SIR Royalty Limited Partnership

Financial Statements
(Unaudited)
For the three-month periods ended
March 31, 2011 and 2010

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SIR Royalty Limited Partnership

Balance Sheets
(Unaudited)

	March 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Assets			
Current assets			
Cash and cash equivalents	118,531	418,286	823,813
Prepaid expenses and other assets	10,144	15,216	11,360
Amounts due from related parties (note 5)	1,055,817	858,153	338,289
	1,184,492	1,291,655	1,173,462
Intangible assets (note 3)	71,265,393	69,845,481	68,608,860
	72,449,885	71,137,136	69,782,322
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	244,996	221,246	155,125
Amounts due to related parties (note 5)	939,486	1,070,399	1,018,327
	1,184,482	1,291,645	1,173,452
Partners' Interest (note 4)	71,265,403	69,845,491	68,608,870
	72,449,885	71,137,136	69,782,322

The accompanying notes are an integral part of these financial statements.

SIR Royalty Limited Partnership

Statements of Earnings and Comprehensive Income
(Unaudited)

	Three-month period ended March 31, 2011 $	Three-month period ended March 31, 2010 $
Revenues		
Royalty income (notes 1 and 5)	2,885,639	2,852,385
Administration fee (note 5)	6,000	6,000
Other income	2,489	-
	2,894,128	2,858,385
Expenses		
General and administrative	23,727	30,722
Net earnings and comprehensive income for the period	2,870,401	2,827,663

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, 2011 $	Issued during the period (notes 3 and 4) $	Net earnings for the period $	Distributions $	Balance March 31, 2011 $
						Three-month period ended March 31, 2011
Ordinary LP units	1,116,666	7,633,570	-	1,103,033	(1,103,033)	7,633,570
Ordinary GP units	100	11	-	15	(15)	11
Class A GP units	3,106,514	22,211,909	1,419,912	1,017,350	(1,017,350)	23,631,821
Class B GP units	97,488,671	1	-	3	(3)	1
Class C GP units	4,000,000	40,000,000	-	750,000	(750,000)	40,000,000
		69,845,491	1,419,912	2,870,401	(2,870,401)	71,265,403

	Number of units (note 4)	Balance January 1, 2010 $	Issued during the period (notes 3 and 4) $	Net earnings for the period $	Distributions $	Balance March 31, 2010 $
						Three-month period ended March 31, 2010
Ordinary LP units	1,116,666	7,633,570	-	1,097,197	(1,097,197)	7,633,570
Ordinary GP units	100	11	-	15	(15)	11
Class A GP units	2,969,324	20,975,288	1,236,621	980,448	(980,448)	22,211,909
Class B GP units	97,625,861	1	-	3	(3)	1
Class C GP units	4,000,000	40,000,000	-	750,000	(750,000)	40,000,000
		68,608,870	1,236,621	2,827,663	(2,827,663)	69,845,491

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, 2011 $	Three-month period ended March 31, 2010 $
Cash provided by (used in)		
Operating activities		
Net earnings for the period	2,870,401	2,827,663
Net change in non-cash working capital items (note 7)	(266,132)	(334,079)
	2,604,269	2,493,584
Financing activities		
Distributions paid	(2,904,024)	(3,181,014)
Change in cash and cash equivalents	(299,755)	(687,430)
Cash and cash equivalents - Beginning of period	418,286	823,813
Cash and cash equivalents - End of period	118,531	136,383

The accompanying notes are an integral part of these financial statements.

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 licence 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 revenues of the restaurants included in the Royalty Pooled Restaurants (the Licence and Royalty Agreement).

Seasonality

The full-service restaurant sector of the Canadian food-service 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 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 revenues experienced by SIR.

2 Changes in accounting policies and basis of presentation

Effective January 1, 2010, the Partnership elected to adopt Canadian accounting standards for private enterprises as issued by the Canadian Accounting Standards Board. The accounting policies selected under this framework have been applied retroactively for comparative purposes. There was no impact on the Partnership's financial statements as a result of adopting these accounting standards.

The accounting policies applied in these unaudited interim financial statements are consistent with those followed in the 2010 audited annual financial statements, except as follows:

Intangible assets

The SIR Rights are intangible assets with indefinite lives. In accordance with requirements of The Canadian Institute of Chartered Accountants (CICA) Handbook, Section 3064, Goodwill and Intangible Assets, the SIR Rights are not amortized. The Partnership reviews the SIR Rights for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. Impairment is recognized when the estimated fair value of the intangible assets is lower than carrying value. An impairment loss for an intangible asset is not reversed if the fair value subsequently changes.

Basis of presentation

The Partnership has followed the guidance of CICA Handbook Section 1751, Interim Financial Statements, in the preparation of these unaudited interim financial statements. The disclosures contained in these unaudited interim financial statements do not include all requirements of Canadian accounting standards for private enterprises for annual financial statements and should be read in conjunction with the 2010 audited annual financial statements and notes thereto. The financial performance of the Partnership for the interim periods is not necessarily indicative of the results that may be expected for the full year due to the seasonality of the Partnership’s business.

3 Intangible assets

	Three-month period ended March 31, 2011 $	Year ended December 31, 2010 $
SIR Rights - Beginning of period	69,845,481	68,608,860
Adjustment to Royalty Pooled Restaurants	1,419,912	1,236,621
SIR Rights - End of period	71,265,393	69,845,481

On January 1, 2011, one (2010 - nil) new SIR Restaurant was added to and nil (2010 - nil) closed SIR Restaurants were removed from the Royalty Pooled Restaurants in accordance with the Partnership Agreement. As consideration for the additional Royalty associated with the addition of one (2010 - nil) new restaurant on January 1, 2011, as well as the second incremental adjustment for the nil (2009 - six) new SIR Restaurants added to the Royalty Pooled Restaurants on January 1, 2010, SIR converted 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 into Class A GP units was reduced by an adjustment for the permanent closure of nil (2010 - nil) SIR Restaurants during the prior year. The net effect of these adjustments to the Royalty Pooled Restaurants was that SIR converted 137,190 (2010 - 243,909) Class B GP units into 137,190 (2010 - 243,909) Class A GP units on January 1, 2011 at an estimated fair value of $1,419,912 (2010 - $1,236,621) (note 4).

4 Partners' interest

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

		March 31, 2011		December 31, 2010	
Class	**Authorized**	**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
Ordinary GP units	Unlimited	100	11	100	11
Class A GP units (note 3)	Unlimited	3,106,514	23,631,821	2,969,324	22,211,909
Class B GP units	Unlimited	97,488,671	1	97,625,861	1
Class C GP units	Unlimited	4,000,000	40,000,000	4,000,000	40,000,000
			71,265,403		69,845,491

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

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. 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 and is the Managing General Partner. SIR holds the remaining Ordinary GP units and is the General Partner. 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.

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 and the Class A GP units are exchangeable into units of the Fund.

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 in aggregate.

On January 1 of each year, Class B GP units are converted into Class A GP units for new SIR Restaurants added to the Royalty Pooled Restaurants based on 80% of the initial estimated revenues and the formula defined in the Partnership Agreement. Additional Class B GP units may be converted into Class A GP units in respect of these new SIR Restaurants if actual revenues of the new SIR Restaurants exceeded 80% of the initial estimated revenues and the formula defined in the Partnership Agreement. Conversely, converted Class A GP units would be returned by SIR if the actual revenues of the new SIR Restaurants are less than 80% of the initial estimated revenues. In December of each year, an additional distribution will be payable to the Class B GP unitholders provided that actual revenues of the new SIR Restaurants exceed 80% of the initial estimated revenues, or there will be a reduction in the distributions to the Class A GP unitholders if revenues are less than 80% of the initial estimated revenues.

On January 1, 2011, one (2010 - nil) new SIR Restaurant was added to and nil (2010 - nil) closed SIR Restaurants were removed from the Royalty Pooled Restaurants in accordance with the Partnership Agreement. As consideration for the additional Royalty associated with the addition of one (2010 - nil) new restaurant on January 1, 2011, as well as the second incremental adjustment for the nil (2009 - six) new SIR Restaurants added to the Royalty Pooled Restaurants on January 1, 2010, SIR converted 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 into Class A GP units was reduced by an adjustment for the permanent closure of nil (2010 - nil) SIR Restaurants during the prior year. The net effect of these adjustments to the Royalty Pooled Restaurants was that SIR converted 137,190 (2010 - 243,909) Class B GP units into 137,190 (2010 - 243,909) Class A GP units on January 1, 2011 at an estimated fair value of $1,419,912 (2010 - $1,236,621).

As a result of not adding any new SIR Restaurants to the Royalty Pooled Restaurants on January 1, 2010, no additional distribution was declared in December 2010 nor was there a second incremental adjustment on January 1, 2011. In December 2009, an additional distribution of $336,594 was declared and paid in cash in January 2010.

Class A GP units and Class B GP units are held by SIR.

Class C GP units

The holders of Class C GP units are entitled to receive a cumulative preferential monthly cash distribution equal to $0.063 per Class C GP unit held, payable on the dates that distributions are paid on the units of the Fund.

SIR has the right to require the Fund to, indirectly, purchase the Class C GP units and assume a portion of the SIR loan as consideration for the acquisition of the Class C GP units.

Class A and Class C LP units

The Class A and Class C LP units have similar attributes to the Class A and Class C GP units.

5 Related party balances and transactions

	March 31, 2011 $	December 31, 2010 $
SIR Corp.		
Royalties receivable	1,541,612	1,395,784
Advances receivable	200,518	187,302
Distributions payable	(686,313)	(724,933)
Amounts receivable from SIR Corp.	1,055,817	858,153
SIR Royalty Income Fund and its subsidiaries		
Advances receivable	1,805,049	1,669,139
Distributions payable	(2,744,535)	(2,739,538)
Amounts payable to SIR Royalty Income Fund and its subsidiaries - net	(939,486)	(1,070,399)
Amounts due to related parties - net	116,331	(212,246)

Advances receivable from related parties are non-interest bearing and due on demand. All advances were conducted as part of the normal course of business operations.

During the three-month period ended March 31, 2011, the Partnership earned Royalty income of $2,885,639 from SIR (three-month period ended March 31, 2010 - $2,852,385). The Partnership's Royalty income is determined based on 6% of the revenues from certain SIR restaurants subject to the Licence and Royalty Agreement between the Partnership and SIR. SIR makes 13 Royalty payments based on SIR's 13 four- or five-week period fiscal year and, as such, timing of these Royalty payments can fluctuate depending on how the four- or five-week periods coincide with the Partnership's calendar fiscal year. Under the terms of the Licence and Royalty Agreement, SIR may be required to pay a Make-Whole Payment in respect of the reduction in revenues for restaurants permanently closed during a reporting period. SIR is not required to pay any Make-Whole Payment in respect of a permanently closed restaurant following the date on which the number of restaurants in the Royalty Pooled Restaurants is equal to or greater than 68 or following October 12, 2019, whichever occurs first. On January 1 of each year (the Adjustment Date), the restaurants subject to the Licence and Royalty Agreement are adjusted for new restaurants opened for at least 60 days preceding such Adjustment Date in the previous fiscal year. At each Adjustment Date, SIR will be entitled to convert its Class B GP units into Class A GP units based on the conversion formula defined in the Partnership Agreement (note 4).

The Partnership has entered into an arrangement with the Fund and the Trust whereby the Partnership will provide or arrange for the provision of services required in the administration of the Fund and the Trust. The Partnership has arranged for these services to be provided by SIR GP Inc. in its capacity as the Managing General Partner, or SIR as the General Partner. SIR, on behalf of SIR GP Inc., also provides services to the Partnership for its administration. For the three-month period ended March 31, 2011, the Partnership provided these services to the Fund and the Trust for consideration of $6,000 (three-month period ended March 31, 2010 - $6,000), which was the amount of consideration agreed to by the related parties.

6 Economic dependence

The Partnership earns substantially all of its revenues from SIR; accordingly, the Partnership is economically dependent on SIR.

SIR has a $26,000,000 senior term debt facility (the Credit Agreement). The Partnership and the Fund did not guarantee the Credit Agreement. The Credit Agreement qualifies as “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 agreed to subordinate and postpone their claims against SIR to the claims of the lender.

7 Net change in non-cash working capital items

Net change in non-cash working capital items comprises:

	Three-month period ended March 31, 2011 $	**Three-month period ended March 31, 2010 $**
Prepaid expenses and other assets	5,072	1,714
Amounts due from related parties	(159,044)	(143,426)
Accounts payable and accrued liabilities	23,750	(55,259)
Amounts due to related parties	(135,910)	(137,108)
	(266,132)	(334,079)