SIR Royalty Limited Partnership

Financial Statements
December 31, 2008 and 2007

PricewaterhouseCoopers LLP
Chartered Accountants
21 King Street West, Main Floor
Hamilton, Ontario
Canada L8P 4W7
Telephone +1 905 777 7000
Facsimile +1 905 777 7060

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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, 2008 and 2007 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, 2008 and 2007 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, 2008 and 2007

	2008 $	2007 $
Assets		
Current assets		
Cash and cash equivalents	1,216,054	806,940
Prepaid expenses and other assets	34,223	33,192
Amounts due from related parties (note 7)	67,555	225,148
	1,317,832	1,065,280
Intangible assets (note 4)	62,636,383	61,180,806
	63,954,215	62,246,086
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	76,982	105,208
Amounts due to related parties (note 7)	1,240,840	960,062
	1,317,822	1,065,270
Partners' Interest (note 5)	62,636,393	61,180,816
	63,954,215	62,246,086

Subsequent event (note 5)

The accompanying notes are an integral part of these financial statements

Approved by the Managing General Partner

(signed) "Peter Luit" Partner

(signed) "Peter Fowler" Partner

SIR Royalty Limited Partnership

Statements of Earnings and Comprehensive Income

For the years ended December 31, 2008 and 2007

	2008 $	2007 $
Revenue		
Royalty income (notes 1 and 7)	10,501,805	9,834,601
Administration fee (note 7)	24,000	24,000
Other income	36,187	34,042
	10,561,992	9,892,643
Expenses		
General and administrative	111,752	103,841
Net earnings and comprehensive income for the year	10,450,240	9,788,802

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, 2008 and 2007

	Number of units (note 5)	**Balance – January 1, 2008** **$**	**Units issued** (note 5)	**Net earnings for the year** **$**	**Distributions** **$**	**Balance – December 31, 2008** **$**
Ordinary LP units	1,116,666	7,633,570	-	4,965,567	(4,965,567)	7,633,570
Ordinary GP units	100	11	-	60	(60)	11
Class A GP units	1,648,544	13,547,234	1,455,577	2,306,713	(2,306,713)	15,002,811
Class B GP units	98,946,641	1	-	177,900	(177,900)	1
Class C GP units	4,000,000	40,000,000	-	3,000,000	(3,000,000)	40,000,000
		61,180,816	1,455,577	10,450,240	(10,450,240)	62,636,393

	Number of units (note 5)	**Balance – January 1, 2007** **$**	**Units issued** (note 5)	**Net earnings for the year** **$**	**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

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, 2008 and 2007

	2008 $	2007 $
Cash provided by (used in)		
Operating activities		
Net earnings for the year	10,450,240	9,788,802
Net change in non-cash working capital items (note 10)	81,599	(722,720)
	10,531,839	9,066,082
Financing activities		
Distributions paid	(10,122,725)	(8,954,893)
Change in cash and cash equivalents	409,114	111,189
Cash and cash equivalents – Beginning of year	806,940	695,751
Cash and cash equivalents – End of year	1,216,054	806,940

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 and changes in 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.

Capital disclosures and financial instruments

Effective January 1, 2008, the Trust adopted Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1535, "Capital Disclosures", Section 3862, "Financial Instruments – Disclosures" and Section 3863, "Financial Instruments – Presentation". As required, these standards have been adopted on a prospective basis. Accordingly, the consolidated financial statements for 2007 have not been restated.

Capital Disclosures – Handbook Section 1535

Section 1535 of the CICA Handbook establishes standards for disclosing information about an entity's objectives, policies and processes for managing capital. The disclosures required in Section 1535 are contained in note 8 – Capital management.

Financial Instruments – Disclosures – Handbook Section 3862
Financial Instruments – Presentation – Handbook Section 3863

Section 3862 of the CICA Handbook modifies the disclosure requirements for financial instruments that were included in Section 3861, "Financial Instruments – Disclosure and Presentation". The new standard places greater emphasis on disclosure about risks related to recognized and unrecognized financial instruments and how those risks are managed. Section 3863 carries forward the same presentation standards as Section 3861; therefore there has been no impact in the year ended December 31, 2008. The disclosures required in Section 3862 are contained in note 6 – Financial instruments.

3 Recently issued accounting pronouncements

Goodwill and intangible assets – Handbook Section 3064

Handbook Section 3064 replaces Handbook Section 3062, "Goodwill and Intangible Assets" and Handbook Section 3450, "Research and Development Costs" and establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The provisions relating to the definition and initial recognition of intangible assets, including internally generated intangible assets, are equivalent to the corresponding provisions of IFRS IAS 38, "Intangible Assets". This standard is effective for the Fund for interim and annual financial statements beginning on January 1, 2009. Management has not yet determined the impact of the adoption of this change on the disclosure 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 whether or not the Partnership is required to adopt IFRS.

4 Intangible assets

	2008 **$**	**2007** **$**
SIR Rights – beginning of year	61,180,806	57,648,895
Adjustment to Royalty pool	1,455,577	3,531,911
SIR Rights – end of year	62,636,383	61,180,806

On January 1, 2008, three (2007 – three) new SIR Restaurants were added and two (2007 – one) 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 the three (2007 – three) new restaurants as well as the Second Incremental Adjustment for the three (2007 – two) new SIR restaurants added to the Royalty Pooled Restaurants on January 1, 2007, and the removal of two (2007 – one) SIR Restaurant, SIR converted 193,535 (2007 – 421,004) Class B GP units into 193,535 (2007 – 421,004) Class A GP units based on the formula defined in the Partnership Agreement. The 193,535 (2007 – 421,004) Class A GP units have been recorded at their estimated fair value of $1,455,577 (2007 - $3,531,911). On January 1, 2009, an additional 1,076,871 Class B GP units were converted to Class A GP units (see note 5)

The tax basis of the intangible assets as at December 31, 2008 is $4,158,806 (2007 - $4,471,834).

5 Partners' interest and subsequent event

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

		2008		2007	
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
Ordinary GP units	Unlimited	100	11	100	11
Class A GP units (note 4)	Unlimited	1,648,544	15,002,811	1,455,009	13,547,234
Class B GP units	Unlimited	98,946,641	1	99,140,176	1
Class C GP units	Unlimited	4,000,000	40,000,000	4,000,000	40,000,000
			62,636,393		61,180,816

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 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 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, 2008, three (2007 – three) new SIR Restaurants were added and two (2007 – one) closed SIR Restaurants were removed from 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 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 (2007 – 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 $1,455,577 (2007 - $3,531,911).

On January 1, 2009, six 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 six new restaurants on January 1, 2009, as well as the second incremental adjustment for the three new SIR Restaurants added to the Royalty Pooled Restaurants on January 1, 2008, SIR converted its Class B GP units into Class A GP units based on the formula defined in the Partnership Agreement. The net effect of these adjustments to the Royalty Pooled Restaurants was that SIR converted 1,076,871 Class B GP units of the Partnership into 1,076,871 Class A GP units of the Partnership effective January 1, 2009 at an estimated fair value of $5,972,477.

In addition, the revenues of the three (2007 – three) new SIR Restaurants added to the Royalty pool on January 1, 2008 exceeded 80% of the Initial Adjustment's estimated revenue and, as a result, an Additional Distribution of $177,888 (2008 - $76,935) was declared in December 2008 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.

6 Financial instruments

Classification of financial instruments

As at December 31, 2008, the classifications of the financial instruments, as well as their carrying and fair values, are as follows:

		Carrying and fair value	
	Classification	December 31, 2008 $	December 31, 2007 $
Cash and cash equivalents	Held for trading	1,216,054	806,940
Amounts due from related parties	Loans and receivables	67,555	225,148
Accounts payable and accrued liabilities	Other financial liabilities	76,982	105,208
Amounts due to related parties	Other financial liabilities	1,240,840	960,062

Fair value of financial instruments

Cash and cash equivalents, amounts due from related parties, accounts payable and accrued liabilities and amounts due to related parties are short term financial instruments whose fair value approximates the carrying amount given that they will mature in the short term.

Objectives and policy relating to financial risk management.

Financial risk management is carried out by the management of the Partnership. The Partnership's main financial risk exposure, as well as its risk management policy, is detailed as follows:

Credit risk

The Partnership is exposed to credit risk in its cash and cash equivalents and amounts due from related parties. The maximum exposure to credit risk is the full carrying value of the financial instrument. The Partnership minimizes the credit risk of cash and cash equivalents by depositing funds with reputable financial institutions and minimizes the credit risk of its amounts due from related parties by managing and analyzing the cash flow of these related parties through the preparation of budgets and forecasts of these related parties. As at December 31, 2008, no amounts due from related parties are past due.

SIR has certain restrictions related to its bank financing which could affect payments to the Fund and the Partnership, if a default or an event of default were to occur. Such payments could be suspended under the terms of the Interlender Agreement (see note 9).

Liquidity risk

Liquidity risk is the risk that the Partnership will not be able to meet its financial obligations as they fall due and meet expected distributions to the Fund. The Partnership currently settles these obligations out of cash and cash equivalents. The ability to do this relies on the Partnership collecting the Royalty from SIR. Both SIR and the Partnership prepare budgets and forecasts to evaluate their ability to meet future cash obligations.

7 Related party balances and transactions

	2008 $	2007 $
SIR Corp.		
Royalties receivable	1,125,500	1,257,080
Advances receivable (payable)	18,691	(25,467)
Distributions payable	(1,076,636)	(1,006,465)
Net receivable from SIR Corp.	67,555	225,148
SIR Royalty Income Fund and its subsidiaries		
Advances receivable	1,190,744	1,214,178
Distributions payable	(2,431,584)	(2,174,240)
Payable to SIR Royalty Income Fund and its subsidiaries	(1,240,840)	(960,062)
Amounts due to related parties – net	(1,173,285)	(734,914)

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, 2008, the Partnership earned Royalty income of $10,501,805 from SIR (December 31, 2007 - $9,834,601). 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 5).

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, 2008, the Partnership provided these services to the Fund and the Trust for consideration of $24,000 (December 31, 2007 - $24,000), which was the amount of consideration agreed to by the related parties.

8 Capital management

The Partnership's issued capital consists of ordinary LP units, ordinary GP units, Class A GP units, Class B GP units and Class C GP units. The objectives in managing the capital are to safeguard the Partnership's ability to continue as a going concern and to administer the affairs of the Fund, subject to the terms of the Partnership Agreement and the License and Royalty Agreement. There are no restrictions in these agreements with respect to the issuance of additional units or debt. The Partnership has no third party debt or bank lines of credit. The Partnership had no capital expenditures during the year ended December 31, 2008 and by its nature is not expected to have significant capital expenditures in the future.

In 2007, SIR entered into a credit agreement which required the Partnership and the Fund to subordinate and postpone their claims against SIR to the claims of the bank, if a default or event of default were to occur (see note 9).

9 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 has been 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.

10 Net change in non-cash working capital items

Net change in non-cash working capital items comprises:

	2008 **$**	**2007** **$**
Prepaid expenses and other assets	(1,031)	4,543
Amounts due to (from) related parties	110,856	(695,357)
Accounts payable and accrued liabilities	(28,226)	(31,906)
	81,599	(722,720)