

SIR Royalty Income Fund

Consolidated Financial Statements
(Unaudited)

**For the three-month and six-month periods ended
June 30, 2005**

SIR Royalty Income Fund

Consolidated Balance Sheets

(Unaudited)

	June 30 2005	December 31, 2004
	\$	\$ (restated – note 2)
Assets		
Current assets		
Prepaid expenses and other assets	43,048	97,296
Amounts due from related parties (note 7)	455,727	742,540
	<hr/>	<hr/>
	498,775	839,836
Loan receivable from SIR Corp. (note 3)	40,000,000	40,000,000
Investment in SIR Royalty Limited Partnership (note 4)	11,166,671	11,166,671
	<hr/>	<hr/>
	51,665,446	52,006,507
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	160,904	104,002
Amounts due to related parties (note 7)	-	228,771
	<hr/>	<hr/>
	160,904	332,773
Unitholders' Equity (note 5)	51,504,542	51,673,734
	<hr/>	<hr/>
	51,665,446	52,006,507

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

SIR Royalty Income Fund
Consolidated Statements of Earnings
(Unaudited)
For the periods ended June 30, 2005

	Three-month period ended June 30, 2005	Six-month period ended June 30, 2005
	\$	\$
Investment income		
Distribution income from Partnership (notes 4 and 7)	1,013,914	1,862,804
Interest income (note 3)	750,000	1,500,000
	<hr/>	<hr/>
	1,763,914	3,362,804
Expenses		
General and administrative	201,811	317,996
	<hr/>	<hr/>
Net earnings for the period	1,562,103	3,044,808
	<hr/>	<hr/>
Basic and diluted earnings per Fund unit (note 6)	\$0.29	\$0.57
	<hr/>	<hr/>

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

SIR Royalty Income Fund

Consolidated Statement of Unitholders' Equity
(Unaudited)

For the periods ended June 30, 2005

	Three-month period ended June 30, 2005	Six-month period ended June 30, 2005
	\$	\$
Balance – Beginning of period – as previously reported	51,549,439	48,140,646
Change in accounting policy (note 2)	-	3,533,088
Balance – Beginning of period – restated	51,549,439	51,673,734
Net earnings for the period	1,562,103	3,044,808
Distributions declared and paid (note 5)	(1,607,000)	(3,214,000)
Balance – End of period	<u>51,504,542</u>	<u>51,504,542</u>

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

SIR Royalty Income Fund

Consolidated Statements of Cash Flows

(Unaudited)

For the periods ended June 30, 2005

	Three-month period ended June 30, 2005	Six-month period ended June 30, 2005
	\$	\$
Cash provided by (used in)		
Operating activities		
Net earnings for the period	1,562,103	3,044,808
Net change in non-cash working capital items	44,897	169,192
	<hr/>	<hr/>
	1,607,000	3,214,000
Financing activities		
Distributions paid	<hr/> (1,607,000)	<hr/> (3,214,000)
Change in cash and cash equivalents	-	-
Cash and cash equivalents – Beginning of period	<hr/> -	<hr/> -
Cash and cash equivalents – End of period	<hr/> -	<hr/> -

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

SIR Royalty Income Fund

Notes to Consolidated Financial Statements
(Unaudited)
June 30, 2005

1 The Fund

SIR Royalty Income Fund is a trust established on August 23, 2004 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 SIR Royalty Limited Partnership (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"). The Fund, indirectly, participates in the revenue generated under the License and Royalty Agreement through its investment in the Partnership (note 4).

2 Summary of significant accounting policies

The accompanying interim consolidated financial statements of the Fund have been prepared in accordance with accounting principles generally accepted in Canada. In the opinion of management, all adjustments considered necessary for fair presentation have been included. All such adjustments are of a normal recurring nature. Operating results for the three and six months ended June 30, 2005 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2005. Independent chartered accountants have not audited the information presented in these interim consolidated financial statements.

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles and include the accounts of the Fund and its subsidiaries, namely the Trust and SIR GP Inc. All intercompany accounts and transactions have been eliminated.

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.

SIR Royalty Income Fund

Notes to Consolidated Financial Statements

(Unaudited)

June 30, 2005

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, distribution income recognized by the Fund will vary in conjunction with the seasonality in revenue experienced by SIR.

Cash and cash equivalents

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

Earnings per Fund unit

The earnings per Fund unit are based on the weighted average number of Fund units outstanding during the period. Diluted earnings per Fund unit are calculated to reflect the dilutive effect, if any, of SIR exercising its right to exchange its Class A GP units of the Partnership into Fund units at the beginning of the period.

Distributions

Distributions to unitholders are intended to be made monthly in arrears and are recorded when declared by the Trustees of the Fund.

Financial instruments

The Fund's financial instruments consist of cash and cash equivalents, loan receivable from SIR Corp., accounts payable and accrued liabilities and amounts due to and from related parties. Unless otherwise noted, it is management's opinion that the Fund is not exposed to significant interest or credit risks arising from these financial instruments. Management estimates that the fair values of these financial instruments approximate their carrying values, unless otherwise noted.

Income taxes

The Fund is a unit trust for income tax purposes. As such, the Fund is only taxable on income not distributed to unitholders. As substantially all taxable income is allocated to unitholders, no provision for income taxes has been made for earnings of the Fund. The Fund's subsidiaries also are not required to pay tax, and accordingly, no provision for income taxes has been made for the earnings of the Fund's subsidiaries.

SIR Royalty Income Fund

Notes to Consolidated Financial Statements

(Unaudited)
June 30, 2005

Investment and loan receivable

The investment in SIR Royalty Limited Partnership is recorded at cost and written down to its estimated realizable amount when there is evidence of an impairment. Distribution income from the Partnership is recorded when distributions are declared by the Partnership. To date, had the Fund used the equity method to account for the investment in the Partnership there would not have been any impact on net earnings for the period or the balance of the Fund's investment in the Partnership. The loan receivable from SIR Corp. is reviewed for impairment. If an impairment is 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 collection becomes doubtful. At December 31, 2004 and June 30, 2005 there is no impairment of the investment or loan receivable.

Changes in accounting policy

Consolidation of Variable Interest Entities ("VIEs"), Accounting Guideline – 15

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

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

	Balance as previously reported	Adjustment	Balance as restated
	\$	\$	\$
Current assets	1,038,941	(199,105)	839,836
Loan receivable from SIR Corp.	40,000,000	-	40,000,000
Intangible assets	53,585,422	(53,585,422)	-
Investment in SIR Royalty Limited Partnership	-	11,166,671	11,166,671
Current liabilities	531,865	(199,092)	332,773
Non-controlling interest	45,951,852	(45,951,852)	-
Unitholders' equity	48,140,646	3,533,088	51,673,734

SIR Royalty Income Fund

Notes to Consolidated Financial Statements

(Unaudited)
June 30, 2005

The change in accounting policy has had no impact on the consolidated net earnings for the period from August 23, 2004 to December 31, 2004.

The Partnership agreed to pay \$3,533,088 of the cost of the public offering of the Fund and the issuance of the Ordinary LP units of the Partnership and accordingly, upon adoption of AcG-15, unitholders' equity increased by an equivalent amount.

Recently issued accounting pronouncements

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.

Section 3855 applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. Earlier adoption is permitted only as of the beginning of a fiscal year ending on or after December 31, 2004. The Fund plans to adopt this standard for its 2007 fiscal year. Transitional provisions for this Section are complex and vary based on the type of financial instrument under consideration.

The Fund is currently evaluating the effect of this standard.

Comprehensive Income, Handbook Section 1530

Section 1530 introduces a new requirement to temporarily present certain gains and losses outside net income.

Section 1530 applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. Earlier adoption is permitted only as of the beginning of a fiscal year ending on or after December 31, 2004. The Fund plans to adopt this standard for its 2007 fiscal year. Financial statements of prior periods are required to be restated for certain comprehensive income items. In addition, an enterprise is encouraged, but not required, to present reclassification adjustments in comparative financial statements provided for earlier periods.

The Fund is currently evaluating the effect of this standard.

SIR Royalty Income Fund

Notes to Consolidated Financial Statements

(Unaudited)

June 30, 2005

Hedges – Handbook Section 3865

Section 3865 establishes standards for when and how hedge accounting may be applied. Hedge accounting is optional. This Section applies for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. Retroactive application is not permitted. Earlier adoption is permitted only as of the beginning of a fiscal year that ends on or after December 31, 2004.

The Fund plans to adopt this standard for its 2007 fiscal year. The Fund has no arrangements for hedging, and the adoption of this standard is not expected to have any impact on the Fund at this time.

3 Loan receivable from SIR Corp.

The SIR loan bears interest at 7.5% per annum, is due October 12, 2044 and is collateralized by a general security agreement covering substantially all of the assets of SIR and its subsidiaries in Canada. Interest income of \$1,500,000 was earned during the six-month period ended June 30, 2005 (three-month period ended June 30, 2005 - \$750,000).

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

4 Investment in SIR Royalty Limited Partnership

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 and Class A GP units are entitled to receive a pro rata share of distributions of the Partnership. The holder of the Ordinary LP units have the right to receive distributions in priority to the Class A GP units. The subordination on the distributions on the Class A GP units of the Partnership 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 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 twelve month period.

The distributions from the Partnership primarily comprise revenue earned by the Partnership under the License and Royalty Agreement (note 1) less certain general and administrative expenses. Distributions earned for the six-month period ended June 30, 2005 amount to \$1,862,804 (three-month period ended June 30, 2005 - \$1,013,914).

SIR Royalty Income Fund

Notes to Consolidated Financial Statements
(Unaudited)
June 30, 2005

5 Fund units

An unlimited number of Fund units may be issued pursuant to the declaration of trust. Fund units are redeemable by the holder at a price equal to the lesser of 90% of the market price of a unit during the 10 consecutive trading day period ending on the trading day immediately prior to the date on which the units were surrendered for redemption and an amount based on the closing price on the redemption date, subject to certain restrictions. Each holder of units of the Fund participates pro rata in any distributions from the Fund. Income tax obligations related to the distributions by the Fund are obligations of the unitholders. The Fund issued one unit on August 23, 2004 for cash proceeds of \$10. Upon completion of the initial public offering, the initial unit was redeemed for \$10.

On October 12, 2004, the Fund issued 5,356,667 units for cash proceeds of \$51,166,670, net of unit issuance costs of \$2,400,000. As at June 30, 2005 and December 31, 2004, there are 5,356,667 units issued and outstanding. Each unit is entitled to one vote at any meeting of unitholders.

During the six-month period ended June 30, 2005, the Fund declared distributions of \$0.60 per unit (three-month period ended June 30, 2005 - \$0.30 per unit). Subsequent to June 30, 2005, the Fund declared a distribution of \$0.10 per unit for the month of June 2005.

6 Earnings per Fund unit

Basic earnings per Fund unit is computed by dividing net earnings by the weighted average number of Fund units outstanding during the period.

Subject to the subordination provisions of the Class A GP units, SIR has the right to convert the Class A GP units of the Partnership into units of the Fund. Diluted earnings per Fund unit is calculated using the weighted average number of Fund units outstanding adjusted to include the effect of the conversion of the Class A GP units of the Partnership into Fund units.

SIR Royalty Income Fund
Notes to Consolidated Financial Statements
(Unaudited)
June 30, 2005

The following table reconciles the basic and diluted weighted average number of Fund units outstanding and basic and diluted earnings per Fund unit:

	Basic earnings per Fund unit	Adjustments for conversion of Class A GP units	Diluted earnings per Fund unit
Net earnings for the six-month period ended June 30, 2005	\$3,044,808	\$373,641	\$3,418,449
Earnings per Fund unit for the six-month period ended June 30, 2005	\$0.57		\$0.57
Net earnings for the three-month period ended June 30, 2005	\$1,562,103	\$195,988	\$1,758,091
Net earnings per unit for the three-month period ended June 30, 2005	\$0.29		\$0.29
Weighted average number of Fund units outstanding	5,356,667	595,185	5,951,852

7 Related party transactions

During the six-month period ended June 30, 2005, the Fund received distribution income of \$1,862,804 from the Partnership (three-month period ended June 30, 2005 - \$1,013,914). 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 SIR for the restaurants subject to the License and Royalty Agreement. Under the terms of the License and Royalty Agreement, SIR may be required to pay a make-whole payment in respect of the reduction in revenue for restaurants closed during a reporting period. SIR is not required to pay any make-whole payment in respect of a closed restaurant 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. 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 opened in the previous fiscal year. At each adjustment date, SIR will be entitled to convert its Class B GP units of the Partnership to Class A GP units of the Partnership based on a conversion formula defined in the License and Royalty Agreement.

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 General Partner, of the Partnership. SIR, on behalf of SIR GP Inc., also provides services to the Partnership for its administration. For the six-month period ended June 30, 2005, the Partnership provided these services to the Fund and the Trust for consideration of \$12,000 (three-month period ended June 30, 2005 - \$6,000), which was the amount of consideration agreed to by the related parties.

SIR Royalty Income Fund
Notes to Consolidated Financial Statements
(Unaudited)
June 30, 2005

Amounts due from related parties consist of:

	June 30, 2005	December 31, 2004
	\$	\$
Distribution receivable	442,608	810,458
Advances payable	(214,409)	(67,918)
	<hr/>	<hr/>
Amounts receivable from SIR Royalty Limited Partnership – net	228,199	742,540
	<hr/>	<hr/>
Interest receivable	250,000	-
Advances payable	(22,472)	-
	<hr/>	<hr/>
Amounts receivable from SIR Corp. – net	227,528	-
	<hr/>	<hr/>
	455,727	742,540
	<hr/>	<hr/>

Amounts due to related parties consist of:

	June 30, 2005	December 31, 2004
	\$	\$
Interest receivable	-	(250,000)
Advances payable	-	478,771
	<hr/>	<hr/>
Amounts payable to SIR Corp. – net	-	228,771
	<hr/>	<hr/>

Amounts due to (from) related parties are non-interest bearing and due on demand.

SIR Royalty Limited Partnership

Financial Statements

(Unaudited)

For the three-month and six-month periods ended

June 30, 2005

SIR Royalty Limited Partnership

Balance Sheets

(Unaudited)

	June 30, 2005	December 31, 2004
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	491,419	893,794
Prepaid expenses and other assets	17,458	47,849
	<u>508,877</u>	<u>941,643</u>
Intangible assets (note 3)	<u>53,585,422</u>	<u>53,585,422</u>
	<u>54,094,299</u>	<u>54,527,065</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	73,693	79,015
Amounts due to related parties (note 5)	435,174	862,618
	<u>508,867</u>	<u>941,633</u>
Partners' Interest (note 4)	<u>53,585,432</u>	<u>53,585,432</u>
	<u>54,094,299</u>	<u>54,527,065</u>

The accompanying notes are an integral part of these financial statements

SIR Royalty Limited Partnership

Statements of Earnings

(Unaudited)

For the periods ended June 30, 2005

	Three-month period ended June 30, 2005	Six-month period ended June 30, 2005
	\$	\$
Revenue		
Royalty income (notes 1 and 5)	1,975,362	3,758,510
Administration fee (note 5)	6,000	12,000
Other income	1,444	3,169
	<hr/>	<hr/>
	1,982,806	3,773,679
Expenses		
General and administrative	22,901	37,228
	<hr/>	<hr/>
Net earnings for the period	1,959,905	3,736,451
	<hr/>	<hr/>

The accompanying notes are an integral part of these financial statements

SIR Royalty Limited Partnership

Statement of Partners' Interest

(Unaudited)

For the period from January 1, 2005 to June 30, 2005

	Number of units (note 4)	Balance – January 1, 2005 \$	Net earnings for the period \$	Distributions \$	Balance – June 30, 2005 \$
Ordinary LP units	1,116,666	7,633,570	1,862,774	(1,862,774)	7,633,570
Ordinary GP units	100	11	30	(30)	11
Class A GP units	595,185	5,951,850	373,641	(373,641)	5,951,850
Class B GP units	100,000,000	1	6	(6)	1
Class C GP units	4,000,000	40,000,000	1,500,000	(1,500,000)	40,000,000
		<hr/>	<hr/>	<hr/>	<hr/>
		53,585,432	3,736,451	(3,736,451)	53,585,432

The accompanying notes are an integral part of these financial statements

SIR Royalty Limited Partnership

Statements of Cash Flows

(Unaudited)

For the periods ended June 30, 2005

	Three-month period ended June 30, 2005	Six-month period ended June 30, 2005
	\$	\$
Cash provided by (used in)		
Operating activities		
Net earnings for the period	1,959,905	3,736,451
Net change in non-cash working capital items	1,426,804	(360,156)
	<hr/> 3,386,709	<hr/> 3,376,295
Financing activities		
Distributions paid	<hr/> (2,945,966)	<hr/> (3,778,670)
	440,743	(402,375)
Change in cash and cash equivalents	<hr/> 50,676	<hr/> 893,794
Cash and cash equivalents – Beginning of period	<hr/> 491,419	<hr/> 491,419
Cash and cash equivalents – End of period	<hr/> <hr/> 491,419	<hr/> <hr/> 491,419

The accompanying notes are an integral part of these financial statements

SIR Royalty Limited Partnership

Notes to Financial Statements

(Unaudited)

June 30, 2005

1 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”).

2 Summary of significant accounting policies

The accompanying interim financial statements of the Partnership have been prepared in accordance with accounting principles generally accepted in Canada. In the opinion of management, all adjustments considered necessary for fair presentation have been included. All such adjustments are of a normal recurring nature. Operating results for the three months and six months ended June 30, 2005 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2005. Independent chartered accountants have not audited the information presented in these interim financial statements.

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.

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.

SIR Royalty Limited Partnership

Notes to Financial Statements

(Unaudited)

June 30, 2005

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.

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 recoverability of the SIR Rights at least annually or when events or circumstances indicate that the carrying amounts may not be recoverable. The measurement of possible impairment is based on fair 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.

Recently issued accounting pronouncements

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.

Section 3855 applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. Earlier adoption is permitted only as of the beginning of a fiscal year ending on or after December 31, 2004. The Partnership plans to adopt this standard for its 2007 fiscal year. Transitional provisions for this Section are complex and vary based on the type of financial instrument under consideration.

The Partnership is currently evaluating the effect of this standard.

SIR Royalty Limited Partnership

Notes to Financial Statements

(Unaudited)

June 30, 2005

Comprehensive Income, Handbook Section 1530

Section 1530 introduces a new requirement to temporarily present certain gains and losses outside net income.

Section 1530 applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. Earlier adoption is permitted only as of the beginning of a fiscal year ending on or after December 31, 2004. The Partnership plans to adopt this standard for its 2007 fiscal year. Financial statements of prior periods are required to be restated for certain comprehensive income items. In addition, an enterprise is encouraged, but not required, to present reclassification adjustments in comparative financial statements provided for earlier periods.

The Partnership is currently evaluating the effect of this standard.

Hedges – Handbook Section 3865

Section 3865 establishes standards for when and how hedge accounting may be applied. Hedge accounting is optional. This Section applies for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. Retroactive application is not permitted. Earlier adoption is permitted only as of the beginning of a fiscal year that ends on or after December 31, 2004.

The Partnership plans to adopt this standard for its 2007 fiscal year. The Partnership has no arrangements for hedging, and the adoption of this standard is not expected to have any impact on the Partnership at this time.

3 Intangible assets

On October 12, 2004, the Partnership acquired the SIR Rights for consideration of \$53,585,422, including acquisition costs of \$420,000, as follows:

	Number of units	\$
Cash		7,633,570
Class A GP units	595,185	5,951,850
Class B GP units	100,000,000	1
Class C GP units	4,000,000	40,000,000
Ordinary GP unit	1	1
		<hr/>
		53,585,422
		<hr/>

SIR Royalty Limited Partnership

Notes to Financial Statements

(Unaudited)

June 30, 2005

4 Partners' interest

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

Class of unit	Authorized	Issued	Amount \$
Class A LP units	Unlimited	-	-
Class C LP units	Unlimited	-	-
Ordinary LP units	Unlimited	1,116,666	7,633,570
Class A GP units	Unlimited	595,185	5,951,850
Class B GP units	Unlimited	100,000,000	1
Class C GP units	Unlimited	4,000,000	40,000,000
Ordinary GP units	Unlimited	100	11
			<u>53,585,432</u>

All units of the Partnership were issued during the period ended December 31, 2004. Issuance costs borne by the Partnership in respect of the offering and the issuance of the Ordinary LP units amounted to \$3,533,090. 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 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.

SIR Royalty Limited Partnership

Notes to Financial Statements

(Unaudited)

June 30, 2005

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 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.

Class B GP units are convertible into Class A GP units based on a conversion formula defined in the License and Royalty 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.

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 loan between SIR and the Fund (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, except that the Class A LP units are not subordinated to the distributions by the Partnership on the Ordinary LP units.

SIR Royalty Limited Partnership

Notes to Financial Statements

(Unaudited)

June 30, 2005

5 Related party balances and transactions

	June 30, 2005 \$	December 31, 2004 \$
Royalties receivable	(546,344)	-
Advances payable (receivable)	249,360	(58,250)
Distributions payable	503,959	178,328
	<hr/>	<hr/>
Payable to SIR Corp. – net	206,975	120,078
	<hr/>	<hr/>
Advances receivable	(214,409)	(67,918)
Distributions payable	442,608	810,458
	<hr/>	<hr/>
Payable to SIR Royalty Income Fund and its subsidiaries – net	228,199	742,540
	<hr/>	<hr/>
Amounts due to related parties – net	435,174	862,618
	<hr/>	<hr/>

Advances receivable from (payable to) related parties are non-interest bearing and due on demand.

During the six-month period ended June 30, 2005, the Partnership earned royalty income of \$3,758,510 from SIR (three-month period ended June 30, 2005 - \$1,975,362). The royalty income is determined based on 6% of the revenues from certain SIR restaurants as defined in the License and Royalty Agreement between the Partnership and SIR. Under the terms of the License and Royalty Agreement, SIR may be required to pay a make-whole payment in respect of the reduction in revenue for restaurants closed during a reporting period. SIR is not required to pay any make-whole payment in respect of a closed restaurant 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. 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 opened in the previous fiscal year. At each adjustment date, SIR will be entitled to convert its Class B GP units of the Partnership to Class A GP units of the Partnership based on a conversion formula defined in the License and Royalty Agreement.

SIR Royalty Limited Partnership

Notes to Financial Statements

(Unaudited)

June 30, 2005

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 General Partner, of the Partnership. SIR, on behalf of SIR GP Inc., also provides services to the Partnership for its administration. For the six-month period ended June 30, 2005, the Partnership provided these services to the Fund and the Trust for consideration of \$12,000 (three-month period ended June 30, 2005 - \$6,000), which was the amount of consideration agreed to by the related parties.

6 Comparative figures

Certain comparative figures have been restated to conform to the current period's presentation.