SIR ROYALTY INCOME FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2010

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(For the 12-month period ended December 31, 2010)

Executive Summary

Highlights for the 3-month period ended December 31, 2010 ("Q4") and the 12-month period ended December 31, 2010 ("YTD") for SIR Royalty Income Fund (the "Fund") includes:

- Net earnings of the Fund were $1.9 million and $7.4 million for Q4 and YTD 2010, respectively as compared to $1.8 million and $7.3 million for Q4 and YTD 2009, respectively. Net earnings per Fund Unit were $0.35 and $1.38 for Q4 and YTD 2010, respectively and were $0.34 and $1.35 for Q4 and YTD 2009, respectively.
- Distributable cash(1) per Fund Unit, both on a basic and diluted basis was $0.35 and $0.32 for Q4 2010 and Q4 2009, respectively and was $1.38 and $1.33 for YTD 2010 and YTD 2009, respectively.
- The payout ratio(1) decreased from 108.3% and 103.6% in Q4 2009 and YTD 2009, respectively to 98.4% and 100.1% in Q4 2010 and YTD 2010, respectively. The payout ratio since the Fund's inception, up to and including Q4 2010, is 98.7%.
- Pooled Revenue increased by 1.2% in Q4 2010 to $51.1 million, from $50.5 million in Q4 2009. YTD Pooled Revenue increased 2.8% to $199.6 million from $194.1 million in the same period last year.
- The same store sales growth(2) ("SSSG") for the Royalty Pooled Restaurants was 1.2% for Q4 2010 and 2.8% for YTD 2010.
- Jack Astor's®, which accounts for approximately 69% of Pooled Revenue experienced SSSG(2) of 1.8% and 3.2% in Q4 2010 and YTD 2010, respectively. Canyon Creek® had SSSG(2) of 0.7% and 0.5% in Q4 2010 and YTD 2010, respectively. Alice Fazooli's® had a decline in SSS(2) of 3.9% in Q4 2010 but still experienced SSSG(2) of 1.3% in YTD 2010. Signature Restaurants had SSSG(2) of 3.3% for Q4 2010 and 5.8% for YTD 2010.
- During Q4 2010, SIR Corp. ("SIR") opened a new Jack Astor's restaurant in Boisbriand, Quebec, on October 25, 2010.
- On January 1, 2009, five Jack Astor's restaurants and one Canyon Creek restaurant were added to Royalty Pooled Restaurants. The revenues of these six restaurants exceeded 80% of their initial estimated revenue and as a result, an additional distribution of $0.3 million was declared in December 2009 and paid in January 2010 and on January 1, 2010, SIR converted 243,909 Class B GP Units into 243,909 Class A GP Units. No new restaurants were added to Royalty Pooled Restaurants effective January 1, 2010. Subsequent to December 31, 2010 on January 1, 2011, one new Jack Astor's restaurant that opened during Q4 2010 was added to Royalty Pooled Restaurants. SIR converted 137,190 Class B GP Units into 137,190 Class A GP Units.
- SIR has secured 3 additional sites for 4 new restaurants with expected openings for 1 restaurant in 2011, 1 restaurant in 2012 and the other 2 restaurants in 2013.
- Certain legislative changes to the tax treatment of income trusts, effective January 1, 2011 are applicable to the taxable income of the Fund in 2011. The tax applies to the Fund at the estimated prevailing corporate tax rate of approximately 28.25% for 2011 and as a result, cash available for the Fund to distribute to Unitholders is effectively reduced by that amount. Consequently, the Fund has reduced its distributions from its previous level of $0.115 per Unit per month to $0.083 per Unit per month commencing with its January 2011 distribution that was declared in February 2011.
- 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 unaudited consolidated financial statements and MD&A are listed having a filing date of March 30, 2011.

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

(2) *Same store sales ("SSS") and same store sales growth ("SSSG") are non-GAAP financial measures that do not have standardized meanings prescribed by GAAP. However, the Fund believes that SSS and SSSG are useful measures and provide investors with an indication of the change in year-over-year sales. The Fund's method of calculating SSS and SSSG may differ from those of other issuers and, accordingly, SSS and SSSG may not be comparable to measures used by other issuers. SSS includes revenue from all SIR Restaurants included in Pooled Revenue. The US restaurant is not part of SSS.*

Same Store Sales[2] ("SSS")

(unaudited)

SIR reported to the Fund that SSSG[2] was 1.2% for Q4 2010 and 2.8% for YTD 2010 (please see the table below). Management believes that the current economic conditions and uncertainties are still having some effect on SIR's revenue. The Canadian Restaurant and Foodservices Association ("CRFA"), in its 2011 – 2015 Long Term Foodservice Forecast is forecasting that sales in 2011, in the full service restaurant industry, will have a modest increase. However, SIR remains cautious and continues to monitor the economy and consumer confidence as its sales have not yet achieved its pre-recession levels.

SSSG[2] by operating segment are summarized in the following table.

SSSG[2] for the Royalty Pooled Restaurants	3-month period ended December 31, 2010	12-month period ended December 31, 2010
Jack Astor's	1.8%	3.2%
Canyon Creek	0.7%	0.5%
Alice Fazooli's	(3.9)%	1.3%
Signature Restaurants	3.3%	5.8%
Overall SSSG[2]	**1.2%**	**2.8%**

The closure of the Alice Fazooli's restaurant located in Richmond Hill, Ontario for renovations contributed to the decline in SSS[2] in Q4 2010. SIR continues to focus on sustaining and growing restaurant sales and profits while managing costs in light of the economic conditions in Canada.

Restaurant Renovations

During Q3 2010, SIR completed renovations at its Jack Astor's restaurants in Brampton, Ontario and at the Wellington Road South location in London, Ontario. In Q4 2010, the Alice Fazooli's location in Richmond Hill, Ontario was closed for 11 days for a renovation. SIR's Management is committed to maximizing the performance of all of its restaurants.

New and Closed Restaurants

The six new restaurants that were opened during fiscal 2008 were added to Royalty Pooled Restaurants effective January 1, 2009 as New Additional Restaurants. No new restaurants were opened or existing restaurants were closed in 2009 and as such, no new restaurants were added or removed from Royalty Pooled Restaurants on January 1, 2010.

During Q4 2010, SIR opened a Jack Astor's in Boisbriand, Quebec on October 25, 2010. This restaurant was added to the Royalty Pooled Restaurants on January 1, 2011 as a New Additional Restaurant.

SIR has secured sites for four new restaurants. It is expected that there will be a new Jack Astor's restaurant opening in London, Ontario during fiscal 2011 and in Pickering, Ontario during fiscal 2012, and two new restaurants opening at the corner of Yonge and Gerrard Streets in Toronto, Ontario in fiscal 2013.

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.

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(1) *See footnote (1) on page 3*

(2) *See footnote (2) on page 3*

The Fund intends to make monthly distributions of its available distributable cash(1) to the extent possible. During the quarter, monthly distributions of $0.6 million or $0.115 per Unit were declared and paid in the months of October, November, and December 2010. Subsequent to December 31, 2010, a distribution of $0.115 per Unit was declared and paid in the month of January 2011. Starting on January 1, 2011, the Fund is taxed at the estimated prevailing corporate tax rate of approximately 28.25% for 2011 and as a result, the Fund reduced its distributions from its previous level of $0.115 per Unit per month by approximately 28.25% commencing with its January distribution. Therefore, a distribution of $0.083 per Unit was declared and paid in each of February and March of 2011.

From its inception up to and including the distribution paid in January 2011, the Fund has paid its expected monthly cash distribution of at least $0.10 per Unit per month, or more. The annualized distribution for 2010 was $1.38 per Unit. Beginning with its distribution paid in February 2011, the Fund reduced its distribution to reflect the changes in the tax legislation. Please refer to the chart on page 10 for a summary of monthly distributions since inception.

The payout ratio(1) of cash distributed to distributable cash(1) is intended to average 100% per annum over the longer term. Since the Fund pays even monthly distributions when its underlying cash flow from the Partnership is subject to seasonal fluctuations (as experienced by SIR), there are times during the year when the payout ratio(1) may exceed or could be lower than 100%. The payout ratio(1) in Q4 2010 was 98.4% compared to 108.3% in Q4 2009 and was 100.1% in YTD 2010 as compared to 103.6% in YTD 2009. The payout ratio since the Fund's inception up to and including Q4 2010 is 98.7%.

Overview and Business of the Fund

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

The Units of the Fund are publicly traded on the Toronto Stock Exchange under the symbol SRV.UN.

Overview and Business of SIR and the Partnership

SIR is a private company amalgamated under the Business Corporations Act of Ontario. As at December 31, 2010, SIR operated 46 Concept Restaurants and Signature Restaurants in Canada (in Ontario, Quebec, Alberta and Nova Scotia). During Q4 2010, on October 25, 2010, SIR opened a new Jack Astor's restaurant in Boisbriand, Quebec. 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*®, Far Niente®/Petit Four™ and FOUR®, and the Loose Moose Tap & Grill®. On January 1, 2009, the five new Jack Astor's restaurants and one new Canyon Creek restaurant that opened in 2008 were added to Royalty Pooled Restaurants. No restaurants were opened during 2009 and as a result, no restaurants were added to Royalty Pooled Restaurants on January 1, 2010. As at December 31, 2010, 45 SIR Restaurants were included in Royalty Pooled Restaurants. The new restaurant that opened on October 25, 2010 was added to Royalty Pooled Restaurants on January 1, 2011. During Q2 2009, SIR acquired the non-controlling interest in Jack Astor's Don Mills Limited and therefore now owns 100% of its Canadian restaurants.

SIR also owns one Jack Astor's restaurant in the U.S., which is not included in 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 Royalty Pooled Restaurants. The Partnership also issued its own securities to SIR in return for the SIR Rights acquired.

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(1) See footnote (1) on page 3

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.

On January 1, 2011, one (January 1, 2010 - nil) new SIR Restaurant was added to Royalty Pooled Restaurants in accordance with the Partnership Agreement. As consideration for the additional Royalty associated with the addition of one (January 1, 2010 – nil) new restaurant on January 1, 2011, as well as the Second Incremental Adjustment for the nil (January 1, 2009 – six) new SIR Restaurants added to Royalty Pooled Restaurants on January 1, 2010, 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 nil (January 1, 2010 – nil) SIR Restaurants during the prior year. The net effect of these adjustments to Royalty Pooled Restaurants was that SIR converted 137,190 (January 1, 2010 – 243,909) Class B GP Units into 137,190 (January 1, 2010 – 243,909) Class A GP Units on January 1, 2011 at an estimated fair value of $1.4 million (January 1, 2010 - $1.2 million).

As a result of not adding any new SIR Restaurants to Royalty Pooled Restaurants on January 1, 2010, no additional distribution was declared in December 2010 nor was there a Second Incremental Adjustment on January 1, 2011. In December 2009, an additional distribution of $0.3 million was declared and paid in cash in January 2010.

As at January 1, 2011, SIR retained a 36.7% (January 1, 2010 – 35.7%) interest in the Partnership as the holder of the 3,106,514 (January 1, 2010 – 2,969,324) 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 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 closed restaurants after such date by SIR, depending upon the circumstances.

SIR's fiscal year is comprised of 13 periods of four weeks each, ending on the last Sunday in August. To preserve this year-end, an additional week must be added approximately every five years. Fiscal quarters of SIR consist of accounting periods of 12, 12, 12 and 16 (or 17) weeks. SIR's fiscal 2009 and 2010 years each consisted 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 audited consolidated financial statements of the Fund are presented in Canadian dollars, are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and include the accounts of the Fund and its subsidiaries, namely the Trust and SIR GP Inc. The information in this Management's Discussion and Analysis should be read in conjunction with the annual 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 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)	**12-month period ended December 31, 2010**	**12-month period ended December 31, 2009**
Royalty Pooled Restaurants	45	45
Pooled Revenue generated by SIR	199,647	194,143
6% of Pooled Revenue	11,979	11,649
Partnership other income	28	27
Partnership expenses	(116)	(116)
Partnership earnings	11,891	11,560
SIR's interest (Class A, B and C GP Units)	(7,092)	(6,967)
Partnership income allocated to Fund(3)	4,799	4,593
Interest income(4)	3,000	3,000
Total income of the Fund	7,799	7,593
General & administrative expenses	(416)	(458)
Net earnings before income taxes of the fund	7,383	7,135
Recovery of future income taxes	-	121
Net earnings for the period	7,383	7,256
Basic earnings per Fund Unit (5,356,667 Units)	$1.38	$1.35
Diluted earnings per Fund Unit (2010 – 8,325,991; 2009 – 8,082,082 Units)(5)	$1.38	$1.35

For the 12-month period from January 1, 2010 to December 31, 2010, the Fund declared and paid a distribution of $0.115 per Unit for each month. Subsequent to December 31, 2010, the Fund declared and paid a distribution of $0.115 per Unit in January 2011 and a distribution of $0.083 per Unit in each of the months of February and March 2011.

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(3) On October 12, 2004, the Fund, indirectly through the Trust, acquired all of the Ordinary LP Units of the Partnership. The holders of the Ordinary LP Units and Class A GP Units are entitled to receive a pro rata share of all residual distributions of the Partnership.

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

(5) Diluted earnings per Fund Unit for 2010 is calculated as follows: Net earnings for the period plus the distributions related to the Class A GP Units plus (less) future income tax recovery (expense), which together total $11.5 million for the 12-month period ended December 31, 2010, divided by the weighted average number of Fund Units outstanding of 8,325,991 Units. The weighted average number of Fund Units outstanding represents Fund Units of 5,356,667 plus the convertible Class A GP Units of 2,969,324. Diluted earnings per Fund Unit for 2009 is calculated as follows: net earnings for the period plus the distributions related to the Class A GP Units plus (less) future income tax recovery (expense), which together totaled $10.9 million for the 12-month period ended December 31, 2009, divided by the weighted average number of Fund Units outstanding of 8,082,082 Units. The weighted average number of Fund Units outstanding represents Fund Units of 5,356,667 plus the convertible Class A GP Units of 2,725,415.

Summary of Quarterly Financial Information

(in thousands of dollars except restaurants and per Unit amounts) (unaudited)	**3-month period ended**							
	December 31, 2010	**September 30, 2010**	**June 30, 2010**	**March 31, 2010**	**December 31, 2009**	**September 30, 2009**	**June 30, 2009**	**March 31, 2009**
Royalty Pooled Restaurants	45	45	45	45	45	45	45	45
Pooled Revenue generated by SIR	51,073	49,970	51,064	47,540	50,485	48,539	49,627	45,492
6% of Pooled Revenue	3,065	2,998	3,064	2,852	3,030	2,912	2,977	2,730
Partnership other income	9	7	6	6	6	6	6	9
Partnership expenses	(35)	(32)	(19)	(30)	(12)	(31)	(27)	(46)
Partnership earnings	3,039	2,973	3,051	2,828	3,024	2,887	2,956	2,693
SIR's interest (Class A, B and C GP Units)	(1,790)	(1,780)	(1,791)	(1,731)	(1,955)	(1,682)	(1,715)	(1,615)
Partnership income allocated to Fund(3)	1,249	1,193	1,260	1,097	1,069	1,205	1,241	1,078
Interest income(4)	750	750	750	750	750	750	750	750
Total income of the Fund	1,999	1,943	2,010	1,847	1,819	1,955	1,991	1,828
General & administrative expenses	(120)	(85)	(133)	(78)	(111)	(123)	(96)	(128)
Net earnings before income taxes of the Fund	1,879	1,858	1,877	1,769	1,708	1,832	1,895	1,700
Recovery of future income taxes	-	-	-	-	121	-	-	-
Net earnings for the period	1,879	1,858	1,877	1,769	1,829	1,832	1,895	1,700
Basic earnings per Fund Unit (5,356,667 Units)	$0.35	$0.35	$0.35	$0.33	$0.34	$0.34	$0.35	$0.32
Diluted earnings per Fund Unit (2010 – 8,325,991 Units, 2009 – 8,082,082 Units(6)	$0.35	$0.35	$0.35	$0.33	$0.34	$0.34	$0.35	$0.32

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(3) See footnote (3) on page 7

(4) See footnote (4) on page 7

(6) Diluted earnings per Fund Unit for 2010 is calculated as follows: Net earnings for the period plus the distributions related to the Class A GP Units plus (less) future income tax recovery (expense), which together total $2.9 million, $2.9 million, $2.9 million and $2.7 million for the 3-month periods ended December 31, 2010, September 30, 2010, June 30, 2010 and March 31, 2010, respectively, divided by the weighted average number of Fund Units outstanding of 8,325,991 Units. The weighted average number of Fund Units outstanding represents Fund Units of 5,356,667 plus the convertible Class A GP Units of 2,969,324. Diluted earnings per Fund Unit for 2009 is calculated as follows: net earnings for the period plus the distributions related to the Class A GP Units plus (less) future income tax recovery (expense), which together totaled $2.7 million, $2.8 million, $2.8 million and $2.6 million for the 3-month periods ended December 31, 2009, September 30, 2009, June 30, 2009, and March 31, 2009, respectively, divided by the weighted average number of Fund Units outstanding of 8,082,082 Units. The weighted average number of Fund Units outstanding represents Fund Units of 5,356,667 plus the convertible Class A GP Units of 2,725,415.

Distributable Cash(1)

(in thousands of dollars except per Unit amounts and payout ratio(1)) *(unaudited)*	12-month period ended December 31, 2010	12-month period ended December 31, 2009
Cash provided by operating activities	7,392	7,392
Add/(deduct): Net change in non-cash working capital items(7)	(9)	(257)
Distributable cash(1)	**7,383**	**7,135**
Cash distributed for the period	**7,392**	**7,392**
Surplus/(shortfall) of distributable cash(1)	**(9)**	**(257)**
Payout ratio(1)(8)	100.1%	103.6%
Distributable cash(1) per Fund Unit basic (5,356,667 Units)	$1.38	$1.33
Distributable cash(1) per Fund Unit diluted (2010 – 8,325,991 Units; 2009 – 8,082,082 Units)(9)	$1.38	$1.33

Distributable Cash(1)

(in thousands of dollars except per Unit amounts and payout ratio(1)) *(unaudited)*	3-month periods ended December 31, 2010	September 30, 2010	June 30, 2010	March 31, 2010	December 31, 2009	September 30, 2009	June 30, 2009	March 31, 2009
Cash provided by operating activities	1,848	1,848	1,848	1,848	1,848	1,848	1,848	1,848
Add/(deduct): Net change in non-cash working capital items(7)	31	10	29	(79)	(141)	(16)	48	(148)
Distributable cash(1)	**1,879**	**1,858**	**1,877**	**1,769**	**1,707**	**1,832**	**1,896**	**1,700**
Cash distributed for the period	**1,848**	**1,848**	**1,848**	**1,848**	**1,848**	**1,848**	**1,848**	**1,848**
Surplus/(shortfall) of distributable cash(1)	**31**	**10**	**29**	**(79)**	**(141)**	**(16)**	**48**	**(148)**
Payout ratio(1)(8)	98.4%	99.5%	98.4%	104.5%	108.3%(11)	100.9%	97.5%	108.7%
Distributable cash(1) per Fund Unit basic (5,356,667 Units)	$0.35	$0.35	$0.35	$0.33	$0.32	$0.34	$0.35	$0.32
Distributable cash(1) per Fund Unit diluted (2010 – 8,325,991 Units; 2009 – 8,082,082 Units)(10)	$0.35	$0.35	$0.35	$0.33	$0.32	$0.34	$0.35	$0.32

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(1) *See footnote (1) on page 3*

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

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

(9) *Diluted distributable cash per Fund Unit for the 12-month periods ended December 31, 2010 and December 31, 2009 are calculated as follows: Distributable cash for the period plus the distributions related to the Class A GP Units, which together total $11.5 million (2009 - $10.8 million), divided by the weighted average number of Fund Units outstanding of 8,325,991 (2009 - 8,082,082) Units. The weighted average number of Fund Units outstanding represents Fund Units of 5,356,667 (2009 – 5,356,667) plus the convertible Class A GP Units of 2,969,324 (2009 – 2,725,415).*

(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 $2.9 million, $2.9 million, $2.9 million and $2.7 million for the 3-month periods ended December 31, 2010, September 30, 2010, June 30, 2010 and March 31, 2010, respectively, divided by the weighted average number of fund Units outstanding of 8,325,991 Units. The weighted average number of Fund Units outstanding represents Fund Units of 5,356,667 plus the convertible Class A GP Units of 2,969,324. Distributable cash per Fund Unit for 2009 is as follows: distributable cash for the period plus the distributions related to the Class A GP Units, which together total $2.6 million, $2.8 million, $2.8 million and $2.6 million for the 3-month periods ended December 31, 2009, September 30, 2009, June 30, 2009, and March 31, 2009 respectively, divided by the weighted average number of Fund Units outstanding of 8,082,082 Units. The weighted average number of Fund Units outstanding represents Fund Units of 5,356,667 plus the convertible Class A GP Units of 2,725,415.*

(11) *The payout ratio for the fourth quarter of 2009 was affected by the $0.3 million Priority Special Conversion Distribution paid by the Partnership. This distribution was paid on the Class B GP Units that were converted to Class A GP Units, effective January 1, 2009 related to the Second Incremental Adjustment for the restaurants added to Royalty Pooled Restaurants effective January 1, 2009. There was no Priority Special Conversion Distribution paid by the Partnership in the fourth quarter of 2010 as no new SIR Restaurants were added to Royalty Pooled Restaurants on January 1, 2010.*

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.

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 date	$0.083

The distributions, starting with the January 2011 distribution (declared and paid in February 2011), will be reduced for the impact of income taxes, which took effect for the fund, starting January 1, 2011. The distribution is anticipated to be $0.083 per Unit per month with the estimated annualized distribution being $0.996 per Unit.

The payout ratio[1] of cash distributed to distributable cash[1] is intended to average 100% per annum. Since the Fund pays even monthly distributions when it's underlying cash flow from the Partnership is subject to seasonal fluctuations (as experienced by SIR), there are times during the year when the payout ratio may exceed or be lower than 100%. For Q4 2010 and YTD 2010, the payout ratio[1] was 98.4% and 100.1%, respectively. For Q4 2009 and YTD 2009, the payout ratio[1] was 108.3% and 103.6%, respectively. The payout ratio since the Fund's inception up to and including Q4 2010 is 98.7%. 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:

	12-month period ended December 31, 2010	12-month period ended December 31, 2009
Cash provided by operating activities	7,392	7,392
Net earnings for the period	7,383	7,256
Cash distributed for the period	7,392	7,392
Excess (shortfall) of cash provided by operating activities over cash distributed for the period[12]	**-**	**-**
Excess (shortfall) of net earnings for the period over cash distributions paid[13]	**(9)**	**(136)**

Balance Sheet

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

(in thousands of dollars) (unaudited)	December 31, 2010	September 30, 2010	June 30, 2010	March 31, 2010	December 31, 2009	September 30, 2009	June 30, 2009	March 31, 2009
Total assets	52,429	52,308	52,280	52,254	52,383	52,550	52,730	52,505
Unitholders' equity	51,580	51,549	51,540	51,510	51,590	51,610	51,626	51,578

(1) See footnote (1) on page 3

(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 earnings for the period over cash distributions paid is calculated by subtracting cash distributed for the period from net earnings for the period.

Results of Operations - Fund

The Fund's revenue of $2.0 million for the 3-month period ended December 31, 2010 ($1.8 million for the 3-month period ended December 31, 2009) is comprised of distribution income from the Partnership of $1.2 million ($1.0 million for the 3-month period ended December 31, 2009) and interest income of $0.8 million ($0.8 million for the 3-month period ended December 31, 2009). Revenue of $7.8 million for the 12-month period ended December 31, 2010 ($7.6 million for the 12-month period ended December 31, 2009) is comprised of distribution income from the Partnership of $4.8 million ($4.6 million for the 12-month period ended December 31, 2009) and interest income of $3.0 million ($3.0 million for the 12-month period ended December 31, 2009). Distribution 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, 2010 and December 31, 2009. Interest income is interest earned for the 3-month and 12-month periods ended December 31, 2010 and December 31, 2009 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, 2010, respectively ($0.1 million and $0.5 million for the 3-month and 12-month periods ended December 31, 2009, respectively). These expenses include professional fees, directors' and officers' liability insurance premiums, Trustees' fees, certain public company costs and other administrative fees.

Net earnings were $1.9 million and $7.4 million for the 3-month and 12-month periods ended December 31, 2010, respectively ($1.8 million and $7.3 million for the 3-month and 12-month periods ended December 31, 2009, respectively). Earnings per Fund Unit on both a basic and diluted basis were $0.35 and $1.38 for the 3-month and 12-month periods ended December 31, 2010, respectively ($0.34 and $1.35 for the 3-month and 12-month periods ended December 31, 2009, 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, 2010, there were 45 restaurants included in Pooled Revenue. Increases or decreases in Pooled Revenue are derived from SSS[(2)] growth or decline, and new or closed SIR Restaurants subject to the SIR Rights. Pooled Revenue is affected by the risks associated with the operations and financial condition of SIR, the commercial foodservice industry generally and the casual and fine dining segment of the commercial foodservice industry in particular. The following table sets out Pooled Revenue for the 3-month and 12-month periods ended December 31, 2010 and December 31, 2009:

Summary of Pooled Revenue

(in thousands of dollars except number of restaurants included in Pooled Revenue) (Unaudited)	3-month period ended December 31, 2010		3-month period ended December 31, 2009		12-month period ended December 31, 2010		12-month period ended December 31, 2009	
	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	33,977	29	33,388	29	137,582	29	133,298	29
Canyon Creek	7,969	8	7,913	8	27,843	8	27,709	8
Alice Fazooli's	4,797	5	4,991	5	19,039	5	18,785	5
Signature	4,330	3	4,193	3	15,183	3	14,351	3
Total included in Pooled Revenue	51,073	45	50,485	45	199,647	45	194,143	45

(2) See footnote (2) on page 3

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 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 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 Subordination and Postponement Agreement, a copy of which has also been filed on SEDAR.

On November 13, 2009, SIR announced that it entered into a $26.0 million new senior term debt facility ("Credit Agreement"). Part of the proceeds from this Credit Agreement was used to repay $12.7 million outstanding on SIR's previous credit facility. The remaining proceeds, as well as a portion of existing cash on hand, were used to repurchase 5,407,000 common shares of SIR from one shareholder of SIR, to acquire the rights to certain debts owed by U.S. S.I.R. L.L.C. from one shareholder of SIR and to pay professional fees and transaction costs related to these transactions. This facility has a 3 year term and a 10 year amortization. Interest is calculated as the greater of 7.80% per annum and the three-month Canadian dollar bankers' acceptance rate ("BA Rate") plus 7.55% per annum, which on February 13, 2011 totalled 8.76%. Certain financial covenants apply to SIR. 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 did not guarantee the Credit Agreement. The Credit Agreement qualifies as "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 agreed to subordinate and postpone their claims against SIR to the claims of the new lender. The terms of this subordination are as contemplated in the existing agreements between the Fund, the Partnership and SIR. 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, is anticipated to be effected pursuant to the terms of a Subordination and Postponement Agreement.

Under the Subordination and Postponement Agreement, absent a default or event of default under the Credit Agreement, ordinary payments to the Partnership and the Fund could continue. However, if a default or 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 lender is pursuing remedies). The Subordination and Postponement Agreement also contains various other typical covenants of the Fund and the Partnership. In addition, SIR provided an undertaking to 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).

While SIR's new debt is significantly greater in amount and at a higher interest rate, SIR believes and has advised the Fund that it expects to be able to comply with the covenants under the new debt and service the new 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 February 13, 2011.

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, 2010, the Fund distributed $1.8 million and $7.4 million, respectively to Unitholders. Subsequent to December 31, 2010, a distribution of $0.6 million ($0.115 per Unit) was declared and paid in the month of January 2011 and distributions of $0.4 million ($0.083 per Unit) was declared and paid in each of the months of February 2011 and March 2011.

The Fund did not have any capital expenditures in Q4 2010 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 distributions paid in February and March 2011 for the near future. However, should the distributions from the Partnership decline, 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 30, 2011. 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 (14)	2nd Quarter Ended February 13, 2011 (12 weeks)	1st Quarter Ended November 21, 2010 (12 weeks)	4th Quarter Ended August 29, 2010 (16 weeks)	3rd Quarter Ended May 9, 2010 (12 weeks)	2nd Quarter Ended February 14, 2010 (12 weeks)	1st Quarter Ended November 22, 2009 (12 weeks)	4th Quarter Ended August 30, 2009* (16 weeks)	3rd Quarter Ended May 10, 2009* (12 weeks)
				(in thousands of dollars) (unaudited)				
Net cash provided by (used in) operations	730	(1,843)	4,719	1,617	732	2,903	3,838	3,385
Net cash used in investing activities	(1,366)	(1,689)	(1,284)	(290)	(215)	(418)	(339)	(999)
Net cash used in financing activities	(473)	(479)	(717)	(540)	(830)	(4,240)	(241)	(177)
Increase (decrease) in cash and cash equivalents during the period	(1,110)	(4,012)	2,718	787	(314)	(1,756)	3,256	2,201
Cash and cash equivalents – Beginning of period	5,606	9,618	6,900	6,113	6,427	8,183	4,927	2,726
Cash and cash equivalents – End of period	4,496	5,606	9,618	6,900	6,113	6,427	8,183	4,927

** Prior period balances reflect the retroactive application of the change in accounting policy for goodwill and intangible assets as described in SIR Corp.'s notes to the consolidated financial statements for the 52-week period ended August 29, 2010. The capitalization of pre-opening costs is no longer permitted and therefore these costs are now reflected as an expense in the statements of operations and the related amortization has been removed. In addition, certain computer software costs have been reclassified from property and equipment to intangible and other assets.*

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.

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(14) Information presented is derived solely from documents filed with the Canadian securities regulatory authorities by SIR in its interim Q2 MD&A filed on March 30, 2011 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.

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, 2010 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, 2010.

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 Canadian generally accepted accounting principles (GAAP) 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 Canadian GAAP, 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, 2010 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, 2010.

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, 2010 and ending December 31, 2010, 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, 2010, the Fund earned distribution income of $1.2 million and $4.8 million, respectively from the Partnership (for the 3-month and 12-month periods ended December 31, 2009 – $1.0 million and $4.6 million, respectively). 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 12-month periods ended December 31, 2010, the Fund earned interest income of $0.8 million and $3.0 million, respectively from the SIR Loan (for the 3-month and 12-month periods ended December 31, 2009 – $0.8 million and $3.0 million, respectively). A description of the terms of the SIR Loan is included in the notes to the audited consolidated financial statements of the Fund for the years ended December 31, 2010 and December 31, 2009.

As at December 31, 2010, the Fund had amounts receivable from SIR of $0.2 million (December 31, 2009 - $0.2 million) and amounts receivable from the Partnership of $1.1 million (December 31, 2009 - $1.0 million). The amounts receivable from SIR consist mainly of interest owing to the Fund on the SIR Loan for the month of December. The amounts due from the Partnership represent distributions receivable of $2.7 million (December 31, 2009 - $2.6 million) partially offset by advances payable of $1.7 million (December 31, 2009 - $1.6 million). All advances were conducted as part of the normal course of business operations.

Critical Accounting Estimates

Income taxes

The Fund is a Unit Trust for income tax purposes. As such, the Fund is currently only taxable on income not distributed to Unitholders. As substantially all taxable income is intended to be allocated to Unitholders, no provision for current income taxes has been made for earnings of the Fund. Beginning on January 1, 2011, the Fund is taxed in a manner similar to income earned by (and distributions made by) a corporation and investors in the Fund will be taxed as though the distributions from the Fund are dividends. The Fund accounts for income taxes using the asset and liability method whereby future income tax assets are recognized for deductible temporary differences and future income tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the amounts of assets and liabilities recorded for income tax and financial reporting purposes. Future income tax assets are recognized only to the extent that management determines that it is more likely than not that the future income tax assets will be realized. Future income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment or substantive enactment.

Investment in Partnership and loan receivable

The investment in the Partnership is recorded at cost and written down to its estimated realizable amount when there is evidence of impairment. Investment income is recorded to the extent of distributions declared by the Partnership. The loan receivable from SIR is reviewed for impairment. If impairment were identified, the loan would be reduced to its estimated recoverable amount measured by expected future cash flows. The accrual of interest would be suspended if collections become doubtful. This review includes a review of the earnings, cash flow, and available cash of SIR on a prospective basis within the expected range of outcomes anticipated by SIR Management. The distributions from the Partnership and interest payments are both funded from the operations of SIR, so the review must conclude that SIR's operations would be able to support its Royalty obligations in the short and long term to support the value of the SIR Loan and the investment in the Partnership. Management believes that there is no impairment of the investment or loan receivable at December 31, 2010 and December 31, 2009.

Changes in Accounting Policies, Including Initial Adoption

There were no changes in accounting policies having an impact on the disclosures in the Fund's consolidated financial statements. Effective January 1, 2011, the Fund adopted International Financial Reporting Standards ("IFRS"), please see the discussion below in the Recently Issued Accounting Standards section.

Recently Issued Accounting Standards

The CICA, in collaboration with the International Accounting Standards Board ("IASB"), has converged Canadian Generally Accepted Accounting Principles ("GAAP") with IFRS for all publicly accountable enterprises over a transition period ending in 2011. At this date, publicly accountable enterprises are required to prepare financial statements in accordance with IFRS.

The Fund has commenced the process to transition from Canadian GAAP to IFRS. This changeover process involved three separate and distinct phases:

1 Diagnostic Phase – assessing the differences between Canadian GAAP and IFRS and focusing on the areas that will have the most significant impacts on the Fund;

2 Design Phase – resulting in the design and development of detailed solutions to address the differences identified during the Diagnostic Phase; and

3 Implementation Phase – implementing all of the required changes necessary for IFRS compliance.

Diagnostic Phase

A high level diagnostic review identifying major differences between Canadian GAAP and IFRS was completed during the fourth quarter of 2008. This diagnostic review indicated that the areas most likely to have a significant impact on the Fund included: the requirements of IFRS 1 dealing with first time adoption choices; the classification of Fund Units; and the accounting treatment of the Fund's investment in the Partnership. These areas will impact policies, procedures and financial statement disclosures as discussed in more detail below.

Design Phase

The design phase involved analyzing all differences between IFRS and Canadian GAAP as well as assessing the impact on accounting policies, financial reporting, internal controls over financial reporting and disclosure controls, and developing systems and accounting policies to address all issues identified. Several IFRS standards are in the process of being amended by the IASB and amendments to existing standards are expected to continue. The Fund monitors the IASB's activities on an ongoing basis, giving consideration to any proposed changes, where applicable, in its assessment of differences between IFRS and Canadian GAAP. Management is anticipating increased disclosures in the consolidated financial statements and these additional disclosure requirements are currently being assessed. However, since all potential changes to IFRS that will be effective as at December 31, 2011 are not yet known, any conclusions drawn at this point in time must be considered preliminary.

Implementation Phase

The implementation phase involves the execution of the changes in accounting policies and the compilation of IFRS interim and annual financial statements for 2011. On implementation of IFRS, there are changes in accounting policies and these changes will significantly impact the Fund's consolidated statement of earnings. As mentioned above, the IASB continues to work through accounting issues that are expected to result in new accounting pronouncements. As a result, the IFRS at the transition date is expected to be different from its current form. The final impact of IFRS on the Fund's consolidated financial statements for the year ending December 31, 2011 can only be determined once all applicable standards are known. The changes in accounting policies are not expected to impact the Fund's cash flow from operations on the consolidated statements of cash flows. This change in accounting policy will not have an impact on the Fund's determination of distributable cash or its distribution policy.

Upon assessing the areas that had the most significant differences between Canadian GAAP and IFRS, the following were determined to have the most significant impact on the Fund's accounting policies and financial reporting upon converting to IFRS.

Classification of Fund Units

Under Canadian GAAP, the Fund's Units are classified as equity and the monthly distributions on these Units flow through Unitholders' Equity. IFRS describes a financial liability as a contractual obligation to deliver cash or another financial asset. The Fund has determined that under IFRS, its Units will be classified as a financial liability as the Fund's Declaration of Trust contains a clause creating a contractual obligation to deliver cash or another financial asset under certain circumstances. Upon adopting IFRS, the units will be marked to market and the difference between the historical value and the current market value (at the reporting date) will be recorded in the consolidated statements of earnings. The distributions to the Fund's Unitholders will be classified as interest expense on the consolidated statements of earnings as a result.

The Fund's Trustees believe that the original intention and substance of the Fund's Units is that of an equity instrument. The Fund's Trustees also believe that treatment of the Fund Units as equity better reflects the risk of the Fund Unitholders. Therefore, the Fund held a special meeting of the Unitholders on December 20, 2010 to approve the necessary amendments to its Declaration of Trust to enable the Fund Units to meet the definition of a puttable instrument under IFRS and therefore be classified as equity in the financial statements.

The Fund Unitholders approved the amendments to the Declaration of Trust at the special meeting on December 20, 2010, and therefore the Fund Units will be re-classified to equity and the monthly distributions will flow through Unitholders' Equity from that day forward. The Fund Units will only be treated as a financial liability (and the monthly distributions flowed through interest expense) for the 2010 comparative period up to and including December 19, 2010.

The accounting treatment of the Fund's investment in the Partnership

Under Canadian GAAP, a variable interest entity ("VIE") is consolidated with the "primary beneficiary". The Partnership, identified as a VIE, falls under these rules and its primary beneficiary is determined to be SIR and accordingly, the Partnership is consolidated with SIR. Under IFRS, there are no variable interest rules, but rather, the rules for consolidation are based on "control". Control is the ability to direct or dominate an entity's ability to make decisions, regardless of whether this power is exercised. The Fund has reviewed the legal agreements in respect of the Partnership and the guidance under IAS 27 – Consolidated and Separate Financial Statements and SIC 12 – Consolidation – Special Purpose Entities and has determined that SIR controls the Partnership and will therefore continue to consolidate the Partnership. Accordingly, the Fund will account for its investment in the Partnership in accordance with the requirements of IAS 28 – Investments in Associates and as such, there will be no impact on the Fund's consolidated financial statements.

The Fund's consolidated balance sheet as at January 1, 2010 in accordance with IFRS is expected to be as follows and reflects the reclassification of Fund Units to Liabilities from Equity at the date of transition.

			As at January 1, 2010
	Canadian GAAP	Effect of transition to IFRS	IFRS
	$	$	$
Assets			
Current assets			
Cash and cash equivalents	96	-	96
Prepaid expenses and other assets	24,307	-	24,307
Amounts due from related parties	1,192,403	-	1,192,403
	1,216,806	-	1,216,806
Loan receivable from SIR Corp.	40,000,000	-	40,000,000
Investment in SIR Royalty Limited Partnership	11,166,671	-	11,166,671
	52,383,477	-	52,383,477
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	117,749	-	117,749
Fund units	-	40,710,669	40,710,669
Future income taxes	676,000	-	676,000
	793,749	40,710,669	41,504,418
Unitholders' Equity	51,589,728	(51,589,728)	-
Retained Earnings	-	10,879,059	10,879,059
	52,383,477	-	52,383,477

Financial Instruments

The Fund's financial instruments consist of cash and cash equivalents, the SIR Loan, investment in the Partnership, accounts payable and accrued liabilities, and amounts due from related parties. Management estimates that the fair values of these financial instruments approximate their carrying values due to their short-term maturity except for the SIR Loan and the investment in the Partnership. The loan receivable from SIR has a fixed interest rate of 7.5% per annum and therefore changes in interest rates would not impact interest income on the consolidated statements of earnings and comprehensive income. However, the fair value of the loan receivable from SIR will vary with changes in interest rates. 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 $58.1 million based on the market value of the Fund Units as of the close of business on December 31, 2010.

Disclosure of Outstanding Unit Data

The following summarizes the ownership structure of the Fund as at March 29, 2011 and December 31, 2010:

	Number of Fund Units	
	March 29, 2011	**December 31, 2010**
Units issued	5,356,667	5,356,667

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. 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 31, 2011 Annual Information Form for further discussion on risks and uncertainties related to the Fund and SIR.

As previously announced, the income tax rules applicable to certain publicly traded or listed trusts and partnerships, were significantly modified effective January 1, 2011. Certain rules existed to facilitate the conversion of an income trust into a corporation on a tax-deferred basis, prior to this date. However, the Fund has decided to continue to operate as an income trust. As a result, certain legislative changes to the tax treatment of income trusts, commonly referred to as Specified Investment Flow Through tax ("SIFT Tax") effective January 1, 2011, are applicable to the taxable income of the Fund in 2011 (and subsequent years in which the Fund continues to operate as an income trust). The SIFT Tax applies to the Fund at the estimated prevailing corporate tax rate of approximately 28.25% for 2011 and, as a result, cash available for the Fund to distribute to Unitholders is effectively reduced by that amount. Therefore, the Trustees of the Fund reduced the monthly distribution to $0.083 per Unit per month (approximately $0.996 per Unit per year if annualized), beginning with the distribution relating to the distributable cash for the period January 1 to January 31, 2011, that was paid in February, 2011, to reflect the expected obligation of the Fund to make SIFT Tax payments. The Fund's distributions are subject to change based on a number of factors, including the cash reserves of the Fund, the SIR Holdings Trust and the SIR Royalty Limited Partnership. The Trustees will continue their practice of regularly reviewing the Fund's distribution levels.

Beginning with the Fund's distribution relating to the distributable cash from January 1 to January 31, 2011, paid in February, 2011), cash distributions to Unitholders are expected to be classified for tax purposes 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.

These new rules may adversely affect the value and marketability of the Fund's Units, the ability to undertake financings, and the distributable cash of the Fund may be materially reduced. The 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 believes that SSS(2) in the full service restaurant industry have been negatively impacted by the economic conditions. The CRFA is forecasting a modest increase in sales, for the full service restaurant industry, during 2011. SIR remains cautious and continues to monitor the economy and consumer confidence as its sales have not yet achieved its pre-recession levels.

(2) *See footnote (2) on page 3*

Effective January 1, 2011, the Fund will adopt IFRS. Upon adopting IFRS, the Fund's Units will be classified as a liability. Accordingly, the distributions on the Fund Units will be recorded as interest expense in the consolidated statements of earnings. The Fund Units will be marked to market with changes in the fair value being recorded in the consolidated statements of earnings upon the approval of the amendments to the Declaration of Trust. Effective December 20, 2010, the Fund Units will be re-classified to equity in IFRS financial statements.

At the special meeting of the Fund Unitholders, certain amendments to the Partnership Agreement were also approved. Beginning on January 1, 2011, the Fund is taxed in a manner similar to income earned by (and distributions made by) a corporation and investors in the Fund will be taxed as though the distributions from the Fund are dividends. The amendments to the Partnership Agreement would address the impact of the SIFT Tax rules in the formula for calculating the number of Class A GP Units that SIR would be entitled to as a result of adding new restaurants to the Royalty pool. The amendments to the Partnership Agreement clarify the calculation of distributions on the Class A GP Units and the Fund Units. These amendments were designed to maintain an economically equivalent position among the various unit holders of the Partnership post the implementation of the SIFT Taxes as with the previous arrangements.

As a result of the new SIFT Tax rules beginning on January 1, 2011, the Fund reduced its distributions from their then current levels by approximately 28.25% commencing with the January 2011 distribution paid in February 2011. The monthly distributions declared and paid for each of January and February were $0.083 per Unit.

As at December 31, 2010, SIR currently has 46 restaurants open in Canada and since October 2004, the Fund's Initial Public Offering, SIR has opened fifteen new restaurants (eleven new Jack Astor's and four new Canyon Creek restaurants).

The new Jack Astor's restaurant in Boisbriand, Quebec opened during Q4 2010, on October 25, 2010. This restaurant was added to the Royalty Pooled Restaurants on January 1, 2011 as a New Additional Restaurant. SIR has advised the Fund that it has also secured three new sites for four new restaurants. SIR expects to open a new Jack Astor's restaurant located in London, Ontario in 2011 and a Jack Astor's restaurant in Pickering, Ontario in 2012. The other two restaurants will be located at the corner of Yonge and Gerrard Streets, in Toronto, Ontario and are estimated to open in 2013. SIR continues to carefully monitor the current economic environment and has advised the Fund that it is considering new store growth and renovations subject to raising acceptable long-term financing. Additional sites will be considered when appropriate.

During Q3 2010, SIR completed renovations at its Jack Astor's restaurants in Brampton, Ontario and on Wellington Road South in London, Ontario and during Q4 2010, a renovation was also completed at the Alice Fazooli's location in Richmond Hill, Ontario. SIR has also begun construction at the new site located in London, Ontario. SIR's Management is committed to maximizing the performance of all of its restaurants.

On January 1, 2011, one (January 1, 2010 - nil) new SIR Restaurant was added to Royalty Pooled Restaurants in accordance with the Partnership Agreement. As consideration for the additional Royalty associated with the addition of one (January 1, 2010 – nil) new restaurant on January 1, 2011, as well as the Second Incremental Adjustment for the nil (January 1, 2009 – six) new SIR Restaurants added to Royalty Pooled Restaurants on January 1, 2010, 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 nil (January 1, 2010 – nil) SIR Restaurants during the prior year. The net effect of these adjustments to Royalty Pooled Restaurants was that SIR converted 137,190 (January 1, 2010 – 243,909) Class B GP Units into 137,190 (January 1, 2010 – 243,909) Class A GP Units on January 1, 2011 at an estimated fair value of $1.4 million (January 1, 2010 - $1.2 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, 2011 exceeds 80% of the initial adjustment's estimated revenue, there will be an additional distribution declared in December 2011 and a second incremental adjustment on January 2012.

As a result of not adding any new SIR Restaurants to Royalty Pooled Restaurants on January 1, 2010, there was not an additional distribution declared in December 2010 or a second incremental adjustment on January 1, 2011.

Forward Looking Information

Statements in this report, including the information set forth as to the future financial or operating performance of the Fund or SIR, that are not current or historical factual statements may constitute "forward-looking" information within the meaning of securities laws. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Fund, the Trust, the Partnership, SIR, the SIR Restaurants, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this document, such statements may include, among other language, such words as "may", "will", "expect", "believe", "plan", "anticipate", "intend", "estimate" and other similar terminology. These statements reflect Management's current expectations, estimates and projections regarding future events and operating performance and speak only as of the date of this document. Readers should not place undue importance on forward-looking statements and should not rely upon this information as of any other date. These forward-looking statements involve a number of risks and uncertainties. The following are some of the factors that could cause actual results to differ materially from those expressed in or underlying such forward-looking statements: competition; changes in demographic trends; changing consumer preferences and discretionary spending patterns; changes in 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, specifically as they relate to the anticipated changes under IFRS; and the results of operations and financial condition of SIR. The foregoing list of factors is not exhaustive. Many of these issues can affect the Fund's or SIR's actual results and could cause their actual results to differ materially from those expressed or implied in any forward-looking statements made by, or on behalf of, the Fund or SIR. Readers are cautioned that forward-looking statements are not guarantees of future performance, and should not place undue reliance on them. The Fund and SIR expressly disclaim any obligation or undertaking to publicly release any updates or revisions to any forward-looking statements contained herein to reflect any change in expectations, estimates and projections with regard thereto or any changes in events, conditions or circumstances on which any statement is based, except as expressly required by law. This Management's Discussion and Analysis is provided as of March 29, 2011.

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, 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 the tax effects on distributions will remain consistent with current pronouncements, and also in estimating the revenue for the new Jack Astor's restaurant, Management has assumed that it will operate consistent with other Jack Astor's restaurants. For more information concerning the Fund's risks and uncertainties, please refer to the October 2004 final prospectus, and/or its March 31, 2011 Annual Information Form, all of which are available under the Fund's profile at www.sedar.com.

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