

---

**SIR ROYALTY INCOME FUND**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FOR THE YEAR ENDED DECEMBER 31, 2007**

---

**SIR ROYALTY INCOME FUND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

**TABLE OF CONTENTS**

	<b>Page</b>
Executive Summary	3
Overview and Business of the Fund	7
Overview and Business of SIR and the Partnership	7
Seasonality	8
Selected Consolidated Financial Information	8
Financial Highlights	9
Summary of Quarterly Financial Information	10
Distributable Cash	11
Balance Sheet	12
Results of Operations – Fund	13
Pooled Revenue	13
Liquidity and Capital Resources	14
Controls and Procedures	15
Off-Balance Sheet Arrangements	15
Transactions with Related Parties	16
Critical Accounting Estimates	16
Changes in Accounting Policies, Including Initial Adoption	16
Recently Issued Accounting Standards	17
Financial Instruments and Other Instruments	17
Disclosure of Outstanding Unit Data	17
Risks and Uncertainties	17
Outlook	18
Forward Looking Information	20

**SIR ROYALTY INCOME FUND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED DECEMBER 31, 2007**  
*(For the 12-month period ended December 31, 2007)*

***Executive Summary***

Highlights for the 3-month period ended December 31, 2007 ("Q4") and the 12-month period ended December 31, 2007 ("YTD"), for SIR Royalty Income Fund (the "Fund") include:

- Net earnings of the Fund for Q4 2007 increased to \$1.9 million from \$1.6 million in Q4 of 2006. Annual net earnings are \$6.4 million in 2007 compared to \$6.9 million in 2006. Net earnings per Fund Unit were \$0.36 and \$1.20 for Q4 2007 and YTD 2007, respectively as compared to \$0.31 and \$1.29 for Q4 2006 and YTD 2006, respectively. Annual net earnings in 2007 are affected by future income taxes of \$0.8 million which have been calculated and recorded in the YTD financial statements of the Fund. This is a result of the proposed changes to the manner in which distributions from certain publicly listed flow-through entities, including income funds, are taxed which was announced by the Federal Department of Finance and is considered substantively enacted.
- Distributable cash<sup>(2)</sup> per Fund Unit, both on a basic and diluted basis increased to \$1.35 for YTD 2007 from \$1.29 for YTD 2006.
- On May 23, 2007, the Trustees authorized a 4.8% distribution increase to Unitholders. The monthly distributions increased from \$0.105 per unit to \$0.110 per unit beginning with the distribution paid in June 2007. This is expected to increase the annualized distribution from \$1.26 to \$1.32.
- The payout ratio<sup>(2)</sup> was 94.7% in Q4 of 2007 and 95.8% for YTD 2007, compared to 102.8% in Q4 of 2006 and 96.1% for YTD 2006.
- Pooled Revenue increased by 8.8% in Q4 of 2007 to \$42.1 million, from \$38.7 million in Q4 of 2006. YTD Pooled Revenue increased 9.2% to \$163.3 million from \$149.5 million in the same period last year.
- Same store sales growth<sup>(1)</sup> ("SSSG") for restaurants in the Royalty pool for Q4 of 2007 was 4.2%, and 4.2% for YTD of 2007.
- SSSG<sup>(1)</sup> was positive in Q4 of 2007 and YTD 2007 for all of SIR Corp.'s ("SIR") Concept Restaurants (Jack Astor's®, Canyon Creek®, and Alice Fazooli's!®): Jack Astor's SSSG<sup>(1)</sup> was 1.3% for Q4 and 2.9% YTD; Canyon Creek SSSG<sup>(1)</sup> was 6.7% for Q4 and 6.4% YTD; and Alice Fazooli's! SSSG<sup>(1)</sup> was 5.3% for Q4 and 5.5% YTD. The Signature Restaurants' SSSG<sup>(1)</sup> was 15.6% for Q4 and 7.6% YTD.
- SIR opened three new Jack Astor's restaurants and closed one existing Jack Astor's restaurant during 2007. SIR also closed Brasserie Frisco® on December 22, 2007. These new and closed restaurants were added to/removed from, respectively, the Royalty Pooled Restaurants on January 1, 2008. SIR is expected to open a new Jack Astor's restaurant in the former Brasserie Frisco location during fiscal 2008.
- 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 has secured a site for a new Jack Astor's in the 'lifestyle mall' which is currently being developed in the same location where the former Jack Astor's restaurant in Don Mills existed.
- Including the two new Jack Astor's mentioned above (in the former Brasserie Frisco location and Don Mills), SIR has secured sites for six additional new restaurants: five new Jack Astor's restaurants and a new Canyon Creek restaurant.
- The subordination of the distributions on SIR's initial 10% share (595,185 Class A GP Units retained in the Fund) ended effective August 26, 2007, when the required conditions were met.

---

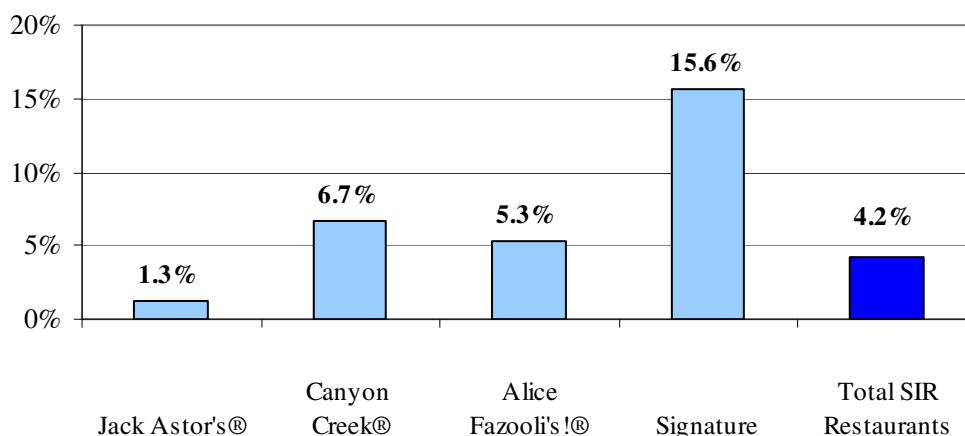
(1) *Same store sales ("SSS") and same store sales growth ("SSSG") are non-GAAP financial measures that do not have standardized meanings prescribed by GAAP. However, the Fund believes that SSS and SSSG are useful measures and provide investors with an indication of the change in year-over-year sales. 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 locations in Don Mills, the former Burlington location, the Canyon Creek locations in Scarborough, Vaughan, and at the Fallsview Casino Resort in Niagara Falls, and Brasserie Frisco as 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.*

(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.*

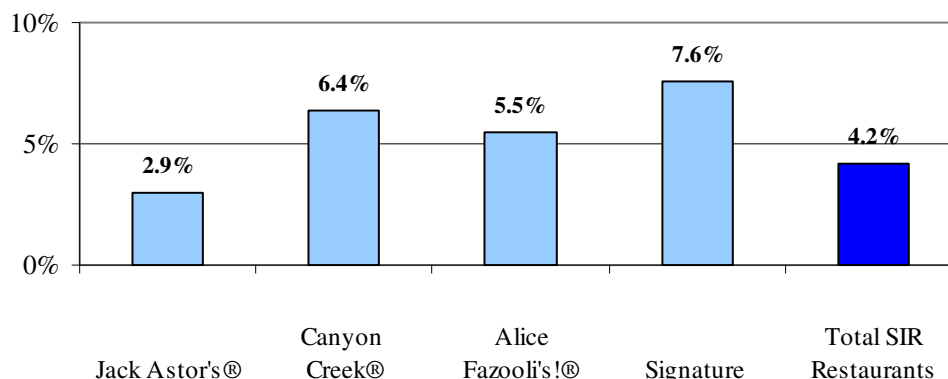
- SIR entered into a seven year, \$16.0 million maximum principal amount credit agreement. The credit agreement is designed primarily to facilitate the construction of new restaurants. The Fund and the SIR Royalty Limited Partnership (the "Partnership") entered into an Interlender Agreement with SIR and the bank which, under certain conditions, subordinates and postpones their claims against SIR to the claims of the bank.
- While SIR is not owned by the Fund, the Fund is economically dependent upon SIR. SIR files its unaudited interim and audited annual consolidated financial statements and Management's Discussion and Analysis which, can be found on SEDAR under the Fund's listing named "Other". SIR's Q1 unaudited consolidated financial statements and MD&A are listed having a filing date of December 20, 2007.

**Same Store Sales Growth<sup>(1)</sup>**  
(unaudited)

**Same Store Sales Growth<sup>(1)</sup> for the 3-month period ended  
December 31, 2007**



**Same Store Sales Growth<sup>(1)</sup> for the 12-month period ended  
December 31, 2007**



SIR reported to the Fund that SSSG<sup>(1)</sup> was 4.2% for YTD 2007, which is over and above the SSSG<sup>(1)</sup> of 5.9% experienced in the prior year (please see the table on the following page).

SSSG<sup>(1)</sup> for Jack Astor's was 2.9% YTD 2007. This growth was achieved on top of the SSSG<sup>(1)</sup> of 5.5% experienced in the prior year. All the existing Jack Astor's restaurants originally in the Royalty pool have now been evolved. SIR's management believes that changes in smoking legislation in Ontario and Quebec have negatively affected bar sales during the year, 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 has mitigated over time, especially during the summer months when patios were open.

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

Canyon Creek continues to perform well, with SSSG<sup>(1)</sup> of 6.4% during YTD 2007 again on top of strong SSSG<sup>(1)</sup> of 7.4% in YTD 2006. The Canyon Creek restaurant located in Etobicoke, Ontario (across from Sherway Gardens) was closed for 11 days during the second quarter for a major renovation. This location was SIR's first Canyon Creek restaurant and it celebrated its 10<sup>th</sup> anniversary in 2007. This update to both the interior and exterior of the restaurant better reflects Canyon Creek's positioning within the market as a chophouse and shows SIR's continued dedication to operating restaurants that are best in their class. The restaurant reopened on June 29, 2007.

The performance of Alice Fazooli's! remains strong with SSSG<sup>(1)</sup> of 5.5% during YTD 2007. This growth is on top of the exceptional SSSG<sup>(1)</sup> of 8.3% experienced in the prior year.

During YTD 2007, the Signature Restaurants, which are located in downtown Toronto, had SSSG<sup>(1)</sup> of 7.6%. This is an increase over the prior year of 4.2% SSSG<sup>(1)</sup>, and is due to positive SSSG<sup>(1)</sup> at Far Niente®/Soul of the Vine® and reds®. The revenues for the Armadillo Texas Grill®/the Loose Moose Tap & Grill® were below the prior year as this location was closed for 8 days during Q3 for renovations. SIR is now operating the entire space as the Loose Moose Tap & Grill and subsequent to the renovation, SSSG<sup>(1)</sup> at the new Loose Moose Tap & Grill have improved. Brasserie Frisco was closed in December 2007 and is no longer included in SSS<sup>(1)</sup>.

<b>SSSG<sup>(1)</sup> for Restaurants in the Royalty pool</b>	<b>12-month period ended December 31, 2007 (unaudited)</b>	<b>12-month period ended December 31, 2006 (unaudited)</b>
Jack Astor's	2.9%	5.5%
Canyon Creek Chop House	6.4%	7.4%
Alice Fazooli's!	5.5%	8.3%
Signature Restaurants	7.6%	4.2%
<b>Overall SSSG<sup>(1)</sup></b>	<b>4.2%</b>	<b>5.9%</b>

### ***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<sup>(1)</sup>. As at December 31, 2007, evolutions of all the Jack Astor's restaurants originally in the Royalty pool have been completed, with the last one completed in Q4 of 2007. These evolutions have resulted in increased sales since the IPO. The renovations at the five Alice Fazooli's! restaurants which were completed during 2005 and 2006 have also delivered strong SSSG<sup>(1)</sup> 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 Q2 of 2007, a major renovation was completed at the Canyon Creek located across from Sherway Gardens in Etobicoke, Ontario, and in Q3 of 2007, a major renovation was completed at the Armadillo Texas Grill/the Loose Moose Tap & Grill. During Q4 renovations were completed at Soul of the Vine in order to introduce an innovative bakery concept, Petit Four™ Bakery, which targets the lucrative catering and take-out markets in the downtown Toronto core. Petit Four Bakery replaced the take-out portion of Soul of the Vine. Subsequent to year end, renovations began in the remaining portion of Soul of the Vine, converting it into Four™ restaurant. Four will be a new healthy upscale restaurant focusing on guilt-free dining with each dish having less than 650 calories. Four is expected to open in Q1 2008. Both Four and Petit Four are not being treated as a New Restaurants under the License and Royalty Agreement. The revenue of Petit Four Bakery was added to Pooled Revenue from its date of opening and the revenue from Four will be added to Pooled Revenue from its date of opening and SIR did not and will not be converting any Class B GP Units into Class A GP Units of the Partnership in exchange for these additional revenue streams.

Since the IPO, SIR has increased its investment in marketing initiatives. In particular, Jack Astor's, with 24 restaurants (which in YTD of 2007 represented approximately 59.5% of Pooled Revenue), has benefited from radio-based advertising. During Q2 2007 and Q4 2007, Alice Fazooli's! ran its first and second multiple station radio campaigns. The campaigns aired on two major radio stations in the Greater Toronto Area and focused on the casual and inviting atmosphere that SIR's newly renovated restaurants offer as well as the fresh and flavourful Italian food that guests enjoy at SIR's five Alice Fazooli's! locations. During Q3 of 2007, Canyon Creek ran its first multiple station radio campaign. The campaign focused on Canyon Creek's attention to details and its 10<sup>th</sup> anniversary and aired on three major radio stations in the Greater Toronto Area.

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

### ***New and Closed Restaurants***

During Q4, a new Jack Astor's site opened in Burlington, Ontario, on October 15, 2007. The former Jack Astor's restaurant in Burlington was closed on September 29, 2007. With respect to the closed Burlington restaurant location, SIR was required to pay a Make-Whole Payment from the date of closure to December 31, 2007. The closed restaurant was removed from the Royalty Pooled Restaurants as a New Closed Restaurant, on January 1, 2008 and the new Jack Astor's restaurant in Burlington was added to the Royalty Pooled Restaurants, on January 1, 2008 as a New Additional Restaurant. The new site is expected to provide higher revenues and therefore a greater Royalty stream to the Partnership.

SIR opened two other new Jack Astor's restaurants in fiscal 2007 (Hamilton, Ontario in Q1 and Dartmouth, Nova Scotia in Q2). Each of these new restaurants were added to the Royalty Pooled Restaurants on January 1, 2008.

In 2008, SIR expects to open a new Jack Astor's in the former Brasserie Frisco location, which closed on December 22, 2007. After evaluating a range of options, SIR determined that converting Brasserie Frisco into a new Jack Astor's is the best use of this prime downtown Toronto location. Brasserie Frisco was treated as a 2007 Closed Restaurant and it is expected that the new Jack Astor's will be added to the Royalty Pooled Restaurants effective January 1, 2009 as a New Additional Restaurant. SIR was required to pay a Make-Whole Payment from the date of closure to December 31, 2007.

A new Jack Astor's is also expected to open in Don Mills, Ontario in the fiscal 2008. SIR has secured a site in the "lifestyle mall" which is currently being developed in the same location where a former Jack Astor's restaurant existed. This former Jack Astor's was closed in fiscal 2006 and removed from the Royalty pool effective January 1, 2007.

SIR has secured four additional sites for Jack Astor's and Canyon Creek restaurants with expected openings in fiscal 2008. One of these new sites is for a Jack Astor's at the corner of Dundas and Yonge Streets in Toronto, Ontario. Two new sites have been secured near the Toronto Pearson International Airport for a Jack Astor's and a Canyon Creek, under one lease. The fourth site is for a Jack Astor's in Boisbriand, Quebec.

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 were added to the Royalty Pooled Restaurants on January 1, 2007

### ***Distributions***

Distributions to Unitholders are intended to be made monthly in arrears based on distributable cash<sup>(2)</sup> 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<sup>(2)</sup> to the extent possible and has paid its expected monthly cash distribution of \$0.10 per Unit per month since inception. On May 24, 2006 the Trustees authorized a 5.0% distribution increase to Unitholders and on May 23, 2007, the Trustees authorized a further 4.8% increase in distributions to the Unitholders. The monthly distributions increased from \$0.10 per Unit to \$0.105 per Unit beginning with the distribution paid in June 2006 and to \$0.110 per Unit beginning with the distribution paid in June 2007. The estimated annualized distribution for 2008 is now \$1.32 per Unit.

The payout ratio<sup>(2)</sup> of cash distributed to distributable cash<sup>(2)</sup> 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<sup>(2)</sup> may exceed 100%. The payout ratio<sup>(2)</sup> in Q4 of 2007 was 94.7 % compared to 102.8% for the same period in 2006. These payout ratios<sup>(2)</sup> were affected by the \$0.08 million and \$0.23 million, Priority Special Conversion Distribution ("Conversion Distribution"), declared by the Partnership in December 2007 and December 2006, respectively. YTD, the payout ratio in 2007 was 95.8% compared to 96.1% for the same period in 2006.

---

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

## ***Overview and Business of the Fund***

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

The Fund intends to make monthly distributions of its available cash to the extent possible. During the year, monthly distributions of \$0.6 million or \$0.105 per Unit were declared and paid for each of the months of December 2006 through April 2007. Monthly distributions of \$0.6 million or \$0.11 per Unit were declared and paid for each of the months of May 2007 through November 2007. Subsequent to December 31, 2007, distributions of \$0.11 per Unit were declared and paid for the month of December 2007 and a distribution of \$0.11 per Unit was declared for the month of January 2008.

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

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

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

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

The revenues of the new SIR Restaurants added to the Royalty pool on January 1, 2007 exceeded 80% of the Initial Adjustment's estimated revenue and, as a result, a Conversion Distribution of \$0.08 million was declared in December 2007 and paid in cash to SIR in January 2008. Assuming the revenues of the three new SIR Restaurants added to the Royalty pool on January 1, 2008 exceed 80% of the Initial Adjustment's estimated revenue, additional Class A GP Units would be expected to be issued to SIR effective January 1, 2009 and a Conversion Distribution would be expected to be declared in December 2008, and paid in cash to SIR in January 2009.

On January 1, 2008, three (2007 - three) new SIR Restaurants were added to the Royalty Pooled Restaurants in accordance with the License and Royalty Agreement. As consideration for the additional Royalty associated with the addition of three (2007 - three) new restaurants on January 1, 2008, as well as the Second Incremental Adjustment for the three (2006 - two) new SIR Restaurants added to the Royalty Pooled Restaurants on January 1, 2007, 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 two (2006 - one) SIR Restaurants during the prior year. The net effect of these adjustments to the Royalty Pooled Restaurants was that SIR converted 193,535 (2007 - 421,004) Class B GP Units of the Partnership into 193,535 (2007 - 421,004) Class A GP Units of the Partnership on January 1, 2008 at an estimated fair value of \$1.5 million (2007 - \$3.5 million). As a result of this exchange, SIR's interest in the Partnership increased to 23.5% effective January 1, 2008.

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

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

Consolidated financial statements of SIR can be found at [www.sedar.com](http://www.sedar.com) under the SIR Royalty Income Fund profile, "other" category and on SIR's website at [www.sircorp.com](http://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 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)*

	<b>12-month period ended December 31, 2007</b>	<b>12-month period ended December 31, 2006</b>
Restaurants in the Royalty pool	38	36
Pooled Revenue generated by SIR	163,353	149,529
6% of Pooled Revenue	9,801	8,972
Make-Whole Payment <sup>(3)</sup>	34	104
Total Royalty income to Partnership	9,835	9,076
Partnership other income	58	47
Partnership expenses	(104)	(157)
Partnership earnings	9,789	8,966
SIR Corp.'s interest (Class A, B and C GP Units)	(5,065)	(4,605)
<b>Partnership income allocated to Fund<sup>(4)</sup></b>	<b>4,724</b>	<b>4,361</b>
Interest income <sup>(5)</sup>	3,000	3,000
<b>Total income of the Fund</b>	<b>7,724</b>	<b>7,361</b>
General & administrative expenses	(483)	(476)
<b>Net earnings before income taxes of the Fund</b>	<b>7,241</b>	<b>6,885</b>
Future income taxes	(797)	-
<b>Net earnings for the period</b>	<b>6,444</b>	<b>6,885</b>
Basic earnings per Fund Unit (5,356,667 Units)	1.20	1.29
Diluted earnings per Fund Unit (2007 – 6,811,676 Units, 2006 - 6,390,672 Units) <sup>(6)</sup>	1.20	1.29

For the 12-month period from January 1, 2007 to December 31, 2007, the Fund declared and paid a distribution of \$0.105 per Unit for each of the months from December 2006 through April 2007. Monthly distributions of \$0.11 per Unit were declared and paid for each of the months of May 2007 through November 2007. Subsequent to December 31, 2007, the Fund declared and paid a distribution of \$0.11 per Unit for the month of December 2007 and declared a distribution of \$0.11 per Unit for the month of January 2008.

- (3) *The Jack Astor's in Burlington, Ontario and the Brasserie Frisco were closed on September 29, 2007 and December 22, 2007, respectively and on May 27, 2006 the Jack Astor's in Don Mills, Ontario was closed. Under the terms of the License and Royalty Agreement, SIR is required to pay a Make-Whole Payment for these locations from the date of the closure until December 31<sup>st</sup> of the year of closure.*
- (4) *On October 12, 2004, the Fund, indirectly through the Trust, acquired all of the Ordinary LP Units of the Partnership. The holders of the Ordinary LP Units and Class A GP Units are entitled to receive a pro rata share of all residual distributions of the Partnership. The holders of the Ordinary LP Units had the right to receive distributions in priority to the initial 595,185 Class A GP Units until August 26, 2007.*
- (5) *Interest income is the interest earned during the periods from the \$40.0 million SIR Loan, which bears interest at 7.5% per annum.*
- (6) *Diluted earnings per Fund Unit for the 12-month periods ended December 31, 2007 and December 31, 2006 is calculated as follows: Net earnings for the 12-month period plus the distributions related to the Class A GP Units for the 12-month period less future income tax expense for the 12-month period, which together total \$8.2 million (2006 - \$8.3 million) divided by the weighted average number of Fund units outstanding of 6,811,676 (2006 – 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 1,455,009 (2006 -1,034,005).*

**Summary of Quarterly Financial Information**

(in thousands of dollars except restaurants  
and per Unit amounts)  
(unaudited)

	3-month periods ended							
	Dec. 31, 2007	Sept. 30, 2007	June 30, 2007	Mar. 31, 2007	Dec. 31, 2006	Sept. 30, 2006	June 30, 2006	Mar 31, 2006
Restaurants in the Royalty pool	38	38	38	38	36	36	36	36
Pooled Revenue generated by SIR	42,132	40,814	40,956	39,451	38,716	36,447	37,506	36,859
6% of Pooled Revenue	2,528	2,449	2,457	2,367	2,323	2,190	2,250	2,212
Make-Whole Payment <sup>(3)</sup>	34	-	-	-	42	41	18	-
Total Royalty income to Partnership	2,562	2,449	2,457	2,367	2,365	2,231	2,268	2,212
Partnership other income	15	15	14	14	13	13	12	9
Partnership expenses	(16)	(27)	(22)	(39)	(45)	(21)	(41)	(50)
Partnership earnings	2,561	2,437	2,449	2,342	2,333	2,223	2,239	2,171
SIR's interest (Class A, B and C GP Units)	(1,355)	(1,252)	(1,238)	(1,220)	(1,343)	(1,090)	(1,090)	(1,082)
<b>Partnership income allocated to Fund<sup>(4)</sup></b>	1,206	1,185	1,211	1,122	990	1,133	1,149	1,089
Interest income <sup>(5)</sup>	750	750	750	750	750	750	750	750
<b>Total income of the Fund</b>	1,956	1,935	1,961	1,872	1,740	1,883	1,899	1,839
General & administrative expenses	(89)	(85)	(167)	(142)	(99)	(123)	(135)	(119)
<b>Net earnings before income taxes of the Fund</b>	1,867	1,850	1,794	1,730	1,641	1,760	1,764	1,720
Future income taxes	56	-	(853)	-	-	-	-	-
<b>Net earnings for the period</b>	1,923	1,850	941	1,730	1,641	1,760	1,764	1,720
Basic earnings per Fund Unit (5,356,667 Units)	0.36	0.35	0.18	0.32	0.31	0.33	0.33	0.32
Diluted earnings per Fund Unit (2007 - 6,811,676 Units; 2006 - 6,390,672 Units) <sup>(7)</sup>	0.36	0.35	0.18	0.32	0.31	0.33	0.33	0.32

(3) See footnote (3) on page 9.

(4) See footnote (4) on page 9.

(5) See footnote (5) on page 9.

(7) Diluted earnings per Fund Unit is calculated as follows: Net earnings for the period plus the distributions related to the Class A GP Units plus (less) future income tax recovery (expense), which together total \$2.2 million \$1.2 million, 2.4 million, and 2.5 million for the 3-month periods ended March 31, 2007, June 30, 2007, September 30, 2007 and December 31, 2007, respectively, divided by the weighted average number of Fund Units outstanding of 6,811,676 Units. The weighted average number of Fund Units outstanding 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.

<b>Distributable Cash<sup>(2)</sup></b> <i>(in thousands of dollars except per Unit amounts and payout ratio<sup>(2)</sup>)</i> <i>(unaudited)</i>	<b>12-month period ended Dec. 31, 2007</b>	<b>12-month period ended Dec. 31, 2006</b>
Cash provided by operating activities	6,937	6,615
Add (deduct): Net change in non-cash working capital items <sup>(8)</sup>	304	270
<b>Distributable cash<sup>(2)</sup></b>	<b>7,241</b>	<b>6,885</b>
<b>Cash distributed for the period</b>	<b>6,937</b>	<b>6,615</b>
<b>Surplus of distributable cash<sup>(2)</sup></b>	<b>304</b>	<b>270</b>
Payout ratio <sup>(2)(9)</sup>	95.8%	96.1%
Distributable cash <sup>(2)</sup> per Fund Unit basic (5,356,667 Units)	1.35	1.29
Distributable cash <sup>(2)</sup> per Fund Unit diluted (2007 – 6,811,676 Units, 2006 - 6,390,672 Units) <sup>(10)</sup>	1.35	1.29

<b>Distributable Cash<sup>(2)</sup></b> <i>(in thousands of dollars except per Unit amounts and payout ratio<sup>(2)</sup>)</i> <i>(unaudited)</i>	<b>3-month periods ended</b>							
	<b>Dec. 31, 2007</b>	<b>Sept. 30, 2007</b>	<b>June 30, 2007</b>	<b>March 31, 2007</b>	<b>Dec. 31, 2006</b>	<b>Sept. 30, 2006</b>	<b>June 30, 2006</b>	<b>March 31, 2006</b>
Cash provided by operating activities	1,768	1,768	1,714	1,687	1,687	1,687	1,634	1,607
Add/(deduct): Net change in non-cash working capital items <sup>(8)</sup>	99	82	80	43	(46)	73	130	113
<b>Distributable cash<sup>(2)</sup></b>	<b>1,867</b>	<b>1,850</b>	<b>1,794</b>	<b>1,730</b>	<b>1,641</b>	<b>1,760</b>	<b>1,764</b>	<b>1,720</b>
<b>Cash distributed for the period</b>	<b>1,768</b>	<b>1,768</b>	<b>1,714</b>	<b>1,687</b>	<b>1,687</b>	<b>1,687</b>	<b>1,634</b>	<b>1,607</b>
<b>Surplus/ (shortfall) of distributable cash<sup>(2)</sup></b>	<b>99</b>	<b>82</b>	<b>80</b>	<b>43</b>	<b>(46)</b>	<b>73</b>	<b>129</b>	<b>113</b>
Payout ratio <sup>(2)(9)</sup>	94.7% <sup>(11)</sup>	95.6%	95.5%	97.5%	102.8% <sup>(11)</sup>	95.9%	92.6%	93.4%
Distributable cash <sup>(2)</sup> per Fund Unit basic (5,356,667 Units)	0.35	0.35	0.33	0.32	0.31	0.33	0.33	0.32
Distributable cash <sup>(2)</sup> per Fund Unit diluted (2007 – 6,811,676 Units; 2006 - 6,390,672 Units) <sup>(10)</sup>	0.35	0.35	0.33	0.32	0.31	0.33	0.33	0.32

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

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

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

(10) Diluted distributable cash per Fund Unit is calculated as follows: Distributable cash for the period plus the distributions related to the Class A GP Units, which together total \$2.4 million, \$2.4 million, \$2.2 million, \$2.2 million, for the 3-month periods ended December 31, 2007, September 31, 2007, June 30, 2007, 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 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 \$2.0 million, \$2.1 million, \$2.1 million and \$2.0 million for the 3-month periods ended December 31, 2006, September 30, 2006, June 30, 2006 and March 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.

(11) The payout ratio for the fourth quarter of 2007 was affected by the \$0.08 million (2006 - \$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, 2008 (January 1, 2007) related to the Second Incremental Adjustment for the restaurants added to the Royalty pool effective January 1, 2008 (January 1, 2007).

Distributions to Unitholders are intended to be made monthly in arrears based on distributable cash<sup>(2)</sup> 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<sup>(2)</sup> to the extent possible and has paid its expected minimum monthly cash distribution of \$0.10 per Unit per month since inception. On May 24, 2006, the Trustees Authorized a 5% distribution increase to Unitholders. The monthly distributions increased from \$0.10 per Unit to \$0.105 per Unit beginning with the distribution paid in June 2006. This increased the estimated annualized distribution from \$1.20 to \$1.26. On May 23, 2007, the Trustees authorized a further 4.8% increase to the distributions to Unitholders. This increased the monthly distributions from \$0.105 per Unit to \$0.110 per Unit beginning with the distribution paid in June 2007. This increased the estimated annualized distribution from \$1.26 to \$1.32.

The payout ratio<sup>(2)</sup> of cash distributed to distributable cash<sup>(2)</sup> is intended to average 100% per annum. Since the Fund pays even monthly distributions when it's underlying cash flow from the Partnership is subject to seasonal fluctuations (as experienced by SIR), there are times during the year when the payout ratio may exceed 100%. For the 12-month periods ended December 31, 2007 and December 31, 2006, the payout ratio<sup>(2)</sup> was 95.8% and 96.1% respectively.

The following table provides disclosure regarding the relationship between cash flows from operating activities and net income, and historical distributed cash amounts:

	<b>12-month period ended Dec. 31, 2007</b>	<b>12-month period ended Dec. 31, 2006</b>
	<i>(in thousands of dollars)</i> <i>(unaudited)</i>	
Cash provided by operating activities	6,937	6,615
Net income	6,444	6,885
Cash distributed for the period	6,937	6,615
<b>Excess (shortfall) of cash provided by operating activities over cash distributed for the period<sup>(12)</sup></b>	<b>-</b>	<b>-</b>
<b>Excess (shortfall) of net income over cash distributions paid<sup>(13)</sup></b>	<b>(493)</b>	<b>270</b>

There is a shortfall of net income compared to cash distributions paid of \$0.5 million for the 12-month period ended December 31, 2007 as a result of the Fund recording a future income tax expense of \$0.8 million in YTD 2007.

### ***Balance Sheet***

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

<i>(in thousands of dollars)</i> <i>(unaudited)</i>	<b>Dec. 31, 2007</b>	<b>Sept. 30, 2007</b>	<b>June 30, 2007</b>	<b>Mar. 31, 2007</b>	<b>Dec. 31, 2006</b>	<b>Sept. 30, 2006</b>	<b>June 30, 2006</b>	<b>Mar. 31, 2006</b>
Total assets	52,406	52,306	52,229	52,104	52,106	52,155	52,042	51,958
Unitholders' equity	51,489	51,334	51,252	52,025	51,982	52,028	51,955	51,826

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

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

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

## Results of Operations - Fund

The Fund's revenue of \$7.7 million for the 12-month period ended December 31, 2007 (\$7.4 million for the 12-month period ended December 31, 2006) is comprised of distribution income from the Partnership of \$4.7 million (\$4.4 million for the 12-month period ended December 31, 2006) and interest income of \$3.0 million (\$3.0 million for the 12-month period ended December 31, 2006). Distribution income from the Partnership is the pro rata share of the residual distributions of the Partnership for the 12-month periods ended December 31, 2007 and December 31, 2006. Interest income is interest earned for the 12-month periods ended December 31, 2007 and December 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 \$0.5 million and \$0.5 million for the 12-month periods ended December 31, 2007 and December 31, 2006, respectively. These expenses include professional fees, directors' and officers' liability insurance premium, Trustees' fees, certain public company costs and other administrative fees.

During Q2 of 2007, the legislation to tax certain publicly traded income trusts became substantively enacted, which required the Fund to record future income taxes in respect of the temporary differences related to the Fund's investment in the Partnership. For the 12-month period ended December 31, 2007, future income tax expense was \$0.8 million. In December, 2007, federal tax rates were reduced, resulting in a future income tax recovery of \$0.1 million for Q4 of fiscal 2007.

Net earnings were \$6.4 million or \$1.20 per Fund Unit (basic and diluted basis) for the 12-month period ended December 31, 2007, and \$6.9 million or \$1.29 per Fund Unit (basic and diluted basis) for the 12-month period ended December 31, 2006.

## Pooled Revenue

The Fund is indirectly dependent on the amount of the Royalty paid by SIR to the Partnership. The amount of this Royalty is dependent on Pooled Revenue. Pooled Revenue is the revenue of the SIR Restaurants included in the Royalty Pooled Restaurants. As at December 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 3 and 12-month periods ended December 31, 2007 and December 31, 2006:

### Summary of Pooled Revenue

(in thousands of dollars  
except number of restaurants  
included in Pooled Revenue)  
(Unaudited)

	3-month period ended Dec. 31, 2007		3-month period ended Dec. 31, 2006		12-month period ended Dec. 31, 2007		12-month period ended Dec. 31, 2006	
	Pooled Revenue \$	Restaurants included in Pooled Revenue	Pooled Revenue \$	Restaurants included in Pooled Revenue	Pooled Revenue \$	Restaurants included in Pooled Revenue	Pooled Revenue \$	Restaurants included in Pooled Revenue
Jack Astor's	23,523	21	23,791	22	97,124	22	96,107	23
Alice Fazooli's!	5,351	5	5,083	5	19,778	5	18,752	5
Canyon Creek	7,618	7	4,671	4	27,138	7	16,247	4
Signature	5,640	4	5,171	4	19,313	4	18,422	4
<b>Total included in Pooled Revenue</b>	<b>42,132</b>	<b>37</b>	<b>38,716</b>	<b>35</b>	<b>163,353</b>	<b>38</b>	<b>149,528</b>	<b>36</b>

### *Liquidity and Capital Resources*

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

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

The credit agreement provides, as part of the total \$16.0 million availability, for a \$2.0 million revolving facility and a \$1.0 million treasury management facility to hedge the construction facility, leaving \$13.0 million for construction purposes. The construction component provides for interest payments only during the first two years of the facility, absent, among other things, default, asset dispositions or further equity or debt issues by SIR. The structure of the facility may be in the form of direct advances, Bankers' Acceptances, Letters of Credit or Guarantee, and a fixed term loan (up to a five-year term). The rates of interest on the financing are Bankers' Acceptance rate plus 1.75% and Prime rate plus 0.25%. Certain financial covenants will apply to SIR, including a maximum senior cash flow leverage ratio and a minimum fixed charge coverage ratio. Annual capital expenditures by SIR are also subject to a cap. As at December 20, 2007 (SIR's most recent interim filing date), SIR reported that it had drawn an aggregate of \$3.2 million under these facilities.

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

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

During the 12-month periods ended December 31, 2007 and December 31, 2006, the Fund distributed \$6.9 million and \$6.6 million to Unitholders, respectively. Subsequent to December 31, 2007, distributions of \$0.6 million (\$0.11 per Unit) were declared and paid for the month of December 2007 and a distribution of \$0.6 million (\$0.11 per Unit) was declared for the month of January 2007.

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

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

While SIR is not owned by the Fund, the Fund's income is derived from interest income on the SIR Loan and distributions from the Partnership and accordingly, the Fund is economically dependent upon SIR. Credit risk arises from the potential default of SIR on the SIR Loan. Management monitors the SIR Loan for credit risk and to date a provision for uncollectible amounts has not been necessary. For information regarding SIR and its liquidity, SIR files its interim unaudited and annual audited consolidated financial statements and MD&A which, can be found on SEDAR under the Fund's listing named "Other". The most recent unaudited consolidated financial statements and MD&A for SIR's first quarter are listed having a filing date of December 20, 2007. The following table is an excerpt of the previous eight quarters of SIR's consolidated statement of cash flows information:

<b><i>SIR's Selected Consolidated Statement of Cash Flows Information</i></b> <sup>(14)</sup> <i>(in thousands of dollars)</i> <i>(unaudited)</i>	1 <sup>st</sup> Quarter Ended November 18, 2007 (12 weeks)	4 <sup>th</sup> Quarter Ended August 26, 2007 (16 weeks)	3 <sup>rd</sup> Quarter Ended May 6, 2007 (12 weeks)	2 <sup>nd</sup> Quarter Ended February 11, 2007 (12 weeks)	1 <sup>st</sup> Quarter Ended November 19, 2006 (12 weeks)	4 <sup>th</sup> Quarter Ended August 27, 2006 (16 weeks)	3 <sup>rd</sup> Quarter Ended May 7, 2006 (12 weeks)	2 <sup>nd</sup> Quarter Ended February 12, 2006 (12 weeks)
<b>Net cash from (used in) continuing operations</b>	594	3,902	457	3,087	136	2,400	1,420	2,388
<b>Net cash used in continuing investing activities</b>	(2,722)	(3,202)	(2,765)	(2,309)	(2,847)	(3,286)	(3,897)	(3,479)
<b>Net cash from (used in) continuing financing activities</b>	2,016	(650)	39	(122)	(642)	4,924	(86)	(80)
Increase (decrease) in cash and cash equivalents during the period	(115)	(186)	(1,953)	661	(3,357)	4,060	(2,548)	(1,498)
Cash and cash equivalents – Beginning of period	3,377	3,563	5,516	4,855	8,212	4,152	6,700	8,198
<b>Cash and cash equivalents – End of period</b>	3,262	3,377	3,563	5,516	4,855	8,212	4,152	6,700

### ***Controls and Procedures***

As at December 31, 2007, an evaluation was carried out under the supervision of and with the participation of the SIR GP Inc. management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the Fund's disclosure controls and procedures. Based on that evaluation, the CEO and the CFO concluded that, to their knowledge, the design and operation of these disclosure controls and procedures were effective as at December 31, 2007 to provide reasonable assurance that material information relating to the Fund and its consolidated subsidiaries would be made known to them by others within those entities.

An evaluation was carried out under the supervision of and with management, including the CEO and CFO, of internal controls over financial reporting as at December 31, 2007. Based on this evaluation, the CEO and the CFO have concluded that, internal controls over financial reporting have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with GAAP.

The Fund does not own, control or consolidate SIR and therefore, the Fund's disclosure controls and procedures and the internal controls over financial reporting do not encompass SIR or SIR's disclosure controls and procedures or SIR's internal controls over financial reporting.

### ***Off-Balance Sheet Arrangements***

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

<sup>(14)</sup> Information presented is derived solely from documents filed with the Canadian securities regulatory authorities by SIR in its interim Q1 MD&A filed on December 20, 2007 and has not been approved by the Fund or its trustees, officers, SIR GP Inc., or SIR Holdings Trust, or their respective trustees, managing general partners, directors, or officers.

### ***Transactions with Related Parties***

During the 12-month period ended December 31, 2007, the Fund earned distribution income of \$4.7 million from the Partnership (December 31, 2006 – \$4.4 million). 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 12-month period ended December 31, 2007, the Fund earned interest income of \$3.0 million, from the SIR Loan (December 31, 2006 – \$3.0 million). A description of the terms of the SIR Loan is included in the notes to the consolidated financial statements of the Fund for the 12-month periods ended December 31, 2007 and December 31, 2006.

As at December 31, 2007, the Fund had amounts receivable from SIR of \$0.2 million (December 31, 2006 - \$0.2 million) and amounts receivable from the Partnership of \$1.0 million (December 31, 2006 - \$0.7 million). The amounts receivable from SIR consist mainly of interest owing to the Fund on the SIR Loan for the month of December. The amounts due from the Partnership represent distributions receivable of \$2.2 million (December 31, 2006 - \$1.4 million) partially offset by advances payable of \$1.2 million (December 31, 2006 - \$0.7 million). All advances were conducted as part of the normal course of business operations.

### ***Critical Accounting Estimates***

#### **Income taxes**

The Fund is a Unit Trust for income tax purposes. As such, the Fund is currently only taxable on income not distributed to Unitholders. As substantially all taxable income is intended to be allocated to Unitholders, no provision for current income taxes has been made for earnings of the Fund. During the three month period ended June 30, 2007, the proposed legislation relating to the Federal income taxation of certain publicly traded income trusts commencing with taxation years ending on or after 2011 became substantively enacted. The Fund now accounts for income taxes using the asset and liability method whereby future income tax assets are recognized for deductible temporary differences and future income tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the amounts of assets and liabilities recorded for income tax and financial reporting purposes. Future income tax assets are recognized only to the extent that management determines that it is more likely than not that the future income tax assets will be realized. Future income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment or substantive enactment.

#### **Investment 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. Management believes that there is no impairment of the investment or loan receivable at December 31, 2007 and December 31, 2006.

### ***Changes in Accounting Policies, Including Initial Adoption***

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

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

As a result of the substantive enactment of the legislation to tax certain publicly traded income trusts, the Fund has followed the asset and liability method to account for income taxes and has recorded a future income tax liability of \$0.8 million related to the temporary differences in the Fund's investment in the Partnership.

### ***Recently Issued Accounting Standards***

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

CICA Handbook Section 3862, Financial Instruments - Disclosures, increases the disclosures currently required that will enable users to evaluate the significance of financial instruments for an entity's financial position and performance, including disclosures about fair value. In addition, disclosure is required of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about liquidity risk and market risk. The quantitative disclosures must also include a sensitivity analysis for each type of market risk to which an entity is exposed, showing how net income and other comprehensive income would have been affected by reasonably possible changes in the relevant risk variable. This standard is effective for the Fund for interim and annual financial statements beginning on January 1, 2008. Management is currently assessing the impact of the adoption of this change on the disclosure in its financial statements.

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

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

### ***Financial Instruments and Other Instruments***

The Fund's financial instruments consist of cash and cash equivalents, the SIR Loan, investment in the Partnership, accounts payable and accrued liabilities, and amounts due from related parties. Management estimates that the fair values of these financial instruments approximate their carrying values due to their short-term maturity except for the SIR Loan and the investment in the Partnership. The fair values of the SIR Loan and the investment in the Partnership could only be determined through a valuation of the individual assets. The aggregate fair value of the SIR Loan and the investment in the Partnership is approximately \$47.9 million based on the market value of the Fund Units as of the close of business on December 31, 2007.

The Fund is exposed to interest rate risk in respect of the loan receivable from SIR and accordingly, the fair value of the loan receivable from SIR will vary with changes in interest rates.

### ***Disclosure of Outstanding Unit Data***

The following summarizes the ownership structure of the Fund as at February 21, 2008 December 31, 2007 and December 31, 2006:

	February 21, 2008		December 31, 2007		December 31, 2006	
	Number of Fund Units	Amount \$	Number of Fund Units	Amount \$	Number of Fund Units	Amount \$
Units issued	5,356,667	51,166,670	5,356,667	51,166,670	5,356,667	51,166,670

### ***Risks and Uncertainties***

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

The income of the Fund must be computed and will be taxed in accordance with Canadian tax laws. There is no assurance that Canadian federal income tax laws respecting the treatment of trusts will not be changed in a manner which adversely affects Unitholders. On October 31, 2006, the Federal Department of Finance announced a plan that proposes changes to the manner in which distributions from certain publicly listed flow-through entities ("FTE's"), including income funds, are taxed. The proposed changes to the current legislation would have certain distributions of FTEs' income subject to tax at corporate income tax rates and investors in the FTE would be taxed as though the distributions were dividends. Existing Income Trusts would not be subject to this proposed taxation of distributions until the 2011 taxation year as long as the Fund meets the requirements for "normal growth". On December 15, 2006, the Federal Department of Finance released guidance provisioning the amount of growth that FTE's are permitted to experience without jeopardizing its deferral of these new proposed taxation rules. The 2011 date will hold for those FTE's whose equity capital growth does not exceed the greater of \$50 million and the FTE's market capitalization as of the end of trading on October 31, 2006. The proposed legislation has since received a third reading and therefore is considered to be substantively enacted. As a result, the Fund recorded a future income tax expense of \$0.8 million in YTD 2007.

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

### **Outlook**

SIR has advised the Fund that it intends to continue to focus on growing existing restaurant revenues and expanding the number of SIR Restaurants subject to the SIR Rights in Canada. As part of that expansion plan, SIR has opened eight new restaurants since the Fund's Initial Public Offering. Two Jack Astor's restaurants were opened in fiscal 2005. Three Canyon Creek restaurants were opened in fiscal 2006. Three new Jack Astor's restaurants (in Hamilton, Ontario, in Dartmouth, Nova Scotia and in Burlington, Ontario) opened in fiscal 2007.

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

SIR closed Brasserie Frisco on December 22, 2007. After evaluating a range of options, SIR determined that converting Brasserie Frisco into a new Jack Astor's is the best use of this prime downtown Toronto location. This new Jack Astor's located on John Street in downtown Toronto is expected to open in fiscal 2008. Brasserie Frisco has been treated as a 2007 Closed Restaurant and, in accordance with the License and Royalty Agreement, was removed from the Royalty pool on January 1, 2008.

Renovations of all five Alice Fazooli's! restaurants took place during fiscal 2005 and 2006. During Q2 2007 and Q4 2007, Alice Fazooli's! ran its first and second multiple station radio campaigns, which focused on the renovated restaurants' inviting atmosphere as well as the fresh and flavourful Italian food served at Alice Fazooli's!.

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

During Q3, the Armadillo Texas Grill/the Loose Moose Tap & Grill was closed for 8 days for renovations. SIR now operates the entire space as the Loose Moose Tap & Grill. Subsequent to this renovation, SSSG<sup>(1)</sup> at the new Loose Moose Tap & Grill have improved. Renovations also took place during Q4 2007 at Soul of the Vine in order for SIR to introduce an innovative bakery concept, Petit Four Bakery. This new Bakery targets the lucrative catering and take-out markets in the downtown Toronto core. Petit Four Bakery replaced the take-out portion of Soul of the Vine. Subsequent to year end, renovations began in the remaining space of Soul of the Vine, converting it into Four restaurant. Four will be a new healthy upscale restaurant focusing on guilt-free dining, with each dish having less than 650 calories. Four is expected to open in Q1 of 2008. Petit Four Bakery and Four are not being treated as New Restaurants under the License and Royalty Agreement. The revenue for both restaurants were and will be added to Pooled Revenue from their date of opening and SIR did not and will not be converting any Class B GP Units into Class A GP Units of the Partnership in exchange for these additional revenue streams.

---

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

*reds* was closed for 11 days for major renovations during the Fund's third quarter of fiscal 2006 and management is pleased with the results of these renovations as well as *reds'* continued sales growth.

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

On January 1, 2008, the three new Jack Astor's restaurants opened in 2007 were added to SIR's Royalty Pooled Restaurants. In accordance with the License and Royalty Agreement, as consideration for the additional Royalty associated with the addition of these three new restaurants, SIR converted its Class B GP Units into Class A GP Units. The number of Class B GP Units that were converted to Class A GP Units on January 1, 2008 was a result of the Second Incremental Adjustment for the three new restaurants added to the Royalty Pooled Restaurants on January 1, 2007, the Initial Adjustment for the three new restaurants that were added to the Royalty Pooled Restaurants on January 1, 2007, and an adjustment for the closure of two SIR Restaurants during 2007. The net effect of these adjustments to the Royalty Pooled Restaurants was that on January 1, 2008, 193,535 Class B GP Units of the Partnership were converted into 193,535 Class A GP Units of the Partnership. The adjustments for new revenues that will be part of the Royalty pool are designed to be accretive for Fund Unitholders. With regards to the Jack Astor's restaurant and Brasserie Frisco that closed in fiscal 2007, and under the terms of the License and Royalty Agreement, SIR was required to pay a Make-Whole Payment to the Partnership from the date of closure until December 31, 2007. On January 1, 2008, the number of Class B GP Units that SIR was able to convert to Class A GP Units in exchange for the new restaurants added to the Royalty pool was reduced for the closure of these Royalty Pooled Restaurants.

In December of each year, a Conversion Distribution will be payable to the Class B GP Unitholders based on actual revenues of the new SIR Restaurants exceeding 80% of the Initial Adjustment's estimated revenue at the time that the restaurants are added to SIR's Royalty Pooled Restaurants or there will be a reduction in the cash distributions to the Class A GP Unitholders if revenues are less than 80% of the Initial Adjustment's estimated revenue. The revenues of the three Canyon Creek and two Jack Astor's restaurants added to SIR's Royalty Pooled Restaurants on January 1, 2007 and January 1, 2006, respectively, exceeded the initial estimated amount and as a result, a Conversion Distribution of \$0.08 million and \$0.23 million was declared in December 2007 and December 2006, respectively. This Conversion Distribution affects the net earnings, distributable cash<sup>(2)</sup> and the payout ratios<sup>(2)</sup> in Q4 of 2007 and 2006. These distributions were paid in January 2008 and January 2007, respectively. Assuming the revenues of the three new SIR Restaurants added to the Royalty pool on January 1, 2008 exceed 80% of the Initial Adjustment's estimated revenue, additional Class A GP Units would be expected to be issued to SIR effective January 1, 2009 and a Conversion Distribution would be expected to be declared in December 2008, and paid in cash to SIR in January 2009.

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

---

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

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

### ***Forward Looking Information***

Statements in this report that are not current or historical factual statements may constitute forward-looking information within the meaning of securities laws. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Fund to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this document, such statements are such words as “may”, “will”, “expect”, “believe”, “plan”, “anticipate”, “intend”, “estimate” and other similar terminology. These statements reflect SIR Management’s current expectations, estimates and projections regarding future events and operating performance and speak only as of the date of this document. Readers should not place undue importance on forward-looking statements and should not rely upon this information as of any other date. The Fund and SIR expressly disclaim any obligation or undertaking to publicly release any updates or revisions to any forward-looking statements contained herein to reflect any change in expectations, estimates and projections with regard thereto or any changes in events, conditions or circumstances on which any statement is based.

In formulating the forward-looking statements contained herein, management has assumed that business and economic conditions affecting SIR’s restaurants and the Fund will continue substantially in the ordinary course, including without limitation with respect to industry conditions, general levels of economic activity (including in downtown Toronto), regulations (including regarding employees, food safety, tobacco and alcohol), weather, taxes, foreign exchange rates and interest rates, that there will be no pandemics or other outbreaks of disease or safety issues affecting humans or animals or food products, and that there will be no unplanned material changes in its facilities, equipment, customer and employee relations, or credit arrangements. These assumptions, although considered reasonable by SIR management at the time of preparation, may prove to be incorrect. For more information concerning the Fund’s risks and uncertainties, please refer to the October 2004 final prospectus, and/or its March 30, 2007 Annual Information Form, all of which are available under the Fund’s profile at [www.sedar.com](http://www.sedar.com).

*Additional information related to the Fund, the Partnership and SIR can be found at [www.sedar.com](http://www.sedar.com) under SIR Royalty Income Fund and on SIR’s website at [www.sircorp.com](http://www.sircorp.com)*