SIR Royalty Limited Partnership

Financial Statements

December 31, 2010 and 2009

PRICEWATERHOUSECOOPERS

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Independent Auditor's Report

To the Partners of
SIR Royalty Limited Partnership

We have audited the accompanying financial statements of SIR Royalty Limited Partnership, which comprise the balance sheets as at December 31, 2010 and 2009 and the statements of earnings and comprehensive income, partners' interest and cash flows for the years then ended, and the related notes including a summary of significant accounting policies.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of SIR Royalty Limited Partnership as at December 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

SIR Royalty Limited Partnership

Balance Sheets

As at December 31, 2010 and 2009

	2010 $	2009 $
Assets		
Current assets		
Cash	418,286	823,813
Prepaid expenses and other assets	15,216	11,360
Amounts due from related parties (note 7)	858,153	338,289
	1,291,655	1,173,462
Intangible assets (note 4)	69,845,481	68,608,860
	71,137,136	69,782,322
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	221,246	155,125
Amounts due to related parties (note 7)	1,070,399	1,018,327
	1,291,645	1,173,452
Partners' Interest (note 5)	69,845,491	68,608,870
	71,137,136	69,782,322

Subsequent event (notes 4 and 5)

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, 2010 and 2009

	2010 $	2009 $
Revenues		
Royalty income (notes 1 and 7)	11,978,796	11,648,592
Administration fee (note 7)	24,000	24,000
Other income	3,905	3,265
	12,006,701	11,675,857
Expenses		
General and administrative	115,415	115,551
Net earnings and comprehensive income for the year	11,891,286	11,560,306

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, 2010 and 2009

	Number of units (note 5)	**Balance - January 1, 2010 $**	**Units issued $** (note 5)	**Net earnings for the year $**	**Distributions $**	**Balance - December 31, 2010 $**
Ordinary LP units	1,116,666	7,633,570	-	4,798,815	(4,798,815)	7,633,570
Ordinary GP units	100	11	-	60	(60)	11
Class A GP units	2,969,324	20,975,288	1,236,621	4,092,399	(4,092,399)	22,211,909
Class B GP units	97,625,861	1	-	12	(12)	1
Class C GP units	4,000,000	40,000,000	-	3,000,000	(3,000,000)	40,000,000
		68,608,870	1,236,621	11,891,286	(11,891,286)	69,845,491

	Number of units (note 5)	**Balance - January 1, 2009 $**	**Units issued $** (note 5)	**Net earnings for the year $**	**Distributions $**	**Balance - December 31, 2009 $**
Ordinary LP units	1,116,666	7,633,570	-	4,593,420	(4,593,420)	7,633,570
Ordinary GP units	100	11	-	60	(60)	11
Class A GP units	2,725,415	15,002,811	5,972,477	3,630,220	(3,630,220)	20,975,288
Class B GP units	97,869,770	1	-	336,606	(336,606)	1
Class C GP units	4,000,000	40,000,000	-	3,000,000	(3,000,000)	40,000,000
		62,636,393	5,972,477	11,560,306	(11,560,306)	68,608,870

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, 2010 and 2009

	2010 $	2009 $
Cash provided by (used in)		
Operating activities		
Net earnings for the year	11,891,286	11,560,306
Net change in non-cash working capital items (note 10)	(198,388)	(555,631)
	11,692,898	11,004,675
Financing activities		
Distributions paid	(12,098,425)	(11,396,916)
Change in cash	(405,527)	(392,241)
Cash - Beginning of year	823,813	1,216,054
Cash - End of year	418,286	823,813

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

Cash

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 3064, Goodwill and Intangible Assets, the SIR Rights are not amortized. The Partnership reviews the SIR Rights at least annually, or whenever 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; accordingly, no provision for income taxes has been recorded in these financial statements.

3 Recently issued accounting pronouncements

CICA Handbook Sections 1582, Business Combinations, 1601, Consolidated Financial Statements, and 1602, Non-controlling Interests, replace the former CICA Handbook Sections 1581, Business Combinations, and 1600, Consolidated Financial Statements, and establish a new section for accounting for a non-controlling interest in a subsidiary. These sections provide the Canadian equivalent to International Financial Reporting Standard 3, Business Combinations, and International Accounting Standard 27, Consolidated and Separate Financial Statements. CICA Handbook Section 1582 is effective for the Partnership for business combinations for which the acquisition date is on or after the reporting period beginning on or after January 1, 2011. CICA Handbook Sections 1601 and 1602 are effective for the Partnership for interim and annual financial statements relating to years beginning on or after January 1, 2011. Management has not yet determined the impact of the adoption of these changes on its financial statements.

4 Intangible assets

	2010 $	2009 $
SIR Rights - Beginning of year	68,608,860	62,636,383
Adjustment to Royalty Pooled Restaurants	1,236,621	5,972,477
SIR Rights - End of year	69,845,481	68,608,860

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 5).

The tax basis of the intangible assets as at December 31, 2010 is $3,596,951 (2009 - $3,867,689).

5 Partners' interest and subsequent event

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

		2010		2009	
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	2,969,324	22,211,909	2,725,415	20,975,288
Class B GP units	Unlimited	97,625,861	1	97,869,770	1
Class C GP units	Unlimited	4,000,000	40,000,000	4,000,000	40,000,000
			69,845,491		68,608,870

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 GP 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.

6 Financial instruments

Classification

As at December 31, 2010 and 2009, the classifications of the financial instruments, as well as their carrying and fair values, are as follows:

		Carrying and fair value	
	Classification	**December 31, 2010 $**	**December 31, 2009 $**
Cash	Held for trading	418,286	823,813
Royalties and advances receivable from related parties	Loans and receivables	3,252,225	2,991,572
Accounts payable and accrued liabilities	Other financial liabilities	221,246	155,125
Distributions payable to related parties	Other financial liabilities	3,464,471	3,671,610

Carrying and fair value

Cash, 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 amounts due from related parties. The maximum exposure to credit risk is the full carrying value of the financial instruments. The Partnership minimizes the credit risk of cash 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, 2010, no amounts due from related parties are past due.

SIR has certain restrictions relating 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 Subordination and Postponement Agreement (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. 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

	2010 $	2009 $
SIR Corp.		
Royalties receivable	1,395,784	1,345,982
Advances receivable	187,302	31,053
Distributions payable	(724,933)	(1,038,746)
Amounts receivable from SIR Corp.	858,153	338,289
SIR Royalty Income Fund and its subsidiaries		
Advances receivable	1,669,139	1,614,537
Distributions payable	(2,739,538)	(2,632,864)
Amounts payable to SIR Royalty Income Fund and its subsidiaries - net	(1,070,399)	(1,018,327)
Amounts due to related parties - net	(212,246)	(680,038)

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 year ended December 31, 2010, the Partnership earned Royalty income of $11,978,796 from SIR (2009 - $11,648,592). 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 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 the General Partner. SIR, on behalf of SIR GP Inc., also provides services to the Partnership for its administration. For the year ended December 31, 2010, the Partnership provided these services to the Fund and the Trust for consideration of $24,000 (2009 - $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 Licence 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, 2010 and, by its nature, is not expected to have significant capital expenditures in the future.

In 2009, SIR entered into a new 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 (note 9).

9 Economic dependence

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

On November 13, 2009, SIR announced that it entered into a $26,000,000 new senior term debt facility (New Credit Agreement). Part of the proceeds from the New Credit Agreement was used to repay $12,740,000 outstanding on SIR's construction line. The remaining proceeds, as well as a portion of existing cash on hand, were used to repurchase 5,407,000 common shares of SIR from one shareholder of SIR, to acquire the rights to certain debts owed by U.S. S.I.R. L.L.C. from one shareholder of SIR and to pay professional fees and transaction costs relating to these transactions.

The New Credit Agreement has a three-year term with a ten-year amortization. Interest will be calculated as the greater of 7.80% per annum and the three-month Canadian dollar banker's acceptance rate plus 7.55% per annum. Certain financial covenants apply to SIR. The loan is secured by substantially all of the assets of SIR and most of its subsidiaries, which are also guarantors. The Partnership and the Fund did not guarantee the New

Credit Agreement. The New 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 new lender. The terms of this subordination are as contemplated in the existing agreements between the Fund, the Partnership and SIR. This subordination, which includes a subordination of the Partnership's rights under the Licence and Royalty Agreement between the Partnership and SIR whereby the Partnership licenses to SIR the right to use trademarks and related intellectual property in return for royalty payments based on revenues, is effected pursuant to the terms of a Subordination and Postponement Agreement.

Under the Subordination and Postponement Agreement, absent a default or event of default under the New Credit Agreement, ordinary payments to the Fund and the Partnership could continue. 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 lender is pursuing remedies). The Subordination and Postponement Agreement also contains various other typical covenants of the Fund and the Partnership. In addition, SIR provided an undertaking to the Fund and the Partnership to restrict the amount of the additional debt that SIR can incur without the consent of the Fund and the Partnership (which consent shall not be unreasonably withheld).

10 Net change in non-cash working capital items

Net change in non-cash working capital items comprises:

	2010 $	2009 $
Prepaid expenses and other assets	(3,856)	22,863
Amounts due from related parties	(206,051)	(232,844)
Accounts payable and accrued liabilities	66,121	78,143
Amounts due to related parties	(54,602)	(423,793)
	(198,388)	(555,631)