SIR ROYALTY INCOME FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2006

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(For the 12-month periods ended December 31, 2006)

Executive Summary

Highlights for the 3-month periods ended December 31, 2006 ("Q4") and the 12-month periods ended December 31, 2006 ("YTD"), include:

- Annual net earnings increased to $6.9 million in 2006, from $6.5 million in 2005 and in Q4 of 2006 decreased to $1.6 million, from $1.8 million in Q4 of 2005.
- Annual net earnings per Fund Unit increased to $1.29 in 2006, from $1.21 in 2005 while net earnings per Fund Unit decreased to $0.31 in Q4 of 2006, from $0.33 in Q4 of 2005.
- The annual payout ratio was 96.1% in 2006, compared to 99.4% in 2005 while the payout ratio for Q4 of 2006 was 102.8%, compared to 91.0% in Q4 of 2005. Please refer to footnotes 10 and 12 on page 11 for the definition and calculation of payout ratio.
- The net earnings, distributable cash, and payout ratios for the fourth quarter were affected by the $0.23 million Priority Special Conversion Distribution ("Conversion Distribution") paid by the SIR Royalty Limited Partnership (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.
- Pooled Revenue increased by 9.9% in Q4 of 2006 to $38.7 million, from $35.2 million in Q4 of 2005 and YTD Pooled Revenue increased by 14.8% to $149.5 million in 2006, from $130.2 million in 2005.
- Same store sales growth[(1)] ("SSSG[(1)]") for restaurants in the Royalty pool for Q4 of 2006 was 2.5% compared to Q4 of 2005 and SSSG[(1)] was 5.9% for the YTD of 2006 compared to 2005.
- SSSG[(1)] was positive in Q4 and the YTD of 2006 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 compared to prior year: Jack Astor's SSSG[(1)] was 0.3% for Q4 and 5.5% YTD; Canyon Creek SSSG[(1)] was 5.0% for Q4 and 7.4% YTD, Alice Fazooli's! SSSG[(1)] was 3.7% for Q4 and 8.3% YTD, and the Signature Restaurants' SSSG[(1)] was 8.1% for Q4 and 4.2% YTD.
- Three Jack Astor's evolutions were completed YTD in 2006 (none in Q4). All but one of the Jack Astor's currently operating has now been evolved.
- reds® was closed for 11 days in Q3 for renovations. Management is pleased with the results of these renovations.
- During 2006, two Alice Fazooli's! restaurants were renovated (one completed in the first quarter and the second completed in Q4). Now, all five Alice Fazooli's! restaurants have been renovated since the Initial Public Offering ("IPO"). The renovated Alice Fazooli's! restaurants are averaging revenue increases in the first full year after the renovation in excess of 10%.
- The two Jack Astor's restaurants that opened in 2005 became part of the Royalty pool effective January 1, 2006.
- Subsequent to year-end, SIR opened a Jack Astor's in Hamilton, Ontario on March 26, 2007. SIR has also secured two additional sites for Jack Astor's restaurants, one of which is planned to open in 2007 and the other is planned to open in 2008.

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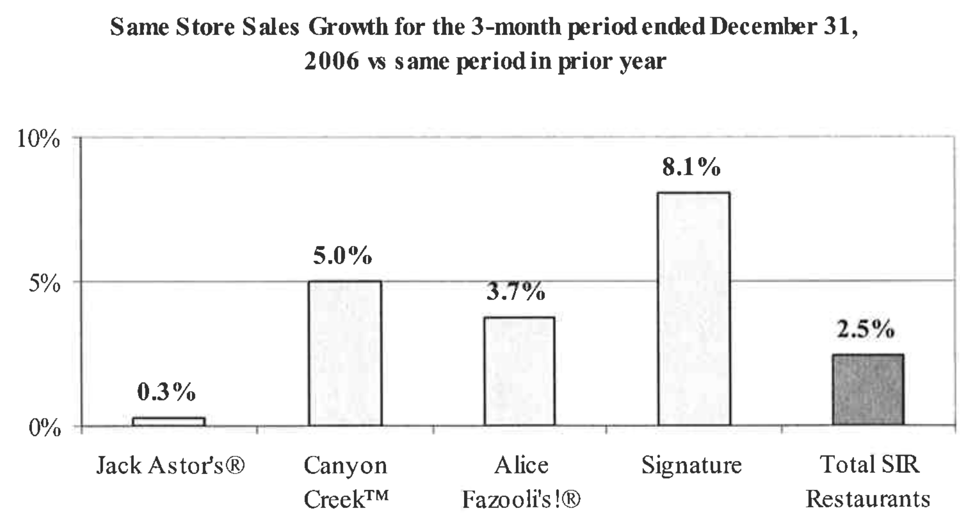
(1) Same store sales ("SSS") and same store sales growth ("SSSG") are non-GAAP financial measures that do not have standardized meanings prescribed by GAAP. However, the Fund believes that SSS and SSSG are useful measures and provide investors with an indication of the change in year-over-year sales. The Fund's method of calculating SSS and SSSG may differ from those of other issuers and, accordingly, SSS and SSSG may not be comparable to measures used by other issuers.
SSS includes revenue from all SIR Restaurants except for the Jack Astor's® locations in Whitby, on Front Street in Toronto and in Don Mills, Ontario because they were not open for the entire year of both 2005 and 2006. SSSG is the percentage increase in SSS over the prior comparable period.

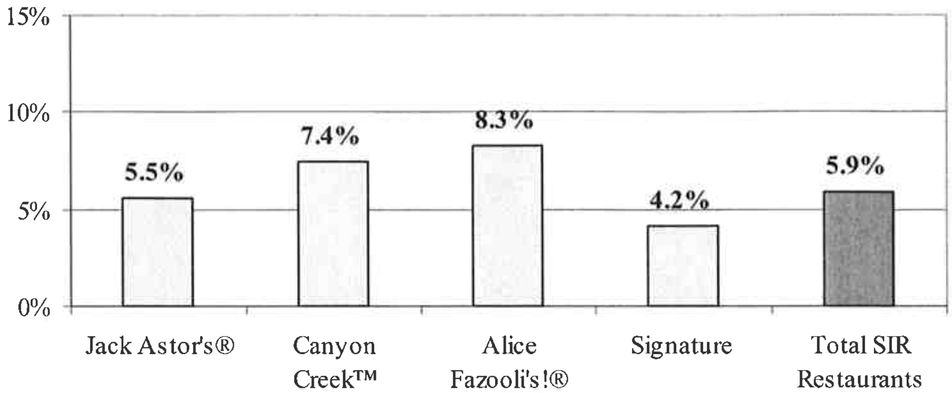
- Three new Canyon Creek restaurants were opened in 2006. Each of these three restaurants was added to the Royalty pool effective January 1, 2007.
- On May 24, 2006 the Trustees authorized a 5.0% distribution increase to Unitholders. The monthly distributions increased from $0.100 per Unit to $0.105 per Unit beginning with the distribution paid in June 2006. This will increase the estimated annualized distribution from $1.20 to $1.26.
- During Q2 of 2006, the Jack Astor's in Don Mills, Ontario was closed. This location has been demolished by the landlord and is to be redeveloped into a major "lifestyle mall". It is expected that this project will be completed in the second half of 2008 and a new Jack Astor's would open in this location at that time. SIR was required to pay a Make-Whole Payment for this location from the date of the closure until December 31, 2006. On January 1, 2007, the 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 determine 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 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 so long as the Fund meets the requirements for "normal growth". On December 21, 2006, the Federal Department of Finance issued draft legislation on the proposed taxation legislation for public comment. 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 it's 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.

Same Store Sales Growth[(1)]
(unaudited)



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

Same Store Sales Growth for the 12-month period ended December 31, 2006 vs same period in prior year



SIR reported to the Fund that SSSG(1) was 2.5% and 5.9% respectively for the Q4 of 2006 and YTD of 2006 versus the comparable periods in the prior year.

SIR's Management attributes the strong YTD performance of Jack Astor's in large part due to evolutions of existing restaurants. The 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 5.0% during Q4 2006 compared to the prior year. SSSG(1) was 7.4% for the YTD of 2006 compared to the YTD of 2005.

The performance of Alice Fazooli's! continues to improve. SSSG(1) in Q4 of 2006 was 3.7%. YTD SSSG(1) was 8.3% compared to the prior year. This YTD growth was achieved even though the dining room of the Alice Fazooli's! in downtown Toronto was closed for nine days during the first quarter for renovations and during Q4, the Alice Fazooli's! in Mississauga was closed also for nine days for renovations and an expansion of the bar. All five of the Alice Fazooli's! locations have now been renovated since the IPO.

During Q4, the Signature Restaurants, which are located in downtown Toronto, had SSSG(1) of 8.1%. Brasserie Frisco™ and Armadillo Texas Grill®/the Loose Moose® revenues were below the prior year during Q4. These declines in Q4 were offset by positive SSSG(1) at Far Niente®/Soul of the Vine® and reds. On a YTD basis the SSSG(1) for the Signature Restaurants remains positive at 4.2%. During Q3 of 2006, reds was closed 11 days for renovations. During Q4 of 2005, Far Niente was closed for approximately three weeks for renovations.

During Q1 and part of Q2 of 2005, the NHL lockout had a significant negative effect on the revenue of the Signature Restaurants. The same group of restaurants benefited from the end of the lock-out over the same period in 2006. In addition, Signature Restaurants' sales benefited from increased sales at Far Niente after the major renovations in the fall of 2005.

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

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 December 31, 2006 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 (from August 28 to September 7, 2006). During mid-October 2005 through November 7, 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 22 restaurants (which in Q4 of 2006 represents approximately 61.5% of Pooled Revenue) has benefited from radio-based campaigns created by a leading North American advertising agency.

New and Closed Restaurants

SIR opened two new restaurants during 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. These restaurants became part of the Royalty Pooled Restaurants on January 1, 2006, at which time 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 License and Royalty Agreement. This adjustment for new revenues that will be part of the Royalty pool is designed to be accretive for Fund Unitholders.

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 subsequent to year-end on January 1, 2007.

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 License and Royalty 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.

Subsequent to year-end, SIR opened a Jack Astor's in Hamilton, Ontario on March 26, 2007. SIR has also secured two additional sites for Jack Astor's restaurants, one of which is planned to open in Dartmouth, Nova Scotia during 2007 and the other at the corner of Dundas and Yonge Streets in Toronto, Ontario during 2008.

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 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 will increase the estimated annualized distribution from $1.20 to $1.26.

The payout ratio of cash distributed to distributable cash is intended to average 100% per annum over the longer term. Since the Fund pays even monthly distributions when it's underlying cash flow from the Partnership is subject to seasonal fluctuations (as experienced by SIR), there are times during the year when the payout ratio may exceed 100%. The payout ratio for the fourth quarter of 2006 was affected by the $0.23 million Conversion Distribution paid by the Partnership. YTD, the payout ratio in 2006 was 96.1% compared to 99.4% for the same period in 2005.

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

Overview and Business of the Fund

On October 1, 2004, the Fund (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 and on SIR's website at www.sircorp.com.

The Fund intends to make monthly distributions of its available cash to the maximum extent possible. During the year, monthly distributions of $535,667 or $0.10 per Unit were declared and paid for each of the months of December 2005 through April 2006. Monthly distributions of $562,450 or $0.105 per Unit were declared and paid for each of the months of May 2006 through November 2006. Subsequent to December 31, 2006, distributions of $0.105 per Unit were declared and paid for the months of December 2006 and January 2007 and a distribution of $0.105 per Unit was declared for the month of February 2007.

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

Overview and Business of SIR and the Partnership

SIR is a private company amalgamated under the Business Corporations Act of Ontario. As at December 31, 2006, SIR operated 38 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 December 31, 2006, 36 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. Subsequent to year end, on January 1, 2007, these three new restaurants were added to the Royalty Pooled Restaurants. The two new Jack Astor's that were opened in 2005 (downtown Toronto, Ontario in February and Whitby, Ontario in August) were added to the Royalty Pooled Restaurants effective January 1, 2006. 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. As a result, the Jack Astor's in Don Mills, Ontario effectively remained part of the Royalty Pooled Restaurants until December 31, 2006. SIR owns 100% of all its Canadian restaurants, except for Jack Astor's Don Mills Limited (50%).

SIR also has an investment in one (2005 – two) Jack Astor's restaurant in the U.S., which is not included in the SIR Royalty Pooled Restaurants. During the year, the Jack Astor's restaurant located in Irving Texas was sold to a local independent restaurant operator and it will no longer operate as a Jack Astor's restaurant. SIR owned the land and building for this location that was financed by U.S. debt. The proceeds from the sale were used to repay the associated U.S. debt.

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 License and Royalty Agreement and 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.

On January 1, 2006, two 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 two new restaurants, SIR converted 438,820 Class B GP Units to 438,820 Class A GP Units based on the formula defined in the Partnership Agreement. The 438,820 Class A GP Units have been recorded at their estimated fair value of $4.1 million. As a result of this exchange, SIR's interest in the Partnership increased to 16.2% effective January 1, 2006. The revenues of the new SIR Restaurants exceeded 80% of the Initial Adjustment's estimated revenue and, as a result, an Additional 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 is able to convert 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 is able to convert 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 December 31, 2006, SIR retained a 16.2% (2005 – 10.0%) interest in the Partnership as the holder of the 1,034,005 (2005 - 595,185) 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 conversion that took place on January 1, 2006 when the two new Jack Astor's 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 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 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)*	**12 month-periods ended Dec. 31 2006 $**	**12 month-periods ended Dec. 31 2005 $**
Restaurants in the Royalty pool	36	34
Pooled Revenue generated by SIR	149,529	130,246
6% of Pooled Revenue	8,972	7,815
Make-Whole Payment[(2)]	104	-
Total Royalty income to Partnership	9,076	7,815
Partnership other income	47	31
Partnership expenses	(157)	(102)
Partnership earnings	8,966	7,744
SIR's interest (Class A, B, and C GP Units)	(4,605)	(3,719)
Partnership income allocated to Fund [(3)]	4,361	4,025
Interest income [(4)]	3,000	3,000
Total income of the Fund	7,361	7,025
General & administrative expenses	(476)	(559)
Net earnings for the period	**6,885**	**6,466**
Basic earnings per Fund Unit (5,356,667 Units)	1.29	1.21
Diluted earnings per Fund Unit (6,390,672 Units, 2005 – 5,951,852 Units)[(5)]	1.29	1.21

For the 12-month period from January 1, 2006 to December 31, 2006, the Fund declared and paid a distribution of $0.10 per Unit for each of the months from December 2005 through April 2006. Monthly distributions of $0.105 per Unit were declared and paid for each of the months of May 2006 through November 2006. Subsequent to December 31, 2006, the Fund declared and paid distributions of $0.105 per Unit for the months of December 2006 and January 2007 and declared a distribution of $0.105 per Unit for the month of February 2007.

(2) *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.*

(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. The holders of the Ordinary LP Units have the right to receive distributions in priority to the initial 595,185 Class A GP Units.*

(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 the 12-month period ended December 31, 2006 is calculated as follows: Net earnings for the 12-month period of $6.9 million (2005 - $6.5 million) plus the distributions related to the Class A GP Units of $1.4 million (2005 - 0.7 million) for the 12-month period divided by the weighted average number of Fund Units outstanding of 6,390,672 (2005 - 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 1,034,005 (2005 - 595,185).*

Summary of Quarterly Financial Information

(in thousands of dollars except restaurants and per Unit amounts)	3-month periods ended							
	Dec. 31, 2006 $	**Sept. 30, 2006** $	**June 30, 2006** $	**March 31, 2006** $	**Dec. 31, 2005** $	**Sept. 30, 2005** $	**June 30, 2005** $	**March 31, 2005** $
Restaurants in the Royalty pool	36	36	36	36	34	34	34	34
Pooled Revenue generated by SIR	38,716	36,447	37,506	36,859	35,219	32,385	32,923	29,719
6% of Pooled Revenue	2,323	2,190	2,250	2,212	2,113	1,943	1,975	1,783
Make-Whole Payment (6)	42	41	18	-	-	-	-	-
Total Royalty income to Partnership	2,365	2,231	2,268	2,212	2,113	1,943	1,975	1,783
Partnership other income	13	13	12	9	8	8	8	8
Partnership expenses	(45)	(21)	(41)	(50)	(25)	(40)	(23)	(14)
Partnership earnings	2,333	2,223	2,239	2,171	2,096	1,911	1,960	1,777
SIR's interest (Class A, B and C GP Units)	(1,336)	(1,090)	(1,090)	(1,089)	(946)	(899)	(946)	(928)
Partnership income allocated to Fund (7)	990	1,133	1,149	1,089	1,150	1,012	1,014	849
Interest income (8)	750	750	750	750	750	750	750	750
Total income of the Fund	1,740	1,883	1,899	1,839	1,900	1,762	1,764	1,599
General & administrative expenses	(99)	(123)	(135)	(119)	(134)	(107)	(202)	(116)
Net earnings for the period	1,641	1,760	1,764	1,720	1,766	1,655	1,562	1,483
Basic earnings per Fund Unit (5,356,667 Units)	0.31	0.33	0.33	0.32	0.33	0.31	0.29	0.28
Diluted earnings per Fund Unit (6,390,672 Units) (9)	0.31	0.33	0.33	0.32	0.33	0.31	0.29	0.28

(6) *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.*

(7) *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.*

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

(9) *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 $1.7 million, $1.7 million, $1.8 million and $2 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 represents Fund Units of 5,356,667 plus the convertible Class A GP Units of 1,034,005. Diluted earnings per Fund Unit for the prior year 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, 2005, 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 represents Fund Units of 5,356,667 plus the convertible Class A GP Units of 595,185.*

Distributable Cash (10) *(in thousands of dollars except per Unit amounts and payout ratio) (unaudited)*	Q4 3-months from Oct. 1 to Dec. 31, 2006 $	Q3 3-months from Jul. 1 to Sept. 30, 2006 $	Q2 3-months from Apr. 1 to June 30, 2006 $	Q1 3-months from Jan. 1 to Mar. 31, 2006 $	Q4 3-months from Oct. 1 to Dec. 31, 2005 $	Q3 3-months from Jul. 1 to Sept. 30, 2005 $	Q2 3-months from Apr. 1 to June 30, 2005 $	Q1 3-months from Jan. 1, to Mar. 31, 2005 $
Cash provided by operating activities	1,687	1,687	1,634	1,607	1,607	1,607	1,607	1,607
Add/(deduct): net change in non-cash working capital items	(46)	73	130	113	159	48	(45)	(124)
Distributable cash (10)	**1,641**	**1,760**	**1,764**	**1,720**	**1,766**	**1,655**	**1,562**	**1,483**
Cash distributed for the period	**1,687**	**1,687**	**1,634**	**1,607**	**1,607**	**1,607**	**1,607**	**1,607**
Surplus/ (shortfall) of distributable cash	**(46)**	**73**	**129**	**113**	**159**	**48**	**(45)**	**(124)**
Payout ratio (10) (11)	102.8% (12)	95.9%	92.6%	93.4%	91.0%	97.1%	102.9%	108.4%
Distributable cash per Fund Unit basic (5,356,667 Units)	0.31	0.33	0.33	0.32	0.33	0.31	0.29	0.28
Distributable cash per Fund Unit diluted (6,390,672 Units, 2005 – 5,951,852 Units) (13)	0.31	0.33	0.33	0.32	0.33	0.31	0.29	0.28

Distributable Cash (10) *(in thousands of dollars except per Unit amounts and payout ratio) (unaudited)*	**12 –month periods ended December 31, 2006 $**	**12-month periods ended December 31, 2005 $**
Cash provided by operating activities	6,615	6,428
Add/(deduct): net change in non-cash working capital items	270	38
Distributable cash (10)	**6,885**	**6,466**
Cash distributed for the period	**6,615**	**6,428**
Surplus/ (shortfall) of distributable cash	**270**	**38**
Payout ratio (10) (11)	96.1%	99.4%
Distributable cash per Fund Unit basic (5,356,667 Units)	1.29	1.21
Distributable cash per Fund Unit diluted (6,390,672 Units, 2005 – 5,951,852 Units) (13)	1.29	1.21

(10) 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.

(11) 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.

(12) The payout ratio for the fourth quarter was affected by the $0.23 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, 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.

(13) 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 $2.0 million, $2.1 million, $2.1 million, $2.0 million, $2.0 million, $1.8 million, $1.7 million, and $1.7 million for the 3-month periods ended December 31, 2006, September 30, 2006, June 30, 2006, March 31, 2006, December 31, 2005, September 30, 2005, June 30, 2005 and March 31, 2005, respectively divided by the weighted average number of Fund Units outstanding of 6,390,672 and 5,951,852 for the 3-month periods ended in fiscal 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 1,034,005 and 595,185 for the periods ended in fiscal 2006 and 2005 respectively.