SIR ROYALTY INCOME FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

FIRST QUARTER

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2007

SIR ROYALTY INCOME FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

(For the 3-month periods ended March 31, 2007)

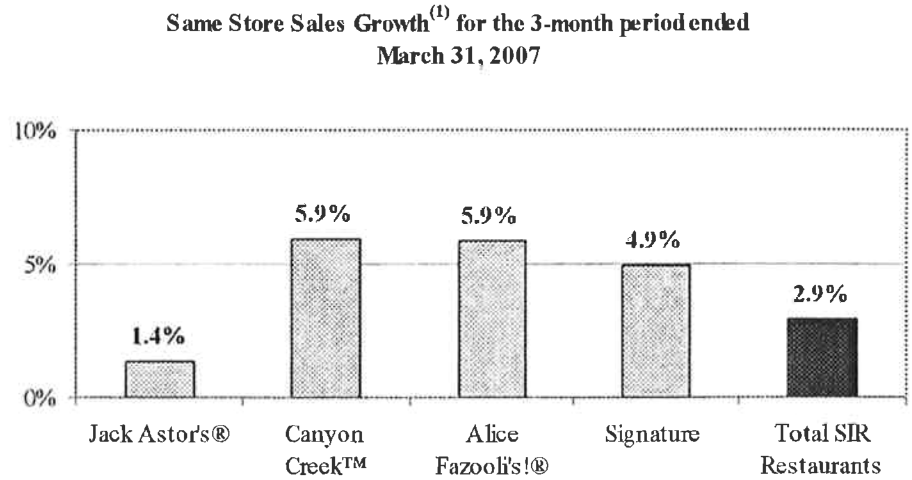
Executive Summary

Highlights for the 3-month periods ended March 31, 2007 ("Q1") for SIR Royalty Income Fund (the "Fund") include:

- Net earnings of $1.7 million and net earnings per Fund Unit of $0.32 in each of Q1 of 2007 and Q1 of 2006.
- The payout ratio was 97.5% in Q1 of 2007, compared to 93.4% in Q1 of 2006. Please refer to footnotes 2 and 8 on page 5 and page 9, respectively for the definition and calculation of payout ratio.
- Pooled Revenue increased by 7.0% in Q1 of 2007 to $39.5 million, from $36.9 million in Q1 of 2006.
- Same store sales growth(1) ("SSSG(1)") for restaurants in the Royalty pool for Q1 of 2007 was 2.9%.
- SSSG(1) was positive in Q1 of 2007 for all of SIR Corp.'s ("SIR") Concept Restaurants (Jack Astor's®, Canyon Creek™, and Alice Fazooli's!®) as well as for the downtown Toronto Signature Restaurants: Jack Astor's SSSG(1) was 1.4% for Q1; Canyon Creek SSSG(1) was 5.9% for Q1; Alice Fazooli's! SSSG(1) was 5.9% for Q1; and the Signature Restaurants' SSSG(1) was 4.9% for Q1.
- 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 and in Dartmouth, Nova Scotia on May 7, 2007. It is expected that these two new restaurants will be added to the Royalty Pooled Restaurants on January 1, 2008.
- SIR has secured four new sites: three sites are for new Jack Astor's restaurants and the fourth new site is for a new Canyon Creek restaurant. One of the new Jack Astor's restaurants will replace an existing restaurant and as such, SIR anticipates closing one existing Jack Astor's location during the year upon opening of the new location.
- SIR has advised the Trustees that it is currently negotiating financing to accelerate its restaurant construction plans with a Canadian Chartered Bank.
- 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". On March 27, 2007, the Minister of Finance issued a Notice of Ways and Means Motion to implement the draft legislation. The Trustees of the Fund and senior management of SIR will continue to monitor this development.
- 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 MD&A which, can be found on SEDAR under the Fund's listing named "Other". SIR's Q2 consolidated financial statements and MD&A are listed having a filing date of March 28, 2007.

(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 2.9% for Q1 of 2007, which is over and above the exceptional SSSG[1] of 13.8% experienced in the prior year (please see the below table).

SSSG[1] for Jack Astor's was 1.4% during Q1 of 2007. This growth was achieved on top of the SSSG[1] of 14.1% 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 average 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 anticipates that the effect will be lessened during the summer months when patios are open.

Canyon Creek continues to perform well, with SSSG[1] of 5.9% during Q1 2007 again on top of strong SSSG[1] of 14.1% in Q1 2006.

The performance of Alice Fazooli's! continues to improve. SSSG[1] in Q1 of 2007 was 5.9%. This growth is on top of the SSSG[1] of 14.4% experienced in the prior year.

During Q1, the Signature Restaurants, which are located in downtown Toronto, had SSSG[1] of 4.9%. Brasserie Frisco™ and Armadillo Texas Grill®/the Loose Moose® revenues were below the prior year during Q1. These declines in Q1 were offset by positive SSSG[1] at Far Niente®/Soul of the Vine® and reds®. SSSG[1] was 12.0% in the prior year.

SSSG[1] for Restaurants in the Royalty pool	**3-month period ended March 31, 2007** (unaudited)	**3-month period ended March 31, 2006** (unaudited)
Jack Astor's®	1.4%	14.1%
Canyon Creek Chop House®	5.9%	14.1%
Alice Fazooli's! ®	5.9%	14.4%
Signature Restaurants	4.9%	12.0%
Overall SSSG[1]	**2.9%**	**13.8%**

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

Restaurant Renovations and Advertising

SIR used a significant portion of the proceeds of the Fund's IPO to invest in its existing restaurants to drive SSSG[(1)]. As at March 31, 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. 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)] going forward.

Since the IPO, SIR has increased its investment in marketing initiatives. In particular, Jack Astor's with 24 restaurants (which in Q1 of 2007 represented approximately 58.8% of Pooled Revenue) has benefited from radio-based campaigns created by a leading North American advertising agency. In 2006, Jack Astor's earned Gold recognitions at the London International Advertising Awards (for its Italian Festival) and also at the Canadian Marketing Association Awards.

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.

One Royalty Pooled Restaurant has been closed since the IPO was completed. 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. Subsequent to Q1 2007, SIR opened a new Jack Astor's restaurant, in Dartmouth, Nova Scotia on May 7, 2007. It is expected that these new restaurants would be added to the Royalty Pooled Restaurants on January 1, 2008.

SIR has also secured four new sites for Jack Astor's and Canyon Creek restaurants. One of these new sites is for a Jack Astor's at the corner of Dundas and Yonge Streets in Toronto, Ontario which is expected to open in fiscal 2008. Two new sites have 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. The fourth new site is located in Burlington, Ontario. It is expected that the existing Jack Astor's restaurant in Burlington would be closed and a new Jack Astor's would open at the new site in Burlington. In respect of the closed Burlington restaurant, SIR would be required to pay a Make-Whole Payment from the date of closure to December 31, 2007. Effective January 1, 2008, the closed restaurant would be removed from the Royalty Pooled Restaurants' as a New Closed Restaurant. The new site is expected to provide higher revenues and therefore a greater Royalty stream to the Partnership. The new Jack Astor's restaurant in Burlington is expected to open in Q4 of 2007 and provided that it opens before November 1, 2007, it would be added to the Royalty Pooled Restaurants effective January 1, 2008.

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

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. 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.

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 Q1 of 2006 was 97.5% compared to 93.4% for the same period in 2006.

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 $51,166,670 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 $562,450 or $0.105 per Unit were declared and paid for each of the months of December 2006, January 2007 and February 2007. Subsequent to March 31, 2007, distributions of $0.105 per Unit were declared and paid for the month of March 2007 and a distribution of $0.105 per Unit was declared for the month of April 2007.

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

(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 SIR and the Partnership

SIR is a private company amalgamated under the Business Corporations Act of Ontario. As at March 31, 2007, SIR operated more than 39 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, Brasserie Frisco, and the Armadillo Steak House/Loose Moose Tap & Grill. As at March 31, 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. 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 only 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.

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 March 31, 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. Subordination is expected to continue until at least August 26, 2007. 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 Q1 consolidated financial statements of the Fund, including the notes thereto. The Fund has been in existence since August 23, 2004, and began operating on October 12, 2004 upon closing of the Offering.

For the 3-month period from January 1, 2007 to March 31, 2007, the Fund declared and paid a distribution of $0.105 per Unit for each of the months from December 2006 through February 2007. Subsequent to March 31, 2007, the Fund declared and paid a distribution of $0.105 per Unit for the month of March 2007. The Fund also declared a distribution of $0.105 per Unit for the month of April 2007, payable in May 2007.

Summary of Quarterly Financial Information

(in thousands of dollars except restaurants and per Unit amounts) *(unaudited)*	3-month periods ended							
	Mar. 31, 2007 $	Dec. 31, 2006 $	Sept. 30, 2006 $	June 30, 2006 $	Mar 31, 2006 $	Dec. 31, 2005 $	Sept. 30, 2005 $	June 30, 2005 $
Restaurants in the Royalty pool	38	36	36	36	36	34	34	34
Pooled Revenue generated by SIR	39,451	38,716	36,447	37,506	36,859	35,219	32,385	32,923
6% of Pooled Revenue	2,367	2,323	2,190	2,250	2,212	2,113	1,943	1,975
Make-Whole Payment (3)	-	42	41	18	-	-	-	-
Total Royalty income to Partnership	2,367	2,365	2,231	2,268	2,212	2,113	1,943	1,975
Partnership other income	14	13	13	12	9	8	8	8
Partnership expenses	(39)	(45)	(21)	(41)	(50)	(25)	(40)	(23)
Partnership earnings	2,342	2,333	2,223	2,239	2,171	2,096	1,911	1,960
SIR's interest (Class A, B and C GP Units)	(1,220)	(1,343)	(1,090)	(1,090)	(1,082)	(946)	(899)	(946)
Partnership income allocated to Fund (4)	1,122	990	1,133	1,149	1,089	1,150	1,012	1,014
Interest income (5)	750	750	750	750	750	750	750	750
Total income of the Fund	1,872	1,740	1,883	1,899	1,839	1,900	1,762	1,764
General & administrative expenses	(142)	(99)	(123)	(135)	(119)	(134)	(107)	(202)
Net earnings for the period	1,730	1,641	1,760	1,764	1,720	1,766	1,655	1,562
Basic earnings per Fund Unit (5,356,667 Units)	0.32	0.31	0.33	0.33	0.32	0.33	0.31	0.29
Diluted earnings per Fund Unit (2007 - 6,811,676 Units; 2006 – 6,390,672 Units; 2005 – 5,951,852 Units) (6)	0.32	0.31	0.33	0.33	0.32	0.33	0.31	0.29

(3) *On May 27, 2006 the Jack Astor's in Don Mills, Ontario was closed. 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.*

(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 have the right to receive distributions in priority to the initial 595,185 Class A GP Units.*

(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, 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 period ended March 31, 2007 represents Fund Units of 5,356,667 plus the convertible Class A GP Units of 1,455,009. Diluted earnings per Fund Unit for 2006 is calculated as follows: Net earnings for the period plus the distributions related to the Class A GP Units, which together total $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 $1.7 million, $1.8 million and $2.0 million for the 3-month periods ended June 30, 2005, September 30, 2005 and December 31, 2005, respectively 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]	3-month periods ended							
(in thousands of dollars except per Unit amounts and payout ratio[2]*)* *(unaudited)*	**March 31, 2007 $**	**Dec. 31, 2006 $**	**Sept. 30, 2006 $**	**June 30, 2006 $**	**March 31, 2006 $**	**Dec. 31, 2005 $**	**Sept. 30, 2005 $**	**June 30, 2005 $**
Cash provided by operating activities	1,687	1,687	1,687	1,634	1,607	1,607	1,607	1,607
Add/(deduct): net change in non-cash working capital items	43	(46)	73	130	113	159	48	(45)
Distributable cash[2]	**1,730**	**1,641**	**1,760**	**1,764**	**1,720**	**1,766**	**1,655**	**1,562**
Cash distributed for the period	**1,687**	**1,687**	**1,687**	**1,634**	**1,607**	**1,607**	**1,607**	**1,607**
Surplus/ (shortfall) of distributable cash[2]	**43**	**(46)**	**73**	**129**	**113**	**159**	**48**	**(45)**
Payout ratio[2] [7]	97.5%	102.8%[8]	95.9%	92.6%	93.4%	91.0%	97.1%	102.9%
Distributable cash[2] per Fund Unit basic (5,356,667 Units)	0.32	0.31	0.33	0.33	0.32	0.33	0.31	0.29
Distributable cash[2] per Fund Unit diluted (2007 – 6,811,676 Units; 2006 - 6,390,672 Units; 2005 – 5,951,852 Units) [9]	0.32	0.31	0.33	0.33	0.32	0.33	0.31	0.29

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.

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 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 may exceed 100%. For the 3-month periods ended March 31, 2007 and March 31, 2006, the payout ratio[2] was 97.5% and 93.4% respectively.

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

(7) *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.*

(8) *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.*

(9) *Diluted distributable cash per Fund Unit for the 3-month periods is calculated as follows: Distributable cash plus the distributions related to the Class A GP Units, which together total $2.2 million, $2.0 million, $2.1 million, $2.1 million, $2.0 million, $2.0 million, $1.8 million, and $1.7 million for the 3-month periods ended March 31, 2007, December 31, 2006, September 30, 2006, June 30, 2006, March 31, 2006, December 31, 2005, September 30, 2005, and June 30, 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. 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.*

Balance Sheet

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

	Mar. 31, 2007 $	Dec. 31, 2006 $	Sept. 30, 2006 $	June 30, 2006 $	Mar. 31, 2006 $	Dec. 31, 2005 $	Sept. 30, 2005 $	June 30, 2005 $
Total assets	52,104	52,106	52,155	52,042	51,958	51,817	51,730	51,665
Unitholders' equity	52,025	51,982	52,028	51,955	51,826	51,712	51,552	51,505

Results of Operations - Fund

The Fund's revenue of $1.9 million for the 3-month period ended March 31, 2007 is comprised of distribution income from the Partnership of $1.1 million and interest income of $0.8 million. Revenue of $1.8 million for the 3-month period ended March 31, 2006 is comprised of distribution income from the Partnership of $1.0 million and interest income of $0.8 million. Distribution income from the Partnership is the pro rata share of the residual distributions of the Partnership for the 3-month periods ended March 31, 2007 and March 31, 2006. Interest income is interest earned for the 3-month periods ended March 31, 2007 and March 31, 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 $0.2 million and $0.1 million for the 3-month periods ended March 31, 2007 and March 31, 2006, respectively. These expenses include professional fees, directors' and officers' liability insurance premium, Trustees' fees, certain public company costs and other administrative fees.

Net earnings for both, the 3-month periods ended March 31, 2007 and March 31, 2006 were $1.7 million, or $0.32 per Fund Unit on both a basic and diluted basis.

Pooled Revenue

The Fund is indirectly dependent on the amount of the Royalty paid by SIR to the Partnership. The amount of this Royalty is dependent on Pooled Revenue. Pooled Revenue is the revenue of the SIR Restaurants included in the Royalty Pooled Restaurants. As at March 31, 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 three-month periods ended March 31, 2007 and March 31, 2006:

Summary of Pooled Revenue

(in thousands of dollars except number of restaurants included in Pooled Revenue) (Unaudited)	3-month periods ended March 31, 2007		3-month periods ended March 31, 2006	
	Pooled Revenue $	Restaurants included in Pooled Revenue	Pooled Revenue $	Restaurants included in Pooled Revenue
Jack Astor's	23,200	22	23,664	23
Alice Fazooli's!	4,593	5	4,338	5
Canyon Creek	6,699	7	4,130	4
Signature	4,959	4	4,727	4
Total included in Pooled Revenue	39,451	38	36,859	36

Liquidity and Capital Resources

The Fund has no third party debt and SIR currently has minimal third party debt (excluding the $40 million SIR Loan owed by SIR to the Fund and for which SIR can surrender its Class C GP Units in the Partnership as consideration for principal payments under the loan, and certain debt related to U.S. operations which is recorded on the consolidated financial statements of SIR). The Fund does not have bank lines of credit. The Fund therefore relies on the payments of the distributions from the Partnership and interest income from SIR to meet its obligations to pay the distributions. The Fund believes that the distributions from the Partnership and interest payments will be sufficient to meet its current distribution intentions, subject to seasonal fluctuations. However, the actual amounts distributed will depend upon numerous factors, including the payment of the distributions from the Partnership and interest by SIR, and could fluctuate based on performance. The Fund intends, with the assistance of SIR, to maintain even distributions in order to reduce the effect of fluctuations in revenue and, if possible, allow the Fund to maintain consistent monthly distributions to Unitholders. Under the terms of the License and Royalty Agreement, SIR is required to pay the 6.0% Royalty to the Partnership 21 days after the end of the four-week period for which the Royalty is determined.

During the 3-month periods ended March 31, 2007 and March 31, 2006, the Fund distributed $1.7 million and $1.6 million to Unitholders, respectively. Subsequent to March 31, 2007, distributions of $0.6 million ($0.105 per Unit) were declared and paid for the month of March 2007 and a distribution of $0.6 million ($0.105 per Unit) was declared for the month of April 2007.

The Fund did not have any capital expenditures in Q1 of 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 Fund's non-consolidated subsidiary 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 it's interim and annual consolidated financial statements and MD&A which, can be found on SEDAR under the Fund's listing named "Other". The most recent consolidated financial statements and MD&A for SIR's second quarter are listed having a filing date of March 28, 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(10) *(in thousands of dollars) (unaudited)*	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)	3rd Quarter Ended May 8, 2005** (12 weeks)
Net cash from (used in) continuing operations	3,087	136	2,400	1,420	2,388	(269)	24	(2,116)
Net cash used in continuing investing activities	(2,309)	(2,847)	(3,286)	(3,897)	(3,479)	(3,610)	(3,222)	(3,876)
Net cash from (used in) continuing financing activities	(122)	(642)	4,924	(86)	(80)	(84)	(126)	(555)
Increase (decrease) in cash and cash equivalents during the period	661	(3,357)	4,060	(2,548)	(1,498)	(4,055)	(3,990)	(6,576)
Cash and cash equivalents – Beginning of period	4,855	8,212	4,152	6,700	8,198	12,253	16,243	22,819
Cash and cash equivalents – End of period	5,516	4,855	8,212	4,152	6,700	8,198	12,253	16,243

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

(10) 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 28, 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.