SIR ROYALTY INCOME FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

THIRD QUARTER

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2007

SIR ROYALTY INCOME FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

(For the 3 and 9-month periods ended September 30, 2007)

Executive Summary

Highlights for the 3-month period ended September 30, 2007 ("Q3") and 9-month period ended September 30, 2007 ("YTD"), for SIR Royalty Income Fund (the "Fund") include:

- Net earnings were $1.8 million and $4.5 million for Q3 2007 and YTD 2007, respectively as compared to $1.8 million and $5.2 million for Q3 2006 and YTD 2006, respectively. Net earnings per Fund Unit were $0.35 and $0.84 for Q3 2007 and YTD 2007, respectively as compared to $0.33 and $0.98 for Q3 2006 and YTD 2006 respectively.
- On October 31, 2006, the Federal Department of Finance announced a plan that proposes changes to the manner in which distributions from certain publicly listed flow-through entities ("FTE's") including income funds are taxed. However, existing Income Trusts would not be subject to this proposed taxation of distributions until the 2011 taxation year as long as the Fund meets the requirements for "normal growth". The proposed legislation has since received a third reading and therefore is considered to be substantively enacted. As a result, future income taxes have been calculated and recorded in the YTD financial statements of the Fund.
- On May 23, 2007, the Trustees authorized a 4.8% distribution increase to Unitholders. The monthly distributions increased from $0.105 per unit to $0.110 per unit beginning with the distribution paid in June 2007. This is expected to increase the annualized distribution from $1.26 to $1.32.
- The payout ratio was 95.6% in Q3 of 2007 and 96.2% for YTD 2007, compared to 95.9% in Q3 of 2006 and 94.0% for YTD 2006. Please refer to footnotes 2 and 9 on page 5 and page 10, respectively for the definition and calculation of payout ratio.
- Pooled Revenue increased by 12.0% in Q3 of 2007 to $40.8 million, from $36.4 million in Q3 of 2006. YTD Pooled Revenue increased 9.4% to $121.2 million from $110.8 million in the same period last year.
- Same store sales growth[(1)] ("SSSG[(1)]") for restaurants in the Royalty pool for Q3 of 2007 was 5.2%, and 4.0% for YTD of 2007.
- SSSG[(1)] was positive in Q3 of 2007 and YTD 2007 for all of SIR Corp.'s ("SIR") Concept Restaurants (Jack Astor's®, Canyon Creek®, and Alice Fazooli's!®): Jack Astor's SSSG[(1)] was 6.0% for Q3 and 3.5% YTD; Canyon Creek SSSG[(1)] was 8.4% for Q3 and 6.3% YTD; and Alice Fazooli's! SSSG[(1)] was 4.3% for Q3 and 5.5% YTD. The Signature Restaurants' SSSG[(1)] was affected in Q3 by the closure of the Armadillo Texas Grill®/the Loose Moose Tap & Grill® for 8 days for its renovation. The SSS[(1)] for Q3 declined by 1.7% but remained positive for YTD at 3.2%.
- On January 1, 2007, the Jack Astor's restaurant in Don Mills, Ontario was removed from the Royalty Pooled Restaurants and the three new Canyon Creek restaurants that opened in 2006 were added to the Royalty Pooled Restaurants.
- SIR opened Jack Astor's restaurants in Hamilton, Ontario on March 26, 2007, in Dartmouth, Nova Scotia on May 7, 2007, and subsequent to Q3 2007, SIR opened a Jack Astor's restaurant in Burlington, Ontario. SIR closed the existing Jack Astor's restaurant in Burlington, Ontario on September 29, 2007. It is expected that these three new restaurants and one closed restaurant will be added to/removed from the Royalty Pooled Restaurants on January 1, 2008.
- SIR has secured new sites for three new restaurants: two new Jack Astor's restaurants and a new Canyon Creek restaurant.
- SIR has entered into a seven year, $16.0 million maximum principal amount credit agreement. The credit agreement is designed primarily to facilitate the construction of new restaurants.
- While SIR is not owned by the Fund, the Fund is economically dependent upon SIR. SIR files its interim and annual consolidated financial statements and Management's Discussion and Analysis which, can be found on SEDAR under the Fund's listing named "Other". SIR's Q3 unaudited consolidated financial statements and MD&A are listed having a filing date of June 20, 2007.

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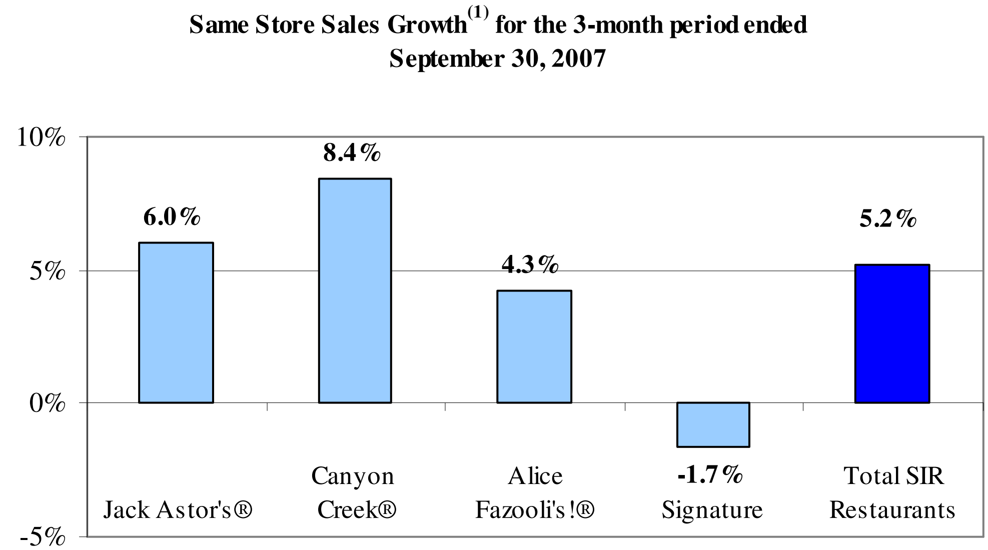
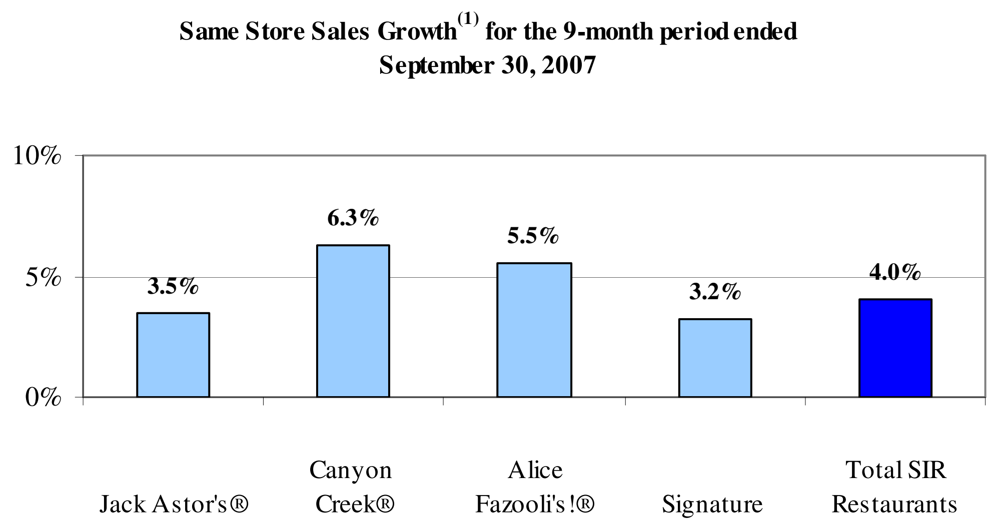
(1) *Same store sales ("SSS") and same store sales growth ("SSSG") are non-GAAP financial measures that do not have standardized meanings prescribed by GAAP. However, the Fund believes that SSS and SSSG are useful measures and provide investors with an indication of the change in year-over-year sales. The Fund's method of calculating SSS and SSSG may differ from those of other issuers and, accordingly, SSS and SSSG may not be comparable to measures used by other issuers.*
SSS includes revenue from all SIR Restaurants included in Pooled Revenue except for the Jack Astor's® location in Don Mills, Ontario and the Canyon Creek® locations in Scarborough, Vaughan, and at the Fallsview Casino Resort in Niagara Falls, Ontario because they were not open for the entire period of both 2007 and 2006. SSSG is the percentage increase in SSS over the prior comparable period.

Same Store Sales Growth[1]

(unaudited)





SIR reported to the Fund that SSSG[1] was 4.0% for YTD 2007, which is over and above the exceptional SSSG[1] of 7.2% experienced in the prior year (please see the table on the following page).

SSSG[1] for Jack Astor's was 3.5% YTD 2007. This growth was achieved on top of the SSSG[1] of 7.4% experienced in the prior year. The Jack Astor's evolution program started in 2004 and now only one of the Jack Astor's currently operating remains to be evolved. The evolved Jack Astor's restaurants experienced strong SSSG[1], averaging over 10% in the first year following the year of evolution. Now that the program is near completion and most of the evolved restaurants have been evolved for more than one year, the velocity of Jack Astor's SSSG[1] driven by evolutions is reduced. SIR's management believes that changes in smoking legislation in Ontario and Quebec are negatively affecting bar sales, particularly in those restaurants that previously benefited from Designated Smoking Rooms in their bars. SIR's management believes that the effect of the Smoke-Free Ontario Act will be mitigated over time and believes that the effect was lessened during the summer months when patios were open. Initial results support the second premise, as we begin to see our patio sales rebounding in the second and third quarters of 2007.

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

Canyon Creek continues to perform well, with SSSG[(1)] of 6.3% during YTD 2007 again on top of strong SSSG[(1)] of 8.4% in YTD 2006. The Canyon Creek restaurant located in Etobicoke, Ontario (across from Sherway Gardens) was closed for 11 days during the second quarter for a major renovation. This location was SIR's first Canyon Creek restaurant and it celebrated its 10th anniversary this summer. This update to both, the interior and exterior of the restaurant better reflects Canyon Creek's positioning within the market as a chophouse and shows SIR's continued dedication to operating restaurants that are best in their class. The restaurant reopened on June 29, 2007.

The performance of Alice Fazooli's! remains strong with SSSG[(1)] in YTD 2007 of 5.5%. This growth is on top of the exceptional SSSG[(1)] of 10.1% experienced in the prior year.

During YTD 2007, the Signature Restaurants, which are located in downtown Toronto, had SSSG[(1)] of 3.2%. The revenues for Brasserie Frisco® and the Armadillo Texas Grill®/the Loose Moose Tap & Grill® were below the prior year. The Armadillo Texas Grill/the Loose Moose Tap & Grill was closed for 8 days during Q3 for renovations. SIR is now operating the entire space as the Loose Moose Tap & Grill and expects these changes to result in higher revenues going forward. These results are offset by positive SSSG[(1)] at Far Niente®/Soul of the Vine® and reds®. SSSG[(1)] was 2.7% in the prior year.

SSSG[(1)] for Restaurants in the Royalty pool	**9-month period ended September 30, 2007** (unaudited)	**9-month period ended September 30, 2006** (unaudited)
Jack Astor's	3.5%	7.4%
Canyon Creek Chop House	6.3%	8.4%
Alice Fazooli's!	5.5%	10.1%
Signature Restaurants	3.2%	2.7%
Overall SSSG[(1)]	**4.0%**	**7.2%**

Restaurant Renovations and Advertising

SIR used a significant portion of the proceeds of the Fund's IPO to invest in its existing restaurants to drive SSSG[(1)]. As at September 30, 2007 evolutions of 19 Jack Astor's restaurants had been completed (four of these had been completed prior to the IPO). These evolutions continue to drive sales in Jack Astor's restaurants. The renovations at the five Alice Fazooli's! restaurants which were completed during 2005 and 2006 have also delivered strong SSSG[(1)] on average, in excess of 10% in the first full year after the renovation. A renovation was completed at reds during Q3 of 2006. During Q4 of 2005, extensive renovations were completed at Far Niente in downtown Toronto. These renovations are driving increased guest counts and SSSG[(1)]. During Q2 of 2007, a major renovation was completed at the Canyon Creek located across from Sherway Gardens in Etobicoke, Ontario. Finally, in Q3 of 2007, a major renovation was completed at the Armadillo Texas Grill/the Loose Moose Tap & Grill and subsequent to Q3 at Soul of the Vine in order to introduce an innovative bakery concept, Petit Four™ Bakery, which targets the lucrative catering and take-out markets in the downtown Toronto core. Petit Four Bakery replaced the take-out portion of Soul of the Vine. It is not being treated as a New Restaurant under the License and Royalty Agreement. The revenue of Petit Four Bakery was added to Pooled Revenue from the date of opening and SIR will not be converting any Class B GP Units into Class A GP Units of the Partnership in exchange for this additional revenue stream.

Since the IPO, SIR has increased its investment in marketing initiatives. In particular, Jack Astor's with 24 restaurants (which in YTD of 2007 represented approximately 60.7% of Pooled Revenue) has benefited from radio-based campaigns created by a leading North American advertising agency. For the 2006 campaigns, Jack Astor's earned Gold recognitions at the London International Advertising Awards (for its Italian Festival) and also at the Canadian Marketing Association Awards. During Q2 2007 and subsequent to Q3 2007, Alice Fazooli's! ran its first and second multiple station radio campaigns. The campaigns aired on two major radio stations in the Greater Toronto Area and focus on the casual and inviting atmosphere that our newly renovated restaurants offer as well as the fresh and flavourful Italian food that guests enjoy at SIR's five Alice Fazooli's! locations. During Q3 of 2007, Canyon Creek ran its first multiple station radio campaign. The campaign focused on Canyon Creek's attention to details and its 10th anniversary and aired on three major radio stations in the Greater Toronto Area.

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

New and Closed Restaurants

During 2006, SIR opened three Canyon Creek restaurants (Scarborough, Ontario in Q1, Vaughan, Ontario in Q2, and at the Fallsview Casino Resort in Niagara Falls, Ontario in Q3). Each of these three restaurants was added to the Royalty Pooled Restaurants on January 1, 2007. In return, SIR Royalty Limited Partnership ("the Partnership") paid SIR, in Partnership securities exchangeable for Units of the Fund, an amount intended to reflect the value to the Partnership of the increased future Royalty stream related to these restaurants, in accordance with the formula described in the Limited Partnership Agreement of SIR Royalty Limited Partnership (the "Partnership Agreement"). These adjustments for new revenues that will be part of the Royalty pool are designed to be accretive for Fund Unitholders.

On May 27, 2006 the Jack Astor's in Don Mills, Ontario was closed. This location has been demolished by the landlord and is to be redeveloped into a major "lifestyle mall". It is expected that this project will be completed in the second half of 2008 and that a new Jack Astor's would open in this location at that time. Under the terms of the License and Royalty Agreement, SIR paid a Make-Whole Payment for this location from the date of the closure until December 31, 2006. In accordance with the Partnership Agreement, the revenue of the closed restaurant was netted against the revenue of the new SIR Restaurants opened from November 2, 2005 to November 1, 2006, to reduce the number of Class B GP Units of the Partnership, held by SIR, which were converted into Class A GP Units of the Partnership on January 1, 2007.

During Q1 of 2007, SIR opened a new Jack Astor's restaurant in Hamilton, Ontario on March 26, 2007. During Q2 2007, SIR opened a new Jack Astor's restaurant, in Dartmouth, Nova Scotia on May 7, 2007. On September 29, 2007, the Jack Astor's in Burlington, Ontario was closed and subsequent to Q3, on October 15, 2007, a new Jack Astor's restaurant opened in Burlington. The new site is expected to provide higher revenues and therefore a greater Royalty stream to the Partnership. In respect of the closed Burlington restaurant, SIR is required to pay a Make-Whole Payment from the date of closure to December 31, 2007 (Q3 includes a Make-Whole Payment for 1 day). It is expected that these new restaurants would be added to and the closed restaurant removed from the Royalty Pooled Restaurants on January 1, 2008.

SIR has also secured new sites for two new Jack Astor's restaurants and a new Canyon Creek restaurant. One of these new sites is for a Jack Astor's restaurant at the corner of Dundas and Yonge Streets in Toronto, Ontario, which is expected to open in fiscal 2008. A new site has been secured near the Toronto Pearson International Airport for a Jack Astor's and a Canyon Creek which are also expected to open in fiscal 2008.

Distributions

Distributions to Unitholders are intended to be made monthly in arrears based on distributable cash[(2)] and cash redemptions of Fund Units and subject to the Fund retaining such reasonable working capital and other reserves as may be considered appropriate by the Trustees of the Fund. The Fund's intention, with the assistance of SIR, is to pay even distributions, and if possible, allow the Fund to maintain consistent monthly distributions to Unitholders. The Fund intends to make monthly distributions of its available distributable cash[(2)] to the extent possible and has paid its expected monthly cash distribution of $0.10 per Unit per month since inception. On May 24, 2006 the Trustees authorized a 5.0% distribution increase to Unitholders and on May 23, 2007, the Trustees authorized a further 4.8% increase in distributions to the Unitholders. The monthly distributions increased from $0.10 per Unit to $0.105 per Unit beginning with the distribution paid in June 2006 and to $0.110 per Unit beginning with the distribution paid in June 2007. The estimated annualized distribution is now $1.32.

The payout ratio[(2)] of cash distributed to distributable cash[(2)] 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[(2)] may exceed 100%. The payout ratio[(2)] for the fourth quarter of 2006 was affected by the $0.23 million Priority Special Conversion Distribution ("Conversion Distribution") paid by the Partnership. The payout ratio[(2)] in Q3 of 2007 was 95.6% compared to 95.9% for the same period in 2006.

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(2) *Distributable cash and payout ratio are non-GAAP financial measures and do not have a standardized meaning prescribed by GAAP. However, the Fund believes that distributable cash and the payout ratio are useful measures as they provide investors with an indication of cash available for distribution. The Fund's method of calculating distributable cash and the payout ratio may differ from that of other issuers and, accordingly, distributable cash and the payout ratio may not be comparable to measures used by other issuers. Investors are cautioned that distributable cash and the payout ratio should not be construed as an alternative to the statement of cash flows as a measure of liquidity and cash flows of the Fund. The payout ratio is calculated as cash distributed for the period as a percentage of the distributable cash for the period.*
Distributable cash represents the amount of money which the Fund expects to have available for distribution to Unitholders of the Fund, and is calculated as cash provided by operating activities of the Fund, adjusted for the net change in non-cash working capital items.

Overview and Business of the Fund

On October 1, 2004, the Fund filed a final prospectus for a public offering of Units of the Fund. The net proceeds of the Offering of $51.2 million were used by the Fund to acquire, directly, certain bank debt of SIR and indirectly, through SIR Holdings Trust (the "Trust"), all of the Ordinary LP Units of the Partnership. The Partnership owns the Canadian trademarks (the "SIR Rights") formerly owned or licensed by SIR or its subsidiaries and used in connection with the operation of the majority of SIR's restaurants in Canada. The Partnership has granted SIR a 99-year license to use the SIR Rights in most of Canada in consideration for a Royalty, payable by SIR to the Partnership, equal to 6% of the revenue of the restaurants included in the Royalty pool (the "License and Royalty Agreement"). The Partnership also issued its own securities to SIR in return for the SIR Rights acquired. The Fund indirectly participates in the revenue generated under the License and Royalty Agreement through its investment in the Partnership. The Partnership's financial statements are provided separately at www.sedar.com under the SIR Royalty Income Fund profile "other" category and on SIR's website at www.sircorp.com.

The Fund intends to make monthly distributions of its available cash to the extent possible. During the quarter, monthly distributions of $0.6 million or $0.11 per Unit were declared and paid for each of the months of June, July and August 2007. Subsequent to September 30, 2007, distributions of $0.11 per Unit were declared and paid for the month of September 2007 and a distribution of $0.11 per Unit was declared for the month of October 2007.

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 September 30, 2007, SIR operated more than 40 Concept Restaurants and Signature Restaurants in Canada (in Ontario, Quebec, Alberta and Nova Scotia). The Concept Restaurants are Jack Astor's Bar and Grill, Canyon Creek Chop House® and Alice Fazooli's!. The Signature Restaurants are reds, Far Niente/Soul of the Vine, Petit Four, Brasserie Frisco, and the Armadillo Steak House/Loose Moose Tap & Grill. As at September 30, 2007, 38 SIR Restaurants were included in the SIR Royalty Pooled Restaurants. New Canyon Creek restaurants were opened in Scarborough, Ontario in March 2006, in Vaughan, Ontario in May 2006, and at the Fallsview Casino Resort, in Niagara Falls, Ontario in August 2006. On January 1, 2007, these three new restaurants were added to the Royalty Pooled Restaurants. In May 2006, the Jack Astor's in Don Mills, Ontario was closed. Based on the terms of the License and Royalty Agreement, SIR was required to pay a Make-Whole Payment in respect of the lost Royalty resulting from the reduction in revenue of this closed restaurant until December 31, 2006. Effective January 1, 2007, the Jack Astor's in Don Mills was removed from the Royalty Pooled Restaurants as a New Closed Restaurant. SIR owns 100% of all its Canadian restaurants, except for Jack Astor's Don Mills Limited (50%).

SIR also has an investment in one Jack Astor's restaurant in the U.S., which is not included in the SIR Royalty Pooled Restaurants.

The Partnership has granted SIR a 99-year license to use the SIR Rights in most of Canada in consideration for a Royalty, payable by SIR to the Partnership, equal to 6.0% of the revenue of the restaurants included in the Royalty pool. The Partnership also issued its own securities to SIR in return for the SIR Rights acquired.

On January 1 of each year (the "Adjustment Date") following December 31, 2005, the restaurants subject to the License and Royalty Agreement are adjusted for new restaurants that have been open for at least 60 days prior to the Adjustment Date and which were not previously included in the Royalty Pooled Restaurants. Under the formula as defined in the Partnership Agreement, the number of Class A GP Units issued to SIR on the Initial Adjustment date is equal to 80% of the estimated value of the additional Royalty revenue. Additional Class B GP Units may be converted to Class A GP Units in respect of these new SIR Restaurants if the actual revenues of the new SIR Restaurants exceed 80% of the January 1 Initial Adjustment's estimated revenue applied to the formula defined in the Partnership Agreement. Conversely, Class A GP Units would be converted to Class B GP Units by SIR if the actual revenues of the new SIR Restaurants are less than 80% of the January 1 Initial Adjustment's estimated revenue. In December of each year, a Conversion Distribution will be payable to the Class B GP Unitholders based on actual revenues of the new SIR Restaurants exceeding 80% of the Initial Adjustment's estimated revenue or there will be a reduction in the cash distributions to the Class A GP Unitholders if revenues are less than 80% of the Initial Adjustment's estimated revenue. The Conversion Distribution results in an adjustment to SIR's share of the Partnership income to reflect the actual contribution of the revenues of the new SIR Restaurants for the fiscal year. As this amount is not declared until December 31st, when the actual revenues for the New Additional Restaurants are known, the effect of this adjustment is not included in the results of quarters one through three.

The revenues of the new SIR Restaurants added to the Royalty pool on January 1, 2006 exceeded 80% of the Initial Adjustment's estimated revenue and, as a result, a Conversion Distribution of $0.23 million was declared in December 2006 and paid in cash to SIR in January 2007. Currently, SIR's management expects the revenues of the new SIR Restaurants added to the Royalty pool on January 1, 2007 to exceed 80% of the Initial Adjustment's estimated revenue. As a result, additional Class A GP Units are expected to be issued to SIR and a Conversion Distribution is expected to be declared in December 2007, and paid in cash to SIR in January 2008.

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

As at September 30, 2007, SIR retained a 21.4% (2006 – 16.2%) interest in the Partnership as the holder of the 1,455,009 (2006 – 1,034,005) Class A GP Units of the Partnership, representing SIR's initial retained interest as at the closing date of the Offering plus the Class A GP Units that were received as part of the conversions that took place on January 1, 2006 and January 1, 2007 when the net new restaurants were vended in to the Royalty Pooled Restaurants. The Class A GP Units are entitled to receive a pro rata share of all residual distributions of the Partnership and are exchangeable into Units of the Fund on a one for one basis. SIR agreed to subordinate the initial 10% share (595,185 Class A GP Units retained at the time of the Offering) of the distributions for a minimum of two years, subject to certain terms. The conditions of this subordination were satisfied on August 26, 2007 and the subordination on the initial 595,185 Class A GP Units of the Partnership ended on that date. In addition, SIR is obligated to pay the Partnership a "Make-Whole Payment", subject to certain terms, initially equal to the amount of the Royalty that otherwise would have been paid to the Partnership in the event of a permanent closure of a restaurant in the Royalty pool. SIR is not required to pay any "Make-Whole Payment" in respect of a closed restaurant in the Royalty pool following the date on which the number of restaurants in the Royalty pool is equal to or greater than 68, or following October 12, 2019, whichever occurs first. However, other adjustments or payments may still be required in respect of closed restaurants after such date by SIR, depending upon the circumstances.

SIR's fiscal year is comprised of 13 periods of four weeks each, ending on the last Sunday in August. To preserve this year-end, an additional week must be added approximately every five years. Fiscal quarters of SIR consist of accounting periods of 12, 12, 12 and 16 (or 17) weeks.

Consolidated financial statements of SIR can be found at www.sedar.com under the SIR Royalty Income Fund profile, "other" category and on SIR's website at www.sircorp.com.

Seasonality

The full service restaurant sector of the Canadian foodservice industry, in which SIR operates, experiences seasonal fluctuations in revenues. Favourable summer weather generally results in increased revenues during SIR's fourth quarter (ending the last Sunday in August) when patios have been open for an extended period. Additionally, certain holidays and observances also affect guest dining patterns both favourably and unfavourably. Accordingly, distribution income recognized by the Fund will vary in conjunction with the seasonality in revenue experienced by SIR. The Fund's intention, with the assistance of SIR, is to pay even distributions in order to reduce the effect of seasonality, and if possible, allow the Fund to maintain consistent monthly distributions to Unitholders.

Selected Consolidated Financial Information

The unaudited consolidated financial statements of the Fund are presented in Canadian dollars, are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and include the accounts of the Fund and its subsidiaries, namely the Trust and SIR GP Inc. The information in this Management's Discussion and Analysis should be read in conjunction with the unaudited consolidated financial statements of the Fund for the three-month and nine-month periods ended September 30, 2007, including the notes thereto. The Fund has been in existence since August 23, 2004, and began operating on October 12, 2004 upon closing of the Offering.

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

Financial Highlights *(in thousands of dollars except restaurants and per Unit amounts) (Unaudited)*	**3-month period ended September 30, 2007 $**	**3-month period ended September 30, 2006 $**	**9-month period ended September 30, 2007 $**	**9-month period ended September 30, 2006 $**
Restaurants in the Royalty pool	38	36	38	36
Pooled Revenue generated by SIR	40,814	36,447	121,221	110,813
6% of Pooled Revenue	2,449	2,190	7,273	6,652
Make-Whole Payment(3)	-	41	-	59
Total Royalty income to Partnership	2,449	2,231	7,273	6,711
Partnership other income	15	13	43	34
Partnership expenses	(27)	(21)	(88)	(112)
Partnership earnings	2,437	2,223	7,228	6,633
SIR Corp.'s interest (Class A, B and C GP Units)	(1,252)	(1,090)	(3,710)	(3,262)
Partnership income allocated to Fund(4)	1,185	1,133	3,518	3,371
Interest income(5)	750	750	2,250	2,250
Total income of the Fund	1,935	1,883	5,768	5,621
General & administrative expenses	(85)	(123)	(394)	(377)
Net earnings before income taxes of the Fund	1,850	1,760	5,374	5,244
Future income taxes	-	-	(853)	-
Net earnings for the period	1,850	1,760	4,521	5,244
Basic earnings per Fund Unit (5,356,667 Units)	0.35	0.33	0.84	0.98
Diluted earnings per Fund Unit (2007 – 6,811,676 Units, 2006 - 6,390,672 Units)(6)	0.35	0.33	0.84	0.98

For the 3-month period from July 1, 2007 to September 30, 2007, the Fund declared and paid a distribution of $0.11 per Unit for each of the months of July, August and September 2007. Subsequent to September 30, 2007, the Fund declared and paid a distribution of $0.11 per Unit for the month of September 2007. The Fund also declared a distribution of $0.11 per Unit for the month of October 2007, payable in November 2007.

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(3) *On September 29, 2007, the Jack Astor's in Burlington, Ontario was closed and on May 27, 2006 the Jack Astor's in Don Mills, Ontario was closed. Under the terms of the License and Royalty Agreement, SIR is required to pay a Make-Whole Payment for these locations from the date of the closure until December 31st of the year of closure.*

(4) *On October 12, 2004, the Fund, indirectly through the Trust, acquired all of the Ordinary LP Units of the Partnership. The holders of the Ordinary LP Units and Class A GP Units are entitled to receive a pro rata share of all residual distributions of the Partnership. The holders of the Ordinary LP Units had the right to receive distributions in priority to the initial 595,185 Class A GP Units until August 26, 2007.*

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

(6) *Diluted earnings per Fund Unit is calculated as follows: Net earnings for the period plus the distributions related to the Class A GP Units and less future income tax expense, which together total $2.4 million and $5.7 million for the 3 and 9-month periods ended September 30, 2007, respectively, divided by the weighted average number of Fund Units outstanding of 6,811,676 Units. The weighted average number of Fund Units outstanding for the 3 and 9-month periods ended September 30, 2007 represent Fund Units of 5,356,667 plus the convertible Class A GP Units of 1,455,009. Diluted earnings per Fund Unit for 2006 is calculated as follows: Net earnings for the period plus the distributions related to the Class A GP Units, which together total $2.1 million and $6.3 million for the 3 and 9-month periods ended September 30, 2006, respectively divided by the weighted average number of Fund Units outstanding of 6,390,672. Weighted average number of Fund Units outstanding for fiscal 2006 represents Fund Units of 5,356,667 plus the convertible Class A GP Units of 1,034,005.*

Summary of Quarterly Financial Information

(in thousands of dollars except restaurants and per Unit amounts) *(unaudited)*	3-month periods ended							
	Sept. 30, 2007 $	**June 30, 2007** $	**Mar. 31, 2007** $	**Dec. 31, 2006** $	**Sept. 30, 2006** $	**June 30, 2006** $	**Mar 31, 2006** $	**Dec. 31, 2005** $
Restaurants in the Royalty pool	38	38	38	36	36	36	36	34
Pooled Revenue generated by SIR	40,814	40,956	39,451	38,716	36,447	37,506	36,859	35,219
6% of Pooled Revenue	2,449	2,457	2,367	2,323	2,190	2,250	2,212	2,113
Make-Whole Payment(3)	-	-	-	42	41	18	-	-
Total Royalty income to Partnership	2,449	2,457	2,367	2,365	2,231	2,268	2,212	2,113
Partnership other income	15	14	14	13	13	12	9	8
Partnership expenses	(27)	(22)	(39)	(45)	(21)	(41)	(50)	(25)
Partnership earnings	2,437	2,449	2,342	2,333	2,223	2,239	2,171	2,096
SIR's interest (Class A, B and C GP Units)	(1,252)	(1,238)	(1,220)	(1,343)	(1,090)	(1,090)	(1,082)	(946)
Partnership income allocated to Fund(4)	1,185	1,211	1,122	990	1,133	1,149	1,089	1,150
Interest income(5)	750	750	750	750	750	750	750	750
Total income of the Fund	1,935	1,961	1,872	1,740	1,883	1,899	1,839	1,900
General & administrative expenses	(85)	(167)	(142)	(99)	(123)	(135)	(119)	(134)
Net earnings before income taxes of the Fund	1,850	1,794	1,730	1,641	1,760	1,764	1,720	1,766
Future income taxes	-	(853)	-	-	-	-	-	-
Net earnings for the period	1,850	941	1,730	1,641	1,760	1,764	1,720	1,766
Basic earnings per Fund Unit (5,356,667 Units)	0.35	0.18	0.32	0.31	0.33	0.33	0.32	0.33
Diluted earnings per Fund Unit (2007 - 6,811,676 Units; 2006 – 6,390,672 Units; 2005 – 5,951,852 Units)(7)	0.35	0.18	0.32	0.31	0.33	0.33	0.32	0.33

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

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

(5) *See footnote (5) on page 8.*

(7) *Diluted earnings per Fund Unit is calculated as follows: Net earnings for the period plus the distributions related to the Class A GP Units and less future income tax expense, which together total $2.4 million and $1.2 million for the 3-month periods ended September 30, 2007 and June 30, 2007, respectively, divided by the weighted average number of Fund Units outstanding of 6,811,676. Diluted earnings per Fund Unit for the 3-month period ended March 31, 2007 is calculated as follows: Net earnings for the period plus the distributions related to the Class A GP Units, which together total $2.2 million for the 3-month period ended March 31, 2007, divided by the weighted average number of Fund Units outstanding of 6,811,676 Units. The weighted average number of Fund Units outstanding for the 3-month periods ended September 30, 2007, June 30, 2007 and March 31, 2007 represent Fund Units of 5,356,667 plus the convertible Class A GP Units of 1,455,009. Diluted earnings per Fund Unit for 2006 is calculated as follows: Net earnings for the period plus the distributions related to the Class A GP Units, which together total $1.7 million, $1.7 million, $1.8 million and $2.0 million for the 3- month periods ended March 31, 2006, June 30, 2006, September 30, 2006 and December 31, 2006, respectively divided by the weighted average number of Fund Units outstanding of 6,390,672. Weighted average number of Fund Units outstanding for fiscal 2006 represents Fund Units of 5,356,667 plus the convertible Class A GP Units of 1,034,005. Diluted earnings per Fund Unit for 2005 is calculated as follows: Net earnings for the period plus the distributions related to the Class A GP Units, which together total $2.0 million for the 3-month period ended December 31, 2005 divided by the weighted average number of Fund Units outstanding of 5,951,852. Weighted average number of Fund Units outstanding for fiscal 2005 represents Fund Units of 5,356,667 plus the convertible Class A GP Units of 595,185.*

Distributable Cash(2) *(in thousands of dollars except per Unit amounts and payout ratio(2))* *(unaudited)*	**3-month period ended Sept. 30, 2007 $**	**3-month period ended Sept. 30, 2006 $**	**9-month period ended Sept. 30, 2007 $**	**9-month period ended Sept. 30, 2006 $**
Cash provided by operating activities	1,768	1,687	5,169	4,928
Add (deduct): Net change in non-cash working capital items(8)	82	73	205	316
Distributable cash(2)	**1,850**	**1,760**	**5,374**	**5,244**
Cash distributed for the period	**1,768**	**1,687**	**5,169**	**4,928**
Surplus of distributable cash(2)	**82**	**73**	**205**	**316**
Payout ratio(2)(9)	95.6%	95.9%	96.2%	94.0%
Distributable cash(2) per Fund Unit basic (5,356,667 Units)	0.35	0.33	1.00	0.98
Distributable cash(2) per Fund Unit diluted (2007 – 6,811,676 Units, 2006 - 6,390,672 Units)(10)	0.35	0.33	1.00	0.98

Distributable Cash(2)	**3-month periods ended**							
(in thousands of dollars except per Unit amounts and payout ratio(2)) *(unaudited)*	**Sept. 30, 2007 $**	**June 30, 2007 $**	**March 31, 2007 $**	**Dec. 31, 2006 $**	**Sept. 30, 2006 $**	**June 30, 2006 $**	**March 31, 2006 $**	**Dec. 31, 2005 $**
Cash provided by operating activities	1,768	1,714	1,687	1,687	1,687	1,634	1,607	1,607
Add/(deduct): Net change in non-cash working capital items(8)	82	80	43	(46)	73	130	113	159
Distributable cash(2)	**1,850**	**1,794**	**1,730**	**1,641**	**1,760**	**1,764**	**1,720**	**1,766**
Cash distributed for the period	**1,768**	**1,714**	**1,687**	**1,687**	**1,687**	**1,634**	**1,607**	**1,607**
Surplus/ (shortfall) of distributable cash(2)	**82**	**80**	**43**	**(46)**	**73**	**129**	**113**	**159**
Payout ratio(2)(9)	95.6%	95.5%	97.5%	102.8%(11)	95.9%	92.6%	93.4%	91.0%
Distributable cash(2) per Fund Unit basic (5,356,667 Units)	0.35	0.33	0.32	0.31	0.33	0.33	0.32	0.33
Distributable cash(2) per Fund Unit diluted (2007 – 6,811,676 Units; 2006 - 6,390,672 Units; 2005 – 5,951,852 Units)(10)	0.35	0.33	0.32	0.31	0.33	0.33	0.32	0.33

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(2) *See footnote (2) on page 5.*

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

(9) *It is the Fund's intention, with the assistance of SIR, to pay even distributions to reduce the effect of seasonality. Higher payout ratios during the colder months of the year are expected with the pattern of seasonality in the business, and it is anticipated that the payout ratio will decrease on average during the warm weather months.*

(10) *Diluted distributable cash per Fund Unit is calculated as follows: Distributable cash for the period plus the distributions related to the Class A GP Units, which together total $2.4 million, $2.2 million, $2.2 million, $2.0 million, $2.1 million, $2.1 million, $2.0 million, and $2.0 million for the 3-month periods ended September 30, 2007, June 30, 2007, March 31, 2007, December 31, 2006, September 30, 2006, June 30, 2006, March 31, 2006, and December 31, 2005, respectively, divided by the weighted average number of Fund Units outstanding of 6,811,676, 6,390,672 and 5,951,852 for the 3-month periods ended in fiscal 2007, 2006 and 2005, respectively. The weighted average number of Fund Units outstanding represents Fund Units of 5,356,667 plus the convertible Class A GP Units of 1,455,009, 1,034,005 and 595,185 for the periods ended in fiscal 2007, 2006 and 2005, respectively.*

(11) *The payout ratio for the fourth quarter of 2006 was affected by the $0.23 million Conversion Distribution paid by the Partnership. This distribution was paid on the Class B GP Units that were converted to Class A GP Units, effective January 1, 2007 related to the Second Incremental Adjustment for the restaurants added to the Royalty pool effective January 1, 2006. As no new restaurants were added to the Royalty pool effective January 1, 2005, there was no similar adjustment in the fourth quarter of 2005.*

Distributions to Unitholders are intended to be made monthly in arrears based on distributable cash(2) and cash redemptions of Fund Units and subject to the Fund retaining such reasonable working capital and other reserves as may be considered appropriate by the Trustees of the Fund. The Fund's intention, with the assistance of SIR, is to pay even distributions, and if possible, allow the Fund to maintain consistent monthly distributions to Unitholders. The Fund intends to make monthly distributions of its available distributable cash(2) to the extent possible and has paid its expected minimum monthly cash distribution of $0.10 per Unit per month since inception. On May 24, 2006, the Trustees Authorized a 5% distribution increase to Unitholders. The monthly distributions increased from $0.10 per Unit to $0.105 per Unit beginning with the distribution paid in June 2006. This increased the estimated annualized distribution from $1.20 to $1.26. On May 23, 2007, the Trustees authorized a further 4.8% increase to the distributions to Unitholders. This increased the monthly distributions from $0.105 per Unit to $0.110 per Unit beginning with the distribution paid in June 2007. This increased the estimated annualized distribution from $1.26 to $1.32.

The payout ratio(2) of cash distributed to distributable cash(2) is intended to average 100% per annum. Since the Fund pays even monthly distributions when it's underlying cash flow from the Partnership is subject to seasonal fluctuations (as experienced by SIR), there are times during the year when the payout ratio may exceed 100%. For the 3–month and 9-month periods ended September 30, 2007, the payout ratio(2) was 95.6% and 96.2% respectively. For the 3-month and 9-month periods ended September 30, 2006, the payout ratio(2) was 95.9% and 94.0% respectively.

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)*	**3-month period ended Sept. 30, 2007 $**	**3-month period ended Sept. 30, 2006 $**	**9-month period ended Sept. 30, 2007 $**	**9-month period ended Sept. 30, 2006 $**
Cash provided by operating activities	1,768	1,687	5,169	4,928
Net income	1,850	1,760	4,521	5,244
Cash distributed for the period	1,768	1,687	5,169	4,928
Excess (shortfall) of cash provided by operating activities over cash distributed for the period(12)	**-**	**-**	**-**	**-**
Excess (shortfall) of net income over cash distributions paid(13)	**82**	**73**	**(648)**	**316**

There is a shortfall of net income compared to cash distributions paid of $0.6 million for the 9-month period ended September 30, 2007 as a result of the Fund recording a future income tax expense of $0.9 million in YTD 2007.

Balance Sheet

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

(in thousands of dollars) *(unaudited)*	**Sept. 30, 2007 $**	**June 30, 2007 $**	**Mar. 31, 2007 $**	**Dec. 31, 2006 $**	**Sept. 30, 2006 $**	**June 30, 2006 $**	**Mar. 31, 2006 $**	**Dec. 31, 2005 $**
Total assets	52,306	52,229	52,104	52,106	52,155	52,042	51,958	51,817
Unitholders' equity	51,334	51,252	52,025	51,982	52,028	51,955	51,826	51,712

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(2) See footnote (2) on page 5.

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

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

Results of Operations - Fund

The Fund's revenue of $1.9 million for the 3-month period ended September 30, 2007 ($1.9 million for the 3-month period ended September 30, 2006) is comprised of distribution income from the Partnership of $1.2 million ($1.1 million for the 3-month period ended September 30, 2006) and interest income of $0.8 million ($0.8 million for the 3-month period ended September 30, 2006). Revenue of $5.8 million for the 9-month period ended September 30, 2007 ($5.6 million for the 9-month period ended September 30, 2006) is comprised of distribution income from the Partnership of $3.5 million ($3.4 million for the 9-month period ended September 30, 2006) and interest income of $2.2 million ($2.2 million for the 9-month period ended September 30, 2006). Distribution income from the Partnership is the pro rata share of the residual distributions of the Partnership for the 3-month and 9-month periods ended September 30, 2007 and September 30, 2006. Interest income is interest earned for the 3-month and 9-month periods ended September 30, 2007 and September 30, 2006 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 and 9-month periods ended September 30, 2007, respectively ($0.1 million and $0.4 million for the 3 and 9-month periods ended September 30, 2006, respectively). These expenses include professional fees, directors' and officers' liability insurance premium, Trustees' fees, certain public company costs and other administrative fees.

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

Net earnings for the 3-month period ended September 30, 2007 were $1.8 million ($1.8 million for the 3-month period ended September 30, 2006) and were $4.5 million ($5.2 million for the 9-month period ended September 30, 2006). Earnings per Fund Unit on both a basic and diluted basis were $0.35 for the 3-month period ended September 30, 2007 ($0.33 per Fund Unit for the 3-month period ended September 30, 2006). Earnings per Fund Unit on both a basic and diluted basis were $0.84 for the 9-month period ended September 30, 2007 ($0.98 for the 9-month period ended September 30, 2006).

Pooled Revenue

The Fund is indirectly dependent on the amount of the Royalty paid by SIR to the Partnership. The amount of this Royalty is dependent on Pooled Revenue. Pooled Revenue is the revenue of the SIR Restaurants included in the Royalty Pooled Restaurants. As at September 30, 2007, there were 38 restaurants included in Pooled Revenue. Increases or decreases in Pooled Revenue are derived from same store revenue growth or decline, and new or closed SIR Restaurants subject to the SIR Rights. Pooled Revenue is affected by the risks associated with the operations and financial condition of SIR, the commercial foodservice industry generally and the casual and fine dining segment of the commercial foodservice industry in particular. The following table sets out Pooled Revenue for the 3 and 9-month periods ended September 30, 2007 and September 30, 2006:

Summary of Pooled Revenue

(in thousands of dollars except number of restaurants included in Pooled Revenue) (Unaudited)	3-month period ended Sept. 30, 2007		3-month period ended Sept. 30, 2006		9-month period ended Sept. 30, 2007		9-month period ended Sept. 30, 2006	
	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	25,512	22	24,086	22	73,601	22	72,316	23
Alice Fazooli's!	4,789	5	4,593	5	14,427	5	13,669	5
Canyon Creek	6,514	7	3,702	4	19,520	7	11,577	4
Signature	3,999	4	4,066	4	13,673	4	13,251	4
Total included in Pooled Revenue	40,814	38	36,447	35	121,221	38	110,813	36

Liquidity and Capital Resources

The Fund has no third party debt. SIR currently has the $40 million SIR Loan owed to the Fund (which SIR can surrender its Class C GP Units in the Partnership as consideration for principal payments under the loan), certain debt related to U.S. operations which is recorded on the consolidated financial statements of SIR and also a credit agreement with a Canadian Schedule 1 bank, a copy which has been filed on SEDAR. The bank debt is "permitted indebtedness" within the meaning of the agreements between the Fund, the Partnership and SIR, and as a result the Fund and the Partnership have, as contemplated in the existing agreements, subordinated and postponed their claims against SIR to the claims of the bank. This subordination, which includes a subordination of the Partnership's rights under the License and Royalty Agreement between the Partnership and SIR whereby the Partnership licenses to SIR the right to use trade-marks and related intellectual property in return for royalty payments based on revenues, has been effected pursuant to the terms of an Interlender Agreement, a copy of which has also been filed on SEDAR.

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

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

Under the Interlender Agreement, absent an event of default under the credit agreement, ordinary payments to the Partnership and the Fund can continue. However, if an event of default were to occur, then payments to the Fund and the Partnership could cease and the related rights of the Fund and the Partnership could be subject to a "standstill" obligation for a period of up to 120 days (which may be extended if the bank is pursuing remedies). The Interlender Agreement also contains various other typical covenants of the Fund and the Partnership.

The Fund does not have bank lines of credit. The Fund therefore relies on the payments of the distributions from the Partnership and interest income from SIR to meet its obligations to pay the distributions. The Fund believes that the distributions from the Partnership and interest payments will be sufficient to meet its current distribution intentions, subject to seasonal fluctuations. However, the actual amounts distributed will depend upon numerous factors, including the payment of the distributions from the Partnership and interest by SIR, and could fluctuate based on performance. The Fund intends, with the assistance of SIR, to maintain even distributions in order to reduce the effect of fluctuations in revenue and, if possible, allow the Fund to maintain consistent monthly distributions to Unitholders. Under the terms of the License and Royalty Agreement, SIR is required to pay the 6.0% Royalty to the Partnership 21 days after the end of the four-week period for which the Royalty is determined.

During the 3 and 9-month periods ended September 30, 2007, the Fund distributed $1.8 million and $5.2 million to Unitholders, respectively. Subsequent to September 30, 2007, distributions of $0.6 million ($0.11 per Unit) were declared and paid for the month of September 2007 and a distribution of $0.6 million ($0.11 per Unit) was declared for the month of October 2007.

The Fund did not have any capital expenditures in YTD 2007 and by its nature is not expected to have significant capital expenditures in the future. Capital expenditures related to the Royalty Pooled Restaurants are borne at the operating company (SIR) level. The Fund's operating and administrative expenses are expected to be fairly stable and predictable and are considered to be in the ordinary course of business.

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

While SIR is not owned by the Fund, the Fund's income is derived from interest income on the SIR Loan and distributions from the Partnership and accordingly, the Fund is economically dependent upon SIR. For information regarding SIR and its liquidity, SIR files its interim unaudited and annual consolidated financial statements and MD&A which, can be found on SEDAR under the Fund's listing named "Other". The most recent unaudited consolidated financial statements and MD&A for SIR's third quarter are listed having a filing date of June 20, 2007. The following table is an excerpt of the previous eight quarters of SIR's consolidated statement of cash flows information:

SIR's Selected Consolidated Statement of Cash Flows Information (14) *(in thousands of dollars) (unaudited)*	3rd Quarter Ended May 6, 2007 (12 weeks)	2nd Quarter Ended February 11, 2007 (12 weeks)	1st Quarter Ended November 19, 2006 (12 weeks)	4th Quarter Ended August 27, 2006 (16 weeks)	3rd Quarter Ended May 7, 2006 (12 weeks)	2nd Quarter Ended February 12, 2006 (12 weeks)	1st Quarter Ended November 20, 2005** (12 weeks)	4th Quarter Ended August 28, 2005 (16 weeks)
Net cash from (used in) continuing operations	457	3,087	136	2,400	1,420	2,388	(269)	24
Net cash used in continuing investing activities	(2,765)	(2,309)	(2,847)	(3,286)	(3,897)	(3,479)	(3,610)	(3,222)
Net cash from (used in) continuing financing activities	(39)	(122)	(642)	4,924	(86)	(80)	(84)	(126)
Increase (decrease) in cash and cash equivalents during the period	(1,953)	661	(3,357)	4,060	(2,548)	(1,498)	(4,055)	(3,990)
Cash and cash equivalents – Beginning of period	5,516	4,855	8,212	4,152	6,700	8,198	12,253	16,243
Cash and cash equivalents – End of period	3,563	5,516	4,855	8,212	4,152	6,700	8,198	12,253

*** Prior period balances reflect the reclassification of SIR's discontinued operation.*

Controls and Procedures

As at December 31, 2006, an evaluation was carried out under the supervision of and with the participation of the SIR GP Inc. management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the Fund's disclosure controls and procedures. Based on that evaluation, the CEO and the CFO concluded that, to their knowledge, the design and operation of these disclosure controls and procedures were effective as at December 31, 2006 to provide reasonable assurance that material information relating to the Fund and its consolidated subsidiaries would be made known to them by others within those entities.

An evaluation was carried out under the supervision of and with management, including the CEO and CFO, of internal controls over financial reporting as at December 31, 2006. Based on this evaluation, the CEO and the CFO have concluded that, internal controls over financial reporting have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with GAAP.

During the 3-month and 9-month periods ended September 30, 2007, there has been no material change in the design and operation of the disclosure controls and procedures and internal controls 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.

(14) Information presented is derived solely from documents filed with the Canadian securities regulatory authorities by SIR in its interim Q3 MD&A filed on June 20, 2007 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 3-month and 9-month periods ended September 30, 2007, the Fund earned distribution income of $1.2 million and $3.5 million, respectively, from the Partnership ($1.1 million and $3.4 million for the 3-month and 9-month periods ended September 30, 2006). The Fund, indirectly through the Trust, is entitled to receive a pro rata share of all residual distributions. The Fund's distribution income is dependent upon the revenue generated by the SIR Restaurants subject to the License and Royalty Agreement.

During the 3-month and 9-month periods ended September 30, 2007, the Fund earned interest income of $0.8 million and $2.2 million, respectively, from the SIR Loan ($0.8 million and $2.2 million for the 3-month and 9-month periods ended September 30, 2006). A description of the terms of the SIR Loan is included in the notes to the unaudited consolidated financial statements of the Fund for the 3-month and 9-month periods ended September 30, 2007 and September 30, 2006.

As at September 30, 2007, the Fund had amounts receivable from SIR of $0.2 million (December 31, 2006 - $0.2 million) and amounts receivable from the Partnership of $0.9 million (December 31, 2006 - $0.6 million). The amounts receivable from SIR consist mainly of interest owing to the Fund on the SIR Loan for the month of September. The amounts due from the Partnership represent distributions receivable of $2.0 million (December 31, 2006 - $1.4 million) partially offset by advances payable of $1.1 million (December 31, 2006 - $0.7 million). All advances were conducted as part of the normal course of business operations.

Critical Accounting Estimates

Management believes that there have been no substantial changes in the nature of the critical accounting estimates as described in the annual MD&A for the year ended December 31, 2006 except for the calculation of the future income tax liability. The Fund's investment in the Partnership has temporary differences between the accounting and tax basis, which gave rise to a future income tax liability. The Fund has estimated the temporary differences expected to reverse after January 1, 2011 and recorded an expense of $0.9 million in the YTD financial statements.

Changes in Accounting Policies, Including Initial Adoption

CICA Handbook Section 3855, Recognition and Measurement, prescribes when a financial asset, financial liability, or non-financial derivative is to be recognized on the balance sheet, and at what amount – in certain instances using fair value and in others using cost-based measures. It also specifies how financial instrument gains and losses are to be presented. Section 3855 applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. The Fund has adopted this standard effective January 1, 2007. The Fund has elected to classify its loan receivable as held to maturity and accordingly, it will be recorded at its amortized cost. The investment in the Partnership does not have a quoted market price in an active market and accordingly, will be accounted for at cost.

CICA Handbook Section 1530, Comprehensive Income and CICA Handbook Section 3865, Hedges were adopted by the Fund effective January 1, 2007. Adoption of these standards did not have an impact on the Fund's consolidated financial statements.

As a result of the substantive enactment of the legislation to tax certain publicly traded income trusts, the Fund has followed the asset and liability method to account for income taxes and has recorded a future income tax liability of $0.9 million related to the temporary differences in the Fund's investment in the Partnership.

Recently Issued Accounting Standards

CICA Handbook Section 1535, Capital Disclosures requires disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital and whether the entity has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance. This standard is effective for the Fund for interim and annual financial statements beginning on January 1, 2008. Management has not yet determined the impact of the adoption of this change on the disclosure in its financial statements.

CICA Handbook Section 3862, Financial Instruments - Disclosures, increases the disclosures currently required that will enable users to evaluate the significance of financial instruments for an entity's financial position and performance, including disclosures about fair value. In addition, disclosure is required of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about liquidity risk and market risk. The quantitative disclosures must also include a sensitivity analysis for each type of market risk to which an entity is exposed, showing how net income and other comprehensive income would have been affected by reasonably possible changes in the relevant risk variable. This standard is effective for the Fund for interim and annual financial statements beginning on January 1, 2008. Management has not yet determined the impact of the adoption of this change on the disclosure in its financial statements.

CICA Handbook Section 3863, Financial Instruments – Presentation, replaces the existing requirements on presentation of financial instruments which have been carried forward unchanged to this new section. This standard is effective for the Fund for interim and annual financial statements beginning on January 1, 2008. Management does not expect the adoption of this standard to have a material impact on presentation in its financial statements.

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

Financial Instruments and Other Instruments

The Fund's financial instruments consist of cash and cash equivalents, the SIR Loan, investment in the Partnership, accounts payable and accrued liabilities, and amounts due from related parties. Unless otherwise noted, it is Management's opinion that the Fund is not exposed to significant interest or credit risks arising from these financial instruments. Management estimates that the fair values of these financial instruments approximate their carrying values due to their short-term maturity except for the SIR Loan and the investment in the Partnership. The fair values of the SIR Loan and the investment in the Partnership could only be determined through a valuation of the individual assets. The aggregate fair value of the SIR Loan and the investment in the Partnership is approximately $49.0 million based on the market value of the Fund Units as of the close of business on September 28, 2007.

Disclosure of Outstanding Unit Data

The following summarizes the ownership structure of the Fund as at November 13, 2007 and September 30, 2007:

	November 13, 2007		**September 30, 2007**	
	Number of Units	**Amount $**	**Number of Units**	**Amount $**
Units issued	5,356,667	51,166,670	5,356,667	51,166,670

Risks and Uncertainties

The performance of the Fund is dependent upon distributions from the Partnership and indirectly the Royalty that the Partnership receives from SIR. The amount of the Royalty is dependent upon the revenue of the SIR Restaurants in the Royalty pool. Pooled Revenue is affected by the risks associated with the operations and financial condition of SIR, the commercial foodservice industry generally, and the casual and fine dining segment of the commercial foodservice industry in particular. The restaurant industry generally and, in particular, the casual and fine dining segment of the industry, is intensely competitive with respect to price, service, location, food quality and qualified staff. Competition has increased in the mid-price, full service, casual and fine dining sectors in which many of the SIR restaurants operate. If SIR is unable to successfully compete in the casual and fine dining sectors of the restaurant industry, Pooled Revenue may be adversely affected, the amount of the Royalty reduced and the ability of SIR to pay the Royalty may be impaired. Please refer to the prospectus dated October 1, 2004 and the March 30, 2007 Annual Information Form for further discussion on risks and uncertainties related to the Fund and SIR.

The income of the Fund must be computed and will be taxed in accordance with Canadian tax laws. There is no assurance that Canadian federal income tax laws respecting the treatment of trusts will not be changed in a manner which adversely affects Unitholders. On October 31, 2006, the Federal Department of Finance announced a plan that proposes changes to the manner in which distributions from certain publicly listed flow-through entities ("FTE's"), including income funds, are taxed. The proposed changes to the current legislation would have certain distributions of FTEs' income subject to tax at corporate income tax rates and investors in the FTE would be taxed as though the distributions were dividends. Existing Income Trusts would not be subject to this proposed taxation of distributions until the 2011 taxation year as long as the Fund meets the requirements for "normal growth". On December 15, 2006, the Federal Department of Finance released guidance provisioning the amount of growth that FTE's are permitted to experience without jeopardizing its deferral of these new proposed taxation rules. The 2011 date will hold for those FTE's whose equity capital growth does not exceed the greater of $50 million and the FTE's market capitalization as of the end of trading on October 31, 2006. The proposed legislation has since received a third reading and therefore is considered to be substantively enacted. As a result, the Fund recorded a future income tax expense of $0.9 million in YTD 2007.

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

Outlook

SIR has advised the Fund that it intends to continue to focus on growing existing restaurant revenues and expanding the number of SIR Restaurants subject to the SIR Rights in Canada. As part of that expansion plan, SIR has opened seven new restaurants since the Fund's Initial Public Offering. Two Jack Astor's restaurants (one on the corner of Front Street and University Avenue in downtown Toronto, Ontario and a second one in Whitby, Ontario) were opened in fiscal 2005. Three Canyon Creek restaurants (in Scarborough, Ontario, in Vaughan, Ontario, and at the Fallsview Casino Resort in Niagara Falls, Ontario) were opened in fiscal 2006. On March 26, 2007, the new Jack Astor's located in Hamilton, Ontario opened and on May 7, 2007, the new Jack Astor's located in Dartmouth, Nova Scotia opened. Subsequent to Q3, SIR opened an eighth new restaurant when the Jack Astor's in Burlington, Ontario opened on October 15, 2007.

On January 1, 2006, the two Jack Astor's locations that were opened in fiscal 2005 were added to SIR's Royalty Pooled Restaurants. In exchange for the additional Royalty stream from these new net restaurants, 438,820 Class B GP Units were converted to 438,820 Class A GP Units based on a formula defined in the Partnership Agreement. On May 27, 2006, the Jack Astor's in Don Mills, Ontario was closed. This location has been demolished by the landlord and is to be redeveloped into a major "lifestyle mall". It is expected that this project will be completed in the second half of 2008 and a new Jack Astor's restaurant would open in this location at that time. Under the terms of the License and Royalty Agreement, SIR was required to pay a Make-Whole Payment for this location from the date of the closure until December 31, 2006. On January 1, 2007, the three new Canyon Creek restaurants were added to SIR's Royalty Pooled Restaurants. In accordance with the License and Royalty Agreement, as consideration for the additional Royalty associated with the addition of these three new restaurants, SIR is able to convert its Class B GP Units into Class A GP Units. The number of Class B GP Units that were converted to Class A GP Units on January 1, 2007 was a result of the Second Incremental Adjustment for the two new restaurants added to the Royalty Pooled Restaurants on January 1, 2006, the three new restaurants that were added to the Royalty Pooled Restaurants on January 1, 2007, and an adjustment for the closure of one SIR Restaurant during 2006. The net effect of these adjustments to the Royalty Pooled Restaurants was that on January 1, 2007, 421,004 Class B GP Units of the Partnership were converted into 421,004 Class A GP Units of the Partnership. The three new Jack Astor's restaurants that opened in fiscal 2007, in Hamilton, Ontario, Dartmouth, Nova Scotia, and Burlington, Ontario are expected to be added to the Royalty Pooled Restaurants on January 1, 2008. These adjustments for new revenues that will be part of the Royalty pool are designed to be accretive for Fund Unitholders. With regards to the Jack Astor's restaurant that closed on September 29, 2007, and under the terms of the License and Royalty Agreement, SIR is required to pay a Make-Whole Payment to the Partnership from the date of closure until December 31, 2007 (Q3 includes a Make-Whole Payment for one day). On January 1, 2008, the number of Class B GP Units that SIR will be able to convert to Class A GP Units in exchange for the new restaurants added to the Royalty pool will be reduced for the closure of this Royalty Pooled Restaurant.

In December of each year, a Conversion Distribution will be payable to the Class B GP Unitholders based on actual revenues of the new SIR Restaurants exceeding 80% of the Initial Adjustment's estimated revenue at the time that the restaurants are added to SIR's Royalty Pooled Restaurants or there will be a reduction in the cash distributions to the Class A GP Unitholders if revenues are less than 80% of the Initial Adjustment's estimated revenue. The revenues of the two Jack Astor's restaurants added to SIR's Royalty Pooled Restaurants on January 1, 2006 exceeded the initial estimated amount and as a result, a Conversion Distribution of $0.23 million was declared in December 2006. This Conversion Distribution affects the net earnings, distributable cash(2) and the payout ratios(2) in Q4 of 2006. This distribution was paid in January 2007.

Following the successful renovations of the Alice Fazooli's! locations in Richmond Hill, Oakville, and Vaughan in fiscal 2005, SIR completed a renovation at the downtown location in February 2006 and at the Mississauga location in October 2006. This completes renovations at all five Alice Fazooli's! locations. SIR has experienced average revenue increases in excess of 10% over the prior year during the first year following their renovations of Alice Fazooli's! restaurants. During Q2 2007 and subsequent to Q3 2007, Alice Fazooli's! ran its first and second multiple station radio campaigns, which focus on the renovated restaurants' inviting atmosphere as well as the fresh and flavourful Italian food served at Alice Fazooli's!.

During Q2 of 2007, SIR completed a major renovation at the Canyon Creek restaurant located across from Sherway Gardens in Etobicoke, Ontario. Management is pleased with the results of the renovation. During Q3, Canyon Creek ran its first multiple station radio campaign, which focused on Canyon Creek's attention to details as well as its 10th anniversary. The radio advertisements aired on three major radio stations in the Greater Toronto Area.

During Q3, the Armadillo Texas Grill/the Loose Moose Tap & Grill was closed for 8 days for renovations. SIR now operates the entire space as the Loose Moose Tap & Grill. SIR's management expects that this change will contribute to higher revenues going forward. Renovations also took place subsequent to Q3 2007 at Soul of the Vine in order for SIR to introduce an innovative bakery concept, Petit Four Bakery. This new Bakery targets the lucrative catering and take-out markets in the downtown Toronto core. Petit Four Bakery replaced the take-out portion of Soul of the Vine. It is not being treated as a New Restaurant under the License and Royalty Agreement. The revenue of Petit Four Bakery was added to Pooled Revenue from the date of opening and SIR will not be converting any Class B GP Units into Class A GP Units of the Partnership in exchange for this additional revenue stream.

reds was closed for 11 days for major renovations during the Fund's third quarter of fiscal 2006 and management is pleased with the results of these renovations as well as reds' continued SSSG(1). Management expects to continue to focus on improving revenue and earnings in Brasserie Frisco.

Management believes that the Smoke-Free Ontario Act (effective May 30, 2006) has had a negative impact on bar sales in YTD 2007, especially in restaurants that previously had Designated Smoking Rooms. Management expects this to continue, but believes that the negative effect of this Smoke-Free Ontario Act will be mitigated over time as non-smoking guests replace smoking guests and smoking guests return. Management believes that the effect was lessened during the summer months when patios which allow smoking were open. Our initial results support the second premise as we begin to see our patio sales rebounding in the second and third quarters of 2007.

SIR has secured new sites for two new Jack Astor's restaurants and one Canyon Creek restaurant. One of these new sites is for a Jack Astor's restaurant at the corner of Dundas and Yonge Streets in Toronto, Ontario, which is expected to open in fiscal 2008. A site has been secured near the Toronto Pearson International Airport for a Jack Astor's and a Canyon Creek which are also expected to open in fiscal 2008. Provided that these restaurants open prior to November 1, 2008, they would be added to the Royalty pool on January 1, 2009.

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

(1) See footnote (1) on page 2.
(2) See footnote (2) on page5.

Forward Looking Information

Certain statements in this MD&A may constitute "forward-looking" statements which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Fund to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this document, such statements are such words as "may", "will", "expect", "believe", "plan", "anticipate", "intend", "estimate" and other similar terminology. These statements reflect SIR Management's current expectations regarding future events and operating performance and speak only as of the date of this document. The Fund and SIR expressly disclaim any obligation or undertaking to publicly release any updates or revisions to any forward-looking statements contained herein to reflect any change in expectations with regard thereto or any changes in events, conditions or circumstances on which any statement is based.

In formulating the forward-looking statements contained herein, management has assumed that business and economic conditions affecting SIR's restaurants and the Fund will continue substantially in the ordinary course, including without limitation with respect to industry conditions, general levels of economic activity (including in downtown Toronto), regulations (including those regarding employees, food safety, tobacco and alcohol), weather, taxes, foreign exchange rates and interest rates, that there will be no pandemics or other 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. In particular, in estimating the revenues for the three new Canyon Creek restaurants, management has assumed that they will operate consistent with other Canyon Creek restaurants. For more information concerning the Fund's risks and uncertainties, please refer to the October, 2004 prospectus and/or the March 30, 2007 Annual Information Form.

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