SIR Royalty Limited Partnership

Financial Statements
December 31, 2007 and 2006

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February 19, 2008

Auditors' Report

To the Partners of
SIR Royalty Limited Partnership

We have audited the balance sheets of **SIR Royalty Limited Partnership** as at December 31, 2007 and 2006 and the statements of earnings and comprehensive income, partners' interest and cash flows for the years then ended. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Partnership as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) "PricewaterhouseCoopers LLP"

Chartered Accountants, Licensed Public Accountants

Hamilton, Ontario

SIR Royalty Limited Partnership
Balance Sheets
As at December 31, 2007 and 2006

	2007 $	2006 $
Assets		
Current assets		
Cash and cash equivalents	806,940	695,751
Prepaid expenses and other assets	33,192	37,735
Amounts due from related parties (note 5)	225,148	51,830
	1,065,280	785,316
Intangible assets (note 3)	61,180,806	57,648,895
	62,246,086	58,434,211
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	105,208	137,114
Amounts due to related parties (note 5)	960,062	648,192
	1,065,270	785,306
Partners' Interest (note 4)	61,180,816	57,648,905
	62,246,086	58,434,211

Subsequent event (note 4)

The accompanying notes are an integral part of these financial statements

Approved by the Managing General Partner

(signed) "Peter Luit" Director

(signed) "Peter Fowler" Director

SIR Royalty Limited Partnership

Statements of Earnings and Comprehensive Income

For the years ended December 31, 2007 and 2006

	2007 $	2006 $
Revenue		
Royalty income (notes 1 and 5)	9,834,601	9,075,596
Administration fee (note 5)	24,000	24,000
Other income	34,042	23,441
	9,892,643	9,123,037
Expenses		
General and administrative	103,841	156,489
Net earnings and comprehensive income for the year	9,788,802	8,966,548

The accompanying notes are an integral part of these financial statements

SIR Royalty Limited Partnership

Statements of Partners' Interest

For the years ended December 31, 2007 and 2006

	Number of units (note 4)	**Balance – January 1, 2007** **$**	**Units issued** (note 3)	**Net earnings for the year** **$**	**Distributions** **$**	**Balance – December 31, 2007** **$**
Ordinary LP units	1,116,666	7,633,570	-	4,724,203	(4,724,203)	7,633,570
Ordinary GP units	100	11	-	60	(60)	11
Class A GP units	1,455,009	10,015,323	3,531,911	1,987,592	(1,987,592)	13,547,234
Class B GP units	99,140,176	1	-	76,947	(76,947)	1
Class C GP units	4,000,000	40,000,000	-	3,000,000	(3,000,000)	40,000,000
		57,648,905	3,531,911	9,788,802	(9,788,802)	61,180,816

	Number of units (note 4)	**Balance – January 1, 2006** **$**	**Units issued** (note 3)	**Net earnings for the year** **$**	**Distributions** **$**	**Balance – December 31, 2006** **$**
Ordinary LP units	1,116,666	7,633,570	-	4,361,368	(4,361,368)	7,633,570
Ordinary GP units	100	11	-	60	(60)	11
Class A GP units	1,034,005	5,951,850	4,063,473	1,373,757	(1,373,757)	10,015,323
Class B GP units	99,561,180	1	-	231,363	(231,363)	1
Class C GP units	4,000,000	40,000,000	-	3,000,000	(3,000,000)	40,000,000
		53,585,432	4,063,473	8,966,548	(8,966,548)	57,648,905

The accompanying notes are an integral part of these financial statements

SIR Royalty Limited Partnership

Statements of Cash Flows

For the years ended December 31, 2007 and 2006

	2007 $	2006 $
Cash provided by (used in)		
Operating activities		
Net earnings for the year	9,788,802	8,966,548
Net change in non-cash working capital items (note 7)	(722,720)	(486,621)
	9,066,082	8,479,927
Financing activities		
Distributions paid	(8,954,893)	(8,012,359)
Change in cash and cash equivalents	111,189	467,568
Cash and cash equivalents – Beginning of year	695,751	228,183
Cash and cash equivalents – End of year	806,940	695,751

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 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.

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

Handbook 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.

Recently issued accounting pronouncements

Capital Disclosures – Handbook Section 1535

Handbook Section 1535 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. The Partnership adopted this standard effective January 1, 2008. Management is currently assessing the impact of the adoption of this change on the disclosure in its financial statements.

Financial Instruments – Disclosures – Handbook Section 3862

Handbook Section 3862 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. The Partnership adopted this standard effective January 1, 2008. Management is currently assessing the impact of the adoption of this change on the disclosure in its financial statements.

Financial Instruments – Presentation – Handbook Section 3863

Handbook Section 3863 replaces the existing requirements on presentation of financial instruments which have been carried forward unchanged to this new section. The Partnership adopted this standard effective January 1, 2008. Management does not expect the adoption of this standard to have a material impact on presentation in its financial statements.

International Financial Reporting Standards

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 Partnership's financial statements and has not yet determined the impact.

3 Intangible assets

	2007 $	2006 $
SIR Rights – beginning of year	57,648,895	53,585,422
Adjustment to Royalty pool	3,531,911	4,063,473
SIR Rights – end of year	61,180,806	57,648,895

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). On January 1, 2008, an additional 193,535 Class B GP units were converted to Class A GP units (see note 4).

The tax basis of the intangible assets as at December 31, 2007 is $4,471,834 (2006 - $4,808,424).

4 Partners' interest

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

		2007		2006	
Class of unit	**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
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
			61,180,816		57,648,905

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.

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 ended on August 26, 2007 when both the minimum revenue condition and the average monthly cash distribution per Fund unit condition were met. Accordingly, the initial 595,185 Class A GP units are no longer subordinated.

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.

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 pool based on 80% of the initial estimated revenue and the formula defined in the Partnership Agreement. Additional Class B GP units may be converted to 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 revenue and the formula defined in the Partnership Agreement. Conversely, converted Class A GP units may be returned by SIR if the actual revenues of the new SIR Restaurants are less than 80% of the initial estimated revenue. 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 revenue 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 revenue.

On January 1, 2007, three (2006 – two) 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 (2006 – two) new restaurants on January 1, 2007, as well as the second incremental adjustment for the two new SIR Restaurants added to the Royalty Pooled Restaurants on January 1, 2006, SIR 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 to Class A GP units was reduced by an adjustment for the closure of one (2006 – nil) SIR Restaurants during the prior year. The net effect of these adjustments to the Royalty Pooled Restaurants was that SIR converted 421,004 (2006 – 438,820) Class B GP units of the Partnership into 421,004 (2006 – 438,820) Class A GP units of the Partnership on January 1, 2007 at an estimated fair value of $3,531,911 (2006 - $4,063,473).

On January 1, 2008, 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 new restaurants on January 1, 2008, as well as the second incremental adjustment for the three new SIR Restaurants added to the Royalty Pooled Restaurants on January 1, 2007, 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 to Class A GP units was reduced by an adjustment for the closure of two SIR Restaurants during 2007. The net effect of these adjustments to the Royalty Pooled Restaurants was that SIR converted 193,535 Class B GP units of the Partnership into 193,535 Class A GP units of the Partnership on January 1, 2008 at an estimated fair value of $1,455,577.

In addition, the revenues of the three (2006 – two) 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, an Additional Distribution of $76,935 (2006 - $231,351) was declared in December 2007 and paid in cash to SIR the following January.

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.

5 Related party balances and transactions

	2007 $	2006 $
SIR Corp.		
Royalties receivable	1,257,080	1,144,615
Advances payable	(25,467)	(132,850)
Distributions payable	(1,006,465)	(959,935)
Net receivable from SIR Corp.	225,148	51,830
SIR Royalty Income Fund and its subsidiaries		
Advances receivable	1,214,178	738,669
Distributions payable	(2,174,240)	(1,386,861)
Payable to SIR Royalty Income Fund and its subsidiaries	(960,062)	(648,192)
Amounts due to related parties – net	(734,914)	(596,362)

Advances receivable from (payable to) 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 year ended December 31, 2007, the Partnership earned Royalty income of $9,834,601 from SIR (December 31, 2006 - $9,075,596). The Royalty income is determined based on 6% of the revenues from certain SIR restaurants subject to 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 the conversion formula defined in the License and Royalty 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 General Partner, of the Partnership. SIR, on behalf of SIR GP Inc., also provides services to the Partnership for its administration. For the year ended December 31, 2007, the Partnership provided these services to the Fund and the Trust for consideration of $24,000 (December 31, 2006 - $24,000), which was the amount of consideration agreed to by the related parties.

6 Economic dependence

The Partnership earns substantially all of its revenue from SIR and therefore is economically dependent upon SIR.

On August 9, 2007, SIR entered into a credit agreement for a maximum principal amount of $16 million. The facility will be used primarily to facilitate construction of new restaurants by SIR. The loan is collateralized 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 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 the trademarks and related intellectual property in return for royalty payments based on revenues, has been effected pursuant to the terms of an Interlender Agreement.

Under the Interlender Agreement, absent a default or event of default under the Credit Agreement, ordinary payments to the Partnership and the Fund can continue and the Partnership can exercise any and all of its rights to preserve the trademarks and related intellectual property governed by the License and Royalty Agreement. However, if a default or 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.

7 Net change in non-cash working capital items

Net change in non-cash working capital items comprises:

	2007 $	2006 $
Prepaid expenses and other assets	4,543	(26,107)
Amounts due from related parties	(219,848)	(179,961)
Accounts payable and accrued liabilities	(31,906)	(45,127)
Amounts due to related parties	(475,509)	(235,426)
	(722,720)	(486,621)