

SIR ROYALTY INCOME FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

THIRD QUARTER 2005

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE 3 AND 9-MONTH PERIODS ENDED
SEPTEMBER 30, 2005**

SIR ROYALTY INCOME FUND
Management's Discussion and Analysis
THIRD QUARTER 2005
(For the 3 and 9-month periods ended September 30, 2005)

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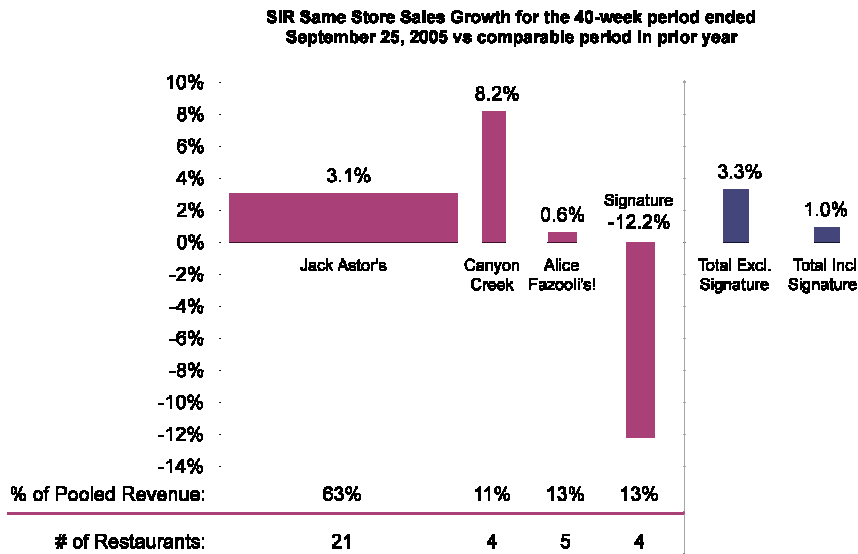
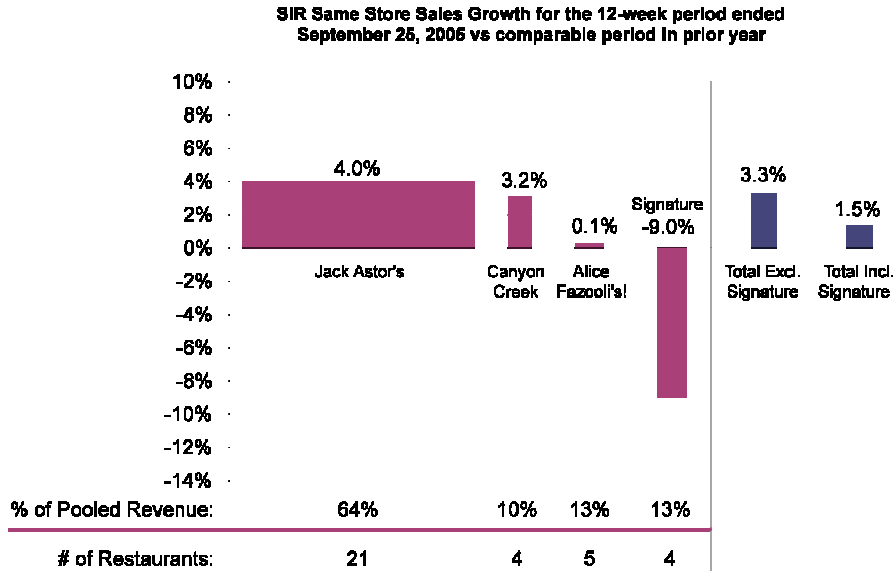
Executive Summary

SIR Royalty Income Fund (the "Fund") completed its Initial Public Offering ("IPO") on October 12, 2004, therefore, there are no direct financial comparatives for the prior year. Same store sales results from the operating company, SIR Corp. ("SIR"), for the 34 restaurants currently in the Royalty pool for the comparable time periods are used to provide comparative same store sales performance. (See Overview and Business of SIR and the Partnership for a description of SIR's fiscal periods.)

Highlights to date in 2005, include:

- Same store sales growth for restaurants in the Royalty pool ("SSSG") of 1.5% and 1.0% for the 12 and 40-week periods ended September 25, 2005 respectively, compared to the corresponding periods a year ago;
- SSSG of 3.3% for the Concept Restaurant brands in the Royalty pool (Jack Astor's®, Canyon Creek™ and Alice Fazooli's!®) for the 12 and 40-week periods ended September 25, 2005, compared to the corresponding periods a year ago;
- SSSG of 4.0% and 3.1% for the 12 and 40-week periods ended September 25, 2005 respectively, for Jack Astor's®, SIR's flagship Concept Restaurant brand, which generates more than 60% of Pooled Revenue, compared to the corresponding periods a year ago;
- Evolutions completed at 14 Jack Astor's® restaurants with average increases in excess of 10% in the year of evolution and an average of 4% over and above their first-year increases for restaurants now in their second year following evolution;
- Renovations completed at three of the five Alice Fazooli's!® restaurants, with average sales increases in excess of 10%;
- Renovations completed at Far Niente® in downtown Toronto (October-November 2005);
- Continued Jack Astor's® advertising program with leading marketing firm;
- New Jack Astor's® restaurants opened in downtown Toronto and Whitby, Ontario, which will become part of the Royalty Pooled Restaurants on January 1, 2006;
- Sites secured for three new Canyon Creek™ restaurants which are expected to open in 2006;
- Unitholder distributions declared and paid at the expected rate of \$0.10 per Unit per month in each month since inception;
- Improvement in the Fund's payout ratio in each quarter of fiscal 2005, driven by seasonality (Q1: 108.4%, Q2 : 102.9%, Q3: 97.1%).

Same Store Sales Growth
 (unaudited)



SIR reported to the Fund that SSSG was 1.5% and 1.0% respectively for the 12 and 40-week periods ended September 25, 2005 (i.e. July 4, 2005 to September 25, 2005 and December 20, 2004 to September 25, 2005, which approximate the Fund's 3 and 9-month reporting periods as closely as possible), versus the comparable periods in the prior year. The National Hockey League ("NHL") lockout had a significant effect on the Signature Restaurants which are located in downtown Toronto. Excluding the Signature Restaurants, SSSG for the Concept Restaurants (Jack Astor's®, Canyon Creek™ and Alice Fazooli's!®), which generate approximately 87% of Pooled Revenue, was 3.3% for the 12 and 40-week periods ended September 25, 2005 versus the corresponding periods in the prior year.

Same Store Sales Growth (continued)

SIR's Management attributes the strong performance of Jack Astor's in large part to evolutions of existing restaurants, which include changes in menu, staff uniforms and restaurant décor. During the period from July 1, 2005 to September 30, 2005, one Jack Astor's® was closed for approximately five days to undergo the evolution process. The evolution program started in 2004 and is intended to continue for the remainder of 2005 and into 2006. A total of 14 of the 21 Jack Astor's® currently in the Royalty pool have been evolved as at the end of September 2005. Average sales increases in evolved Jack Astor's® restaurants are in excess of 10% in the year of evolution and an average of 4% over and above their first-year increases for restaurants now in their second year following evolution.

Canyon Creek™ continues to perform well, with SSSG of 3.2% and 8.2% respectively for the 12-and 40 week periods ended September 25, 2005.

Performance of Alice Fazooli's!™ has improved to reflect SSSG of 0.1% and 0.6% respectively for the 12 and 40-week periods ended September 25, 2005. This is driven by renovations at three of the five locations which are delivering revenue increases in excess of 10% versus the prior year.

Same store sales of the downtown Toronto Signature Restaurants, which represent 13% of Pooled Revenue, declined 9.0% and 12.2% for the 12 and 40-week periods ended September 25, 2005 respectively, compared to the corresponding periods in the prior year. The decline in same store sales for the Signature Restaurants was due in part to the NHL lockout, which has now been resolved.

Restaurant Renovations and Advertising

SIR has been deploying a significant portion of the proceeds of the Fund's IPO to invest in its existing restaurants to drive SSSG. As at September 30, 2005 evolutions of 14 Jack Astor's® restaurants had been completed (four of these had been completed prior to the IPO). In the 52-week period ended August 28, 2005, (SIR's fiscal year-end), the evolved Jack Astor's® restaurants have generated SSSG in excess of 10% (as measured from the first fiscal period after the evolutions). The restaurants that are now in their second year following evolution continue to deliver strong SSSG, averaging 4% over and above their first-year levels. Renovations at three of the five Alice Fazooli's!® restaurants which were completed during 2005 have also delivered strong SSSG in excess of 10%. In mid-October 2005, extensive renovations began at Far Niente® in downtown Toronto. These renovations are expected to result in increased guest counts and SSSG going forward.

SIR has increased its investment in marketing initiatives. In particular, Jack Astor's® with 23 restaurants (21 of which are currently included in the Royalty Pooled Restaurants and represent approximately 64% of Pooled Revenue) has benefited from radio-based campaigns created by a leading North American advertising agency.

New Restaurants

SIR opened two new restaurants during the first nine months of the Fund's fiscal 2005 year: Jack Astor's® at Front Street and University Avenue in downtown Toronto in February 2005; and Jack Astor's® in Whitby, Ontario, at the end of August 2005. The performance to date of both of these restaurants has exceeded expectations. These restaurants will become part of the Royalty Pooled Restaurants on January 1, 2006, at which time the SIR Royalty Limited Partnership (the "Partnership") will pay 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 Fund's prospectus. This adjustment for new revenues that will be part of the Royalty pool is designed to be accretive for Fund Unitholders.

SIR has also secured locations for three new Canyon Creek™ restaurants in Ontario: Scarborough, Vaughan and the Niagara Fallsview Casino Resort.

No Royalty Pooled Restaurants were closed since the IPO was completed.

Distributions

Distributions to Unitholders are intended to be made monthly in arrears based on distributable cash 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 to the maximum extent possible and has paid its expected monthly cash distribution of \$0.10 per Unit per month since inception.

The payout ratio of cash distributed to distributable cash 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%. This was experienced during the first and second quarters of the Fund's fiscal 2005 year when the payout ratios were 108.4% and 102.9% respectively. During the third quarter, the trend continued to improve with a payout ratio of 97.1%. For the nine months ended September 30, 2005, the payout ratio was 102.6%. Management anticipates that the improving trend in the payout ratio will continue into the fourth quarter as a result of higher sales levels that are traditionally experienced during the December party season.

Overview and Business of the Fund

On October 1, 2004, the Fund filed a final prospectus for an IPO (or the "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 Corp. ("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 6.0% of the revenue of the restaurants included in the Royalty pool ("Royalty Pooled Restaurants"). 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.

Effective January 1, 2005, the Fund adopted Accounting Guideline – 15 ("AcG-15") of the Canadian Institute of Chartered Accountants ("CICA"), Consolidation of Variable Interest Entities ("VIE"). The Fund has determined that the Partnership is a VIE and that SIR is the primary beneficiary of the Partnership. Therefore, the Partnership is no longer consolidated by the Fund and results of the Fund for the period ended December 31, 2004 were restated for comparative purposes. The change in accounting policy had no impact on the consolidated net earnings of the Fund for the period from August 23, 2004 to December 31, 2004, and the contractual obligations among the various entities are not affected. The effect on the consolidated balance sheet of the Fund as at December 31, 2004 is outlined in the Changes in Accounting Policies, Including Initial Adoption section. The Partnership statements are now provided separately at www.sedar.com under the SIR Royalty Income Fund profile and on SIR's website at www.sircorp.com.

On September 8, 2005, the federal Department of Finance released a consultation paper and launched public consultations on tax and other issues related to publicly listed flow-through entities ("FTEs"), including income funds. The focus of the paper is to, among other things, assess whether the tax structure of these entities should be modified. The possible policy responses to issues relating to FTEs is outlined in the Risks and Uncertainties section of this Management's Discussion & Analysis ("MD&A").

The Fund intends to make monthly distributions of its available distributable cash to the maximum extent possible. In the third quarter of fiscal 2005, monthly distributions of \$535,667 or \$0.10 per Unit were declared and paid for each of the months of June, July and August 2005. Subsequent to September 30, 2005, a distribution of \$0.10 per Unit was declared and paid for the month of September 2005 and a distribution of \$0.10 per Unit was declared for the month of October 2005.

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

Overview and Business of SIR and the Partnership

SIR is a private company amalgamated under the Business Corporations Act of Ontario. As at September 30, 2005, SIR operated 36 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™, the Armadillo Steak House®/Loose Moose Tap & Grill®. Currently, 34 SIR Restaurants are included in the SIR Royalty Pooled Restaurants. Two new Jack Astor's® were opened in 2005 (downtown Toronto, Ontario in February and Whitby, Ontario in August) and both are expected to be added to the Royalty Pooled Restaurants in January 2006. No Royalty Pooled Restaurants have been closed since the Fund began operating on October 12, 2004. SIR owns 100% of all its Canadian restaurants, except for Jack Astor's® Don Mills Limited (50%). SIR also has investments in two Jack Astor's® restaurants in the U.S., which are 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.

Overview and Business of SIR and the Partnership (continued)

Currently, SIR retains a 10.0% interest in the Partnership and has agreed to subordinate this initial share of the distributions for a minimum of two years, subject to certain terms. 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. 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. At each Adjustment Date, SIR will be entitled to convert its Class B GP Units of the Partnership to Class A GP Units of the Partnership based on a conversion formula defined in the Agreement.

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 for its fiscal 2004 year-end and its subsequent quarterly accounting periods 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 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 MD&A should be read in conjunction with the third quarter unaudited interim consolidated financial statements of the Fund, including the notes thereto. No comparatives are shown, as the Fund has been in existence since August 23, 2004, and began operating on October 12, 2004 upon closing of the Offering.

Selected Consolidated Financial Information (continued)

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

Financial Highlights	3 months from Jul. 1 to Sep. 30 2005 \$	9 months from Jan. 1 to Sep. 30 2005 \$
	(in thousands of dollars except restaurants and per Unit amounts) (unaudited)	
Restaurants in the Royalty pool	34	34
Pooled Revenue generated by SIR	<u>32,385</u>	<u>95,027</u>
Royalty income to Partnership – 6% of Pooled Revenue	1,943	5,702
Partnership other income	8	23
Partnership expenses	<u>(40)</u>	<u>(77)</u>
Partnership earnings	1,911	5,648
SIR Corp.'s interest (Class A and Class C GP Units)	<u>(899)</u>	<u>(2,773)</u>
Partnership income allocated to Fund ⁽¹⁾	1,012	2,875
Interest income ⁽²⁾	<u>750</u>	<u>2,250</u>
Total income of the Fund	1,762	5,125
General & administrative expenses	<u>(107)</u>	<u>(425)</u>
Net earnings for the period	1,655	4,700
Basic earnings per Fund Unit (5,356,667 Units)	0.31	0.88
Diluted earnings per Fund Unit (5,951,852 Units) ⁽³⁾	0.31	0.88

For the 3-month period from July 1, 2005 to September 30, 2005, the Fund declared and paid a distribution of \$0.10 per Unit for each of the months of June, July and August, 2005. Subsequent to September 30, 2005, the Fund declared and paid a distribution of \$0.10 per Unit for the month of September 2005 and declared a distribution of \$0.10 per Unit for the month of October 2005.

- (1) 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 Class A GP Units.
- (2) Interest income is the interest earned during the periods from the \$40.0 million SIR Loan, which bears interest at 7.5% per annum.
- (3) Diluted earnings per Fund Unit for the 3-month and 9-month periods ended September 30, 2005 is calculated as follows: Net earnings for the 3-month period of \$1.7 million (\$4.7 million for the 9-month period) plus the distributions related to the Class A GP Units of \$0.2 million (\$0.5 million for the 9-month period) divided by the weighted average number of Fund Units outstanding of 5,951,852. Weighted average number of Fund Units outstanding represents Fund Units of 5,356,667 plus the convertible Class A GP Units of 595,185.

Selected Consolidated Financial Information (continued)

Summary of Quarterly Financial Information	Q3	Q2	Q1
	3 months from Jul. 1 to Sep. 30 2005 \$	3 months from Apr. 1 to Jun. 30 2005 \$	3-months from Jan. 1 to Mar. 31 2005 \$
	(in thousands of dollars except restaurants and per Unit amounts) (unaudited)		
Restaurants in the Royalty pool	34	34	34
Pooled Revenue generated by SIR	<u>32,385</u>	<u>32,923</u>	<u>29,719</u>
Royalty income to Partnership – 6% of Pooled Revenue	1,943	1,975	1,784
Partnership other income	8	8	7
Partnership expenses	<u>(40)</u>	<u>(23)</u>	<u>(14)</u>
Partnership earnings	1,911	1,960	1,777
SIR Corp.'s interest – (Class A and Class C GP Units)	<u>(899)</u>	<u>(946)</u>	<u>(928)</u>
Partnership income allocated to Fund ⁽⁴⁾	1,012	1,014	849
Interest income ⁽⁵⁾	<u>750</u>	<u>750</u>	<u>750</u>
Total income of the Fund	1,762	1,764	1,599
General & administrative expenses	<u>(107)</u>	<u>(202)</u>	<u>(116)</u>
Net earnings for the period	1,655	1,562	1,483
Basic earnings per Fund Unit (5,356,667 Units)	0.31	0.29	0.28
Diluted earnings per Fund Unit (5,951,852 Units) ⁽⁶⁾	0.31	0.29	0.28

(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 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 divided by the weighted average number of Fund Units outstanding of 5,951,852. Weighted average number of Fund Units outstanding represents Fund Units of 5,356,667 plus the convertible Class A GP Units of 595,185.

Selected Consolidated Financial Information (continued)

Distributable Cash ⁽⁷⁾	Q3	Q2	Q1	Period from Aug. 23 to Dec. 31, 2004 (restated ⁽⁸⁾)	
	9 months from Jan. 1 to Sep. 30 2005 \$	3 months from Jul. 1 to Sept 30, 2005 \$	3 months from Apr. 1 to Jun 30 2005 \$		3 months from Jan. 1, to Mar. 31 2005 \$
	(in thousands of dollars except per Unit amounts and payout ratio)				
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	
Cash provided by operating activities	4,821	1,607	1,607	1,607	880
Add/(deduct): net change in non-cash working capital items	(121)	48	(45)	(124)	507
Distributable cash ⁽⁷⁾	4,700	1,655	1,562	1,483	1,387
Cash distributed for the period	4,821	1,607	1,607	1,607	1,416
Surplus/(shortfall) of distributable cash ⁽⁷⁾	(121)	48	(45)	(124)	(29)
Payout ratio ⁽⁹⁾	102.6%	97.1%	102.9%	108.4%	102.1%
Distributable cash per Fund Unit basic (5,356,667 Units)	0.88	0.31	0.29	0.28	0.26
Distributable cash per Fund Unit diluted (5,951,852 Units)	0.88	0.31 ⁽¹⁰⁾	0.29	0.28	0.26

Distributions to Unitholders are intended to be made monthly in arrears based on distributable cash 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 to the maximum extent possible and has paid its expected monthly cash distribution of \$0.10 per Unit per month since inception.

The payout ratio of cash distributed to distributable cash 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%. This was experienced during the first and second quarters of the Fund's fiscal 2005 year when the payout ratios were 108.4% and 102.9% respectively. During the third quarter, the trend continued to improve with a payout ratio of 97.1% resulting from cash distributed of \$1.607 million as compared to distributable cash of \$1.655 million. For the nine months ended September 30, 2005, the payout ratio was 102.6%. Management anticipates that higher sales levels that are traditionally experienced during the December party season will continue the favourable trend in the payout ratio into the fourth quarter.

(7) *Distributable cash is a non-GAAP financial measure and does not have a standardized meaning prescribed by GAAP. However, the Fund believes that distributable cash is a useful measure as it provides investors with an indication of cash available for distribution. The Fund's method of calculating distributable cash may differ from that of other issuers and, accordingly, distributable cash may not be comparable to measures used by other issuers. Investors are cautioned that distributable cash should not be construed as an alternative to the statement of cash flows as a measure of liquidity and cash flows of the Fund.*

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.

(8) *Distributable cash for the period from August 23 to December 31, 2004 was restated from the original presentation as at December 31, 2004 to adopt the definition noted above which Management believes is more comparable with the method used by similar royalty income funds. Previously, distributable cash for the period from August 23, 2004 to December 31, 2004 had been reported as \$1.7 million with a surplus of distributable cash of \$0.3 million and a payout ratio of 83%.*

Adoption of the VIE guideline occurred at the same time as the change in definition of distributable cash as described above. To comply with the VIE guideline, the Fund no longer consolidated the Partnership. Therefore, the presentation was changed to remove the elements of the Partnership:

- *revenues applicable to the Units of the Partnership (i.e. Class A GP Units, and Class B P Units and Class C GP Units);*
- *non-controlling interest in the earnings of the Partnership.*

Although the presentation had to be restated, there was no net effect on the amount of distributable cash of the Fund due to the adoption of the VIE guideline.

Selected Consolidated Financial Information (continued)

(9) Payout ratio compares the cash distributed for the period to the distributable cash.

(10) Diluted distributable cash per Fund Unit for the 3-month periods is calculated as follows: Distributable cash for the 3-month period of \$1.7 million plus the distributions related to the Class A GP Units for the 3-month period of \$0.2 million divided by the weighted average number of Fund Units outstanding of 5,951,852. Weighted average number of Fund Units outstanding represents Fund Units of 5,356,667 plus the convertible Class A GP Units of 595,185.

Balance Sheet	Sep. 30, 2005 \$	Dec. 31, 2004 \$	Dec. 31, 2004 \$
			(as previously reported ⁽¹¹⁾)
		(in thousands of dollars)	
	(unaudited)		
Total assets	51,730	52,007	94,624
Unitholders' equity	51,552	51,674	48,141

Results of Operations - Fund

The Fund's revenue of \$1.8 million for the 3-month period ended September 30, 2005 is comprised of distribution income from the Partnership of \$1.0 million and interest income of \$0.8 million. Revenue of \$5.1 million for the 9-month period ended September 30, 2005 is comprised of distribution income from the Partnership of \$2.9 million and interest income of \$2.2 million. Distribution income from the Partnership is the pro rata share of the residual distributions of the Partnership for the 3-month and 9-month periods ended September 30, 2005. Interest income is interest earned for the 3-month and 9-month periods ended September 30, 2005 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 for the 3-month period ended September 30, 2005 and \$0.4 million for the 9-month period ended September 30, 2005. These expenses include professional fees, directors' and officers' liability insurance premium, Trustees' fees, certain public company costs and other administrative fees.

Net earnings for the 3-month period ended September 30, 2005 and the 9-month period ended September 30, 2005 were \$1.7 million, or \$0.31 per Fund Unit on both a basic and diluted basis, and \$4.7 million or \$0.88 per Fund Unit on both a basic and diluted basis, 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 the Royalty Pooled Restaurants. Currently, there are 34 restaurants in the Royalty pool. 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 first three quarters of 2005:

(11) See Changes in Accounting Policies, Including Initial Adoption

Pooled Revenue (continued)

	3 months from Jul. 1 to Sep. 30 2005 \$	9 months from Jan. 1 to Sep. 30 2005 \$
	(in thousands of dollars except restaurants) (unaudited)	
Restaurants in the Royalty pool	34	34
Pooled Revenue generated by SIR	32,385	95,027
Royalty income to Partnership – 6% of Pooled Revenue	1,943	5,702

Due to seasonality, revenue of the restaurants included in the Royalty pool for the period from January 1, 2005 to September 30, 2005 is not indicative of full year performance. Generally, revenues are higher during SIR's fourth quarter (ending the last Sunday in August).

Since the Fund has been in existence since August 23, 2004 and began operations on October 12, 2004, no prior year comparatives are shown. However, SIR has provided the Fund with SSSG. Please refer to the charts in the Executive Summary – Same Store Sales Growth section.

Liquidity and Capital Resources

Both the Fund and SIR have strong balance sheets with 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 now recorded on the financial statements of SIR as a result of adopting VIE). 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 obligations, 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. The Fund had distributable cash of \$1.655 million for the period from July 1, 2005 to September 30, 2005. \$1.607 million was distributed to Unitholders during the period July 1, 2005 to September 30, 2005 for the months of June, July and August 2005. Subsequent to September 30, 2005, a distribution of \$0.5 million (\$0.10 per Unit) was declared and paid for the month of September 2005 and a distribution of \$0.5 million (\$0.10 per Unit) was declared for the month of October 2005.

The Fund does not have plans for any capital expenditures in 2005. 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.

Off-Balance Sheet Arrangements

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

Transactions with Related Parties

During the 3 and 9-month periods ended September 30, 2005, the Fund earned distribution income of \$1.0 million and \$2.9 million, respectively, from the Partnership. 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 and 9-month periods ended September 30, 2005, the Fund earned interest income of \$0.8 million and \$2.2 million, respectively, from the SIR Loan. A description of the terms of the SIR Loan is included in the notes to the Consolidated Financial Statements of the SIR Royalty Income Fund (unaudited) for the 3 and 9-month periods ended September 30, 2005.

As at September 30, 2005, the Fund had amounts due from SIR of \$0.2 million and amounts due from the Partnership of \$0.3 million. The amounts due from SIR represent interest owing to the Fund on the SIR Loan for the month of September. The amounts due from the Partnership represent distributions receivable of \$0.6 million partially offset by advances payable of \$0.3 million.

Critical Accounting Estimates

Management believes that there have been no substantial changes in the nature of the critical accounting estimates as described in the annual MD&A for the period ended December 31, 2004 except as follows:

Investment 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. At December 31, 2004 and September 30, 2005 there is no impairment of the investment or loan receivable.

Changes in Accounting Policies, Including Initial Adoption

There have been no changes to the accounting policies as described in the MD&A for the period from August 23, 2004 to December 31, 2004 except as follows:

Effective January 1, 2005, the Fund adopted AcG-15 of the CICA, Consolidation of Variable Interest Entities, which requires the consolidation of VIEs by the primary beneficiary. A VIE is an entity where (a) its equity investment at risk is insufficient to permit the entity to finance its activities without additional subordinated support from others and/or where certain essential characteristics of a controlling financial interest are not met, and (b) it does not meet specified exemption criteria. The primary beneficiary is the enterprise that will absorb or receive the majority of the VIE's expected losses, expected residual returns, or both.

The Fund has determined that SIR, under AcG-15, is the primary beneficiary of the Partnership and therefore the Fund will no longer consolidate the Partnership which it had done previously based on the former consolidation guidelines. Accordingly, the December 31, 2004 comparative results were restated to exclude the balances and transactions of the Partnership and record the Fund's investment in the Partnership at cost. The effect of this change in accounting policy on the consolidated balance sheet as at December 31, 2004 was as follows:

Changes in Accounting Policies, Including Initial Adoption (continued)

	Dec. 31, 2004 (as previously reported)	Adjustment (in millions of dollars)	Dec. 31, 2004 (restated)
Current assets	1.0	(0.2)	0.8
Loan receivable from SIR	40.0	-	40.0
Intangible assets	53.6	(53.6) ⁽¹²⁾	-
Investment in Partnership	-	11.2 ⁽¹³⁾	11.2
Current liabilities	0.5	(0.2)	0.3
Non-controlling interest	46.0	(46.0) ⁽¹⁴⁾	-
Unitholders' equity	48.1	3.5 ⁽¹⁵⁾	51.6

The change in accounting policy has had no impact on the consolidated net earnings of the Fund for the period from August 23, 2004 to December 31, 2004. Statements of the Partnership are now provided separately at www.sedar.com under SIR Royalty Income Fund.

Financial Instruments and Other Instruments

Management believes that there have been no substantial changes in the nature of financial instruments and other instruments since the period ended December 31, 2004. The reader will find this information in the notes to the Consolidated Financial Statements of the SIR Royalty Income Fund (unaudited) for the 3-month and 9-month periods ended September 30, 2005.

Disclosure of Outstanding Unit Data

The following summarizes the ownership structure of the Fund:

Fund	Number of Units	Amount \$
Units issued	5,356,667	51,166,670

Risks and Uncertainties

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

(12) The SIR Rights are recorded in the financial statements of the Partnership which is no longer consolidated in the Fund.

(13) The investment in Partnership represents the Ordinary LP Units of the Partnership indirectly owned by the Fund through the Trust.

(14) Non-controlling interest represents SIR's interest in Units of the Partnership, which is no longer consolidated in the Fund.

(15) The Partnership agreed to pay \$3.5 million of the costs of the Public Offering of the Fund and the issuance of the Ordinary LP Units of the Partnership and, accordingly, upon adoption of AcG-15, Unitholders' equity increased by an equivalent amount.

Risks and Uncertainties (continued)

On September 8, 2005, the federal Department of Finance released a consultation paper and launched public consultations on tax and other issues related to publicly listed flow-through entities ("FTEs"), including income funds. The focus of the paper is to, among other things, assess whether the tax system should be modified. In the consultation paper, the Department of Finance identified three possible policy responses to issues relating to FTEs: (i) limiting deductibility of interest expense by operating entities, (ii) taxing FTEs in a manner similar to corporations, or (iii) making the tax system more neutral with respect to all forms of business organization by better integrating the personal and corporate tax system. The Department of Finance indicated that this was not an exhaustive list of the possible policy responses. It is possible that no changes will be made to the Canadian tax system as a result of the consultation paper and the public consultations. In addition, if changes are made to the Canadian tax system to implement a particular policy response, it cannot be determined at this time whether or how such changes will affect the holding by a particular holder of Units of the Fund.

Outlook

SIR has advised the Fund that it intends to continue to focus on growing existing restaurant revenues and expanding the number of SIR Restaurants subject to the SIR Rights in Canada. As part of that expansion plan, SIR has opened two new Jack Astor's® since the Fund's Initial Public Offering (one on the corner of Front Street and University Avenue in downtown Toronto in early February 2005, and one in Whitby, Ontario at the end of August 2005). Both locations are expected to become part of SIR's Royalty Pooled Restaurants in January 2006. In addition, SIR has secured three additional new sites in southern Ontario for Canyon Creek™ restaurants. The new locations are in Scarborough, Ontario, Vaughan, Ontario, and the Niagara Fallsview Casino Resort, in Niagara Falls, Ontario. The Scarborough location is expected to be opened in the winter of 2006 and the Vaughan and Niagara Falls locations are expected to be opened in the spring of 2006.

As part of the focus on growing existing restaurant revenues, SIR continues to invest approximately \$0.4 million per restaurant to evolve the Jack Astor's® concept. This includes changes to the menu, staff uniforms and restaurant décor, which SIR Management believes will reinforce SIR's position at the top end of the casual theme restaurant category. SIR has advised the Fund that 14 of the 21 Jack Astor's® restaurants in the Royalty pool have been evolved as at the end of September 2005. Subsequent to September 30, 2005, one additional Jack Astor's® has undergone the evolution process. The Jack Astor's® evolution program is intended to continue throughout 2005 and 2006.

Following the successful renovation of Alice Fazooli's!® in Richmond Hill, SIR completed renovations at the Oakville location in early July 2005 and the Vaughan location in mid-August. Three out of the five Alice Fazooli's!® locations have now been renovated. SIR has advised the Fund that it intends to continue evolving its Alice Fazooli's!® locations.

Subsequent to September 30, 2005, Far Niente® was closed for approximately three weeks as SIR made significant renovations to the restaurant. This investment is expected to result in increased guest counts and SSSG going forward.

During SIR's fiscal 2005, same store sales for the Signature Restaurants, which are located in downtown Toronto, were unfavourably impacted in part by the NHL lockout. The lockout has now been resolved and Management anticipates that sales at those restaurants will benefit from the return of hockey.

Management anticipates that the improving trend in the payout ratio will continue into the fourth quarter as a result of higher sales levels that are traditionally experienced during the December party season.

Forward Looking Information

Certain statements in this document may constitute "forward-looking" statements which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Fund to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this document, such statements are such words as "may", "will", "expect", "believe", "plan", "anticipate", "intend" and other similar terminology. These statements reflect SIR Management's current expectations regarding future events and operating performance

Forward Looking Information (continued)

and speak only as of the date of this document. These forward-looking statements involve a number of risks and uncertainties, including those outlined under Risks and Uncertainties above and those set forth in the Fund's October 1, 2004 prospectus and its March 31, 2005 Annual Information Form.

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