, to determine the number of Class B GP Units of the Partnership, held by SIR, which can be converted into Class A GP Units of the Partnership.

On January 1, 2013, four (January 1, 2012 - one) new SIR Restaurants were added to Royalty Pooled Restaurants in accordance with the Partnership Agreement. As consideration for the additional Royalty associated with the addition of four new SIR Restaurants on January 1, 2013 (January 1, 2012 – one), as well as the Second Incremental Adjustment for the one new SIR Restaurant added to Royalty Pooled Restaurants on January 1, 2012 (January 1, 2011 – one), SIR converted 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 permanent closure of two (January 1, 2012 – nil) SIR Restaurants during the prior year. The net effect of these adjustments to Royalty Pooled Restaurants was that SIR converted 296,459 (January 1, 2012 – 203,878) Class B GP Units into 296,459 (January 1, 2012 – 203,878) Class A GP Units on January 1, 2013 at an estimated fair value of $4.3 million (January 1, 2012 - $1.9 million).

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'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. If the revenue of the new restaurant added to SIR's Royalty Pooled Restaurants on January 1, 2012 exceeds 80% of the initial adjustment's estimated revenue, there will be an additional distribution declared in December 2012 and a second incremental adjustment on January 1, 2013.

The revenues of the one new SIR Restaurant added to Royalty Pooled Restaurants on January 1, 2012 exceeded 80% of the Initial Adjustment's estimated Revenue and, as a result, an additional distribution of $0.02 million was declared in December 2012 (December 2011 - $0.03 million) and paid the following January.

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", "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: competition; changes in demographic trends; changing consumer preferences and discretionary spending patterns; changes in consumer confidence; changes in national and local business and economic conditions; 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; 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. 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 release any updates or revisions to any forward looking statements. 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 March 28, 2013.

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. For more information concerning the Fund's risks and uncertainties, please refer to the March 28, 2013 Annual Information Form, for the period ended December 31, 2012, 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