

SIR Royalty Limited Partnership

Financial Statements

(Unaudited)

For the three-month periods ended

March 31, 2007 and 2006

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SIR Royalty Limited Partnership

Balance Sheets

(Unaudited)

	March 31, 2007	December 31, 2006
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	1,275,213	695,751
Prepaid expenses and other assets	25,295	37,735
Amounts due from related parties (note 5)	-	51,830
	<u>1,300,508</u>	<u>785,316</u>
Intangible assets (note 3)	<u>61,180,806</u>	<u>57,648,895</u>
	<u>62,481,314</u>	<u>58,434,211</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	259,444	137,114
Amounts due to related parties (note 5)	<u>1,041,054</u>	<u>648,192</u>
	1,300,498	785,306
Partners' Interest (note 4)	<u>61,180,816</u>	<u>57,648,905</u>
	<u>62,481,314</u>	<u>58,434,211</u>

The accompanying notes are an integral part of these financial statements

SIR Royalty Limited Partnership

Statements of Earnings

(Unaudited)

	Three-month period ended March 31, 2007 \$	Three-month period ended March 31, 2006 \$
Revenue		
Royalty income (notes 1 and 5)	2,367,031	2,211,559
Administration fee (note 5)	6,000	6,000
Other income	7,869	3,392
	<hr/>	<hr/>
	2,380,900	2,220,951
Expenses		
General and administrative	38,780	49,726
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Net earnings for the period	2,342,120	2,171,225
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The accompanying notes are an integral part of these financial statements

SIR Royalty Limited Partnership

Statements of Partners' Interest

(Unaudited)

	Number of units (note 4)	Balance – January 1, 2007 \$	Issued during the three-month period ended March 31, 2007 (note 3)	Net earnings for the period \$	Distributions \$	Balance – March 31, 2007 \$
Ordinary LP units	1,116,666	7,633,570	-	1,122,179	(1,122,179)	7,633,570
Ordinary GP units	100	11	-	15	(15)	11
Class A GP units	1,455,009	10,015,323	3,531,911	469,923	(469,923)	13,547,234
Class B GP units	99,140,176	1	-	3	(3)	1
Class C GP units	4,000,000	40,000,000	-	750,000	(750,000)	40,000,000
		57,648,905	3,531,911	2,342,120	(2,342,120)	61,180,816

	Number of units (note 4)	Balance – January 1, 2006 \$	Issued during the three-month period ended March 31, 2006 (note 3)	Net earnings for the period \$	Distributions \$	Balance – March 31, 2006 \$
Ordinary LP units	1,116,666	7,633,570	-	1,089,111	(1,089,111)	7,633,570
Ordinary GP units	100	11	-	15	(15)	11
Class A GP units	1,034,005	5,951,850	4,063,473	332,096	(332,096)	10,015,323
Class B GP units	99,561,180	1	-	3	(3)	1
Class C GP units	4,000,000	40,000,000	-	750,000	(750,000)	40,000,000
		53,585,432	4,063,473	2,171,225	(2,171,225)	57,648,905

The accompanying notes are an integral part of these financial statements

SIR Royalty Limited Partnership

Statements of Cash Flows

(Unaudited)

	Three-month period ended March 31, 2007 \$	Three-month period ended March 31, 2006 \$
Cash provided by (used in)		
Operating activities		
Net earnings for the period	2,342,120	2,171,225
Net change in non-cash working capital items (note 7)	525,962	418,030
	<u>2,868,082</u>	<u>2,589,255</u>
Financing activities		
Distributions paid	<u>(2,288,620)</u>	<u>(1,761,156)</u>
Change in cash and cash equivalents	579,462	828,099
Cash and cash equivalents – Beginning of period	<u>695,751</u>	<u>228,183</u>
Cash and cash equivalents – End of period	<u>1,275,213</u>	<u>1,056,282</u>
Non-cash transactions (note 3)		

The accompanying notes are an integral part of these financial statements

SIR Royalty Limited Partnership

Notes to Financial Statements

(Unaudited)

March 31, 2007

1 Nature of operations and seasonality

Nature of operations

SIR Royalty Limited Partnership (the "Partnership") is a limited partnership formed under the laws of the Province of Ontario.

On October 1, 2004, SIR Royalty Income Fund (the "Fund") filed a final prospectus for a public offering of units of the Fund. The net proceeds of the offering to the Fund of \$51,166,670 were used by the Fund to acquire, directly, certain bank debt of SIR Corp. (the "SIR loan") 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 Corp. ("SIR") or its subsidiaries and used in connection with the operation of the majority of SIR's restaurants in Canada (the "SIR 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% of the revenue of the restaurants included in the Royalty pool (the "License and Royalty Agreement").

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 revenue during SIR's fourth quarter (ending the last Sunday in August) when patios can be open. Additionally, certain holidays and observances also affect dining patterns both favourably and unfavourably. Accordingly, Royalty income recognized by the Partnership will vary in conjunction with the seasonality in revenue experienced by SIR.

2 Summary of significant accounting policies

Use of estimates

The preparation of these financial statements requires management to make estimates and assumptions that affect income and expenses during the reporting periods, in addition to the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements. Actual results could differ materially from those estimates in the near term.

Revenue recognition

Revenue comprises Royalty income equal to 6% of revenue of SIR's restaurants in Canada that are subject to the License and Royalty Agreement and is recognized on an accrual basis.

SIR Royalty Limited Partnership

Notes to Financial Statements

(Unaudited)

March 31, 2007

Cash and cash equivalents

Cash is defined as cash and short-term investments with original maturities of three months or less.

Intangible assets

The SIR Rights are intangible assets with indefinite lives. In accordance with the requirements of The Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 3062, Goodwill and Other Intangible Assets, the SIR Rights are not amortized. The Partnership reviews the SIR Rights at least annually or when events or circumstances indicate that the carrying amounts may not be recoverable. Impairment is recognized when the estimated fair value of the intangible assets is lower than the carrying value.

Income taxes

The Partnership is not required to pay tax on its earnings as its taxable income is allocated to the partners based on the provisions of the Partnership Agreement. The partners will be liable for income taxes, if any, and accordingly, no provision for income taxes has been recorded in these financial statements.

Financial Instruments – Recognition and Measurement, Handbook Section 3855

Section 3855 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.

The Partnership adopted Section 3855 effective January 1, 2007. The Partnership has classified its cash and cash equivalents as held for trading financial assets, amounts due from related parties as receivables and accounts payable and accrued liabilities and amounts due to related parties as other liabilities. Due to the short-term maturity of these financial instruments, the carrying value approximates their fair value. This standard did not have a material impact on the financial statements.

SIR Royalty Limited Partnership

Notes to Financial Statements

(Unaudited)

March 31, 2007

3 Intangible assets

	Mach 31, 2007 \$	December 31, 2006 \$
SIR Rights – beginning of period	57,648,895	53,585,422
Adjustment to Royalty pool	3,531,911	4,063,473
	<u>61,180,806</u>	<u>57,648,895</u>

On January 1, 2007, three (2006 – two) new SIR Restaurants were added and one (2006 – nil) closed SIR Restaurant was removed from the Royalty Pooled Restaurants in accordance with the Partnership Agreement. As consideration for the additional Royalty associated with the addition of the three (2006 – two) new restaurants as well as the Second Incremental Adjustment for the two new SIR restaurants added to the Royalty Pooled Restaurants on January 1, 2006, and the removal of one (2006 – nil) SIR Restaurant, SIR converted 421,004 (2006 – 438,820) Class B GP units into 421,004 (2006 – 438,820) Class A GP units based on the formula defined in the Partnership Agreement. The 421,004 (2006 – 438,820) Class A GP units have been recorded at their estimated fair value of \$3,531,911 (2006 - \$4,063,473).

4 Partners' interest

The authorized and issued capital of the Partnership consists of the following:

Class of unit	Authorized	March 31, 2007		March 31, 2006	
		Issued	Amount \$	Issued	Amount \$
Class A LP units	Unlimited	-	-	-	-
Class C LP units	Unlimited	-	-	-	-
Ordinary LP units	Unlimited	1,116,666	7,633,570	1,116,666	7,633,570
Class A GP units (note 3)	Unlimited	1,455,009	13,547,234	1,034,005	10,015,323
Class B GP units	Unlimited	99,140,176	1	99,561,180	1
Class C GP units	Unlimited	4,000,000	40,000,000	4,000,000	40,000,000
Ordinary GP units	Unlimited	100	11	100	11
			<u>61,180,816</u>		<u>57,648,905</u>

Generally, the Partnership units have no voting rights, except in certain specified conditions.

SIR Royalty Limited Partnership

Notes to Financial Statements

(Unaudited)

March 31, 2007

Ordinary LP units and Ordinary GP units

The holders of the Ordinary LP 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 Class A GP units described below.

The Ordinary GP units have the right to receive distributions of \$5 per month in aggregate.

SIR GP Inc., a direct subsidiary of the Fund, holds 99 Ordinary GP units of the Partnership and is Managing General Partner of the Partnership. SIR holds the remaining Ordinary GP unit and is the General Partner of the Partnership. The Fund and SIR have an 80% and 20% interest in the common shares of SIR GP Inc., respectively.

SIR Holdings Trust, a direct subsidiary of the Fund, holds all of the issued Ordinary LP units of the Partnership.

Class A and Class B GP units

The holders of the Class A GP units are entitled to receive a pro rata share of all residual distributions of the Partnership and subject to the subordination provisions, the Class A GP units are exchangeable into units of the Fund. Distributions to SIR, as holder of the initial 595,185 Class A GP units of the Partnership, representing the initial retained interest in the Fund, through the exchange feature, as at the closing date of the offering, are subordinated to distributions by the Partnership to the Trust on the Ordinary LP units and the Class A LP units (if any). The subordination of distributions on the Class A GP units ends on the date that both of the following conditions have been satisfied:

- a) Revenue of the SIR restaurants subject to the License and Royalty Agreement has not been less than \$127.4 million for each of two consecutive years commencing with SIR's fiscal year ending August 28, 2005; and
- b) Average monthly cash distributions of \$0.10 per Fund unit have been paid by the Fund and average quarterly cash distributions of at least \$0.30 have been paid by the Partnership to the Class A GP unitholders, in each case for the immediately preceding 12 month period.

The subordination on the distributions on the initial 595,185 Class A GP units of the Partnership is expected to continue until at least August 26, 2007.

Class B GP units are convertible into Class A GP units based on a conversion formula defined in the Partnership Agreement for each new restaurant opened in the previous fiscal year. On dissolution of the Partnership, the Class B units are entitled to receive \$10.00 in aggregate.