

SIR Royalty Income Fund

Consolidated Financial Statements
(Unaudited)

**For the three-month periods ended
March 31, 2008 and 2007**

SIR Royalty Income Fund

Consolidated Balance Sheets

(Unaudited)

	March 31, 2008	December 31, 2007
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	172	105
Prepaid expenses and other assets	56,818	67,985
Amounts due from related parties (note 9)	1,208,554	1,171,353
	<hr/>	<hr/>
	1,265,544	1,239,443
Loan receivable from SIR Corp. (note 4)	40,000,000	40,000,000
Investment in SIR Royalty Limited Partnership (note 5)	11,166,671	11,166,671
	<hr/>	<hr/>
	52,432,215	52,406,114
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	100,718	120,313
Future income taxes	797,000	797,000
	<hr/>	<hr/>
	897,718	917,313
Unitholders' Equity (note 7)	51,534,497	51,488,801
	<hr/>	<hr/>
	52,432,215	52,406,114
Subsequent event (note 7)		

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

SIR Royalty Income Fund

Consolidated Statements of Earnings and Comprehensive Income
(Unaudited)

	Three-month period ended March 31, 2008 \$	Three-month period ended March 31, 2007 \$
Investment income		
Distribution income from Partnership (notes 5 and 9)	1,187,306	1,122,194
Interest income (note 4)	<u>750,000</u>	<u>750,000</u>
	1,937,306	1,872,194
Expenses		
General and administrative (note 9)	<u>123,910</u>	<u>142,154</u>
Net earnings and comprehensive income for the period	<u>1,813,396</u>	<u>1,730,040</u>
Basic and diluted earnings per Fund unit (note 8)	<u>\$0.34</u>	<u>\$0.32</u>

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

SIR Royalty Income Fund

Consolidated Statements of Unitholders' Equity
(Unaudited)

	Three-month period ended March 31, 2008 \$	Three-month period ended March 31, 2007 \$
Balance – Beginning of period	51,488,801	51,982,171
Net earnings for the period	1,813,396	1,730,040
Distributions declared and paid (note 7)	<u>(1,767,700)</u>	<u>(1,687,350)</u>
Balance – End of period	<u>51,534,497</u>	<u>52,024,861</u>

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

SIR Royalty Income Fund

Consolidated Statements of Cash Flows

(Unaudited)

	Three-month period ended March 31, 2008 \$	Three-month period ended March 31, 2007 \$
Cash provided by (used in)		
Operating activities		
Net earnings for the period	1,813,396	1,730,040
Net change in non-cash working capital items (note 11)	(45,629)	(42,690)
	<u>1,767,767</u>	<u>1,687,350</u>
Financing activities		
Distributions paid	(1,767,700)	(1,687,350)
	<u>67</u>	<u>-</u>
Change in cash and cash equivalents		
Cash and cash equivalents – Beginning of period	<u>105</u>	<u>18</u>
Cash and cash equivalents – End of period	<u>172</u>	<u>18</u>

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

SIR Royalty Income Fund

Notes to Consolidated Financial Statements

(Unaudited)

March 31, 2008

1 Nature of operations and seasonality

Nature of operations

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 5).

Basis of presentation

The disclosures contained in these unaudited interim consolidated financial statements do not include all requirements of generally accepted accounting principles for annual financial statements and should be read in conjunction with the 2007 audited annual consolidated financial statements and notes thereto. The financial performance of the Fund for the interim periods is not necessarily indicative of the results that may be expected for the full year due to the seasonality of the Fund's business.

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.

SIR Royalty Income Fund

Notes to Consolidated Financial Statements

(Unaudited)

March 31, 2008

2 Summary of significant accounting policies and changes in accounting policies

The Fund prepares its financial statements in accordance with Canadian generally accepting 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. The accounting policies as disclosed in these interim consolidated financial statements are consistent with those followed in the 2007 audited consolidated financial statements, except as noted below.

Effective January 1, 2008, the Fund 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.

Section 1535, Capital Disclosures

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 10 – Capital management.

Section 3862, “Financial Instruments – Disclosures” and Section 3863, “Financial Instruments – Presentation”

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 period ended March 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 generating 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.

SIR Royalty Income Fund

Notes to Consolidated Financial Statements

(Unaudited)

March 31, 2008

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.

4 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 \$750,000 was earned during the three-month period ended March 31, 2008 (three-month period ended March 31, 2007 - \$750,000).

During 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. On August 9, 2007, the Fund entered into an agreement to subordinate and postpone its claims against SIR in favour of the bank.

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.

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.

SIR Royalty Income Fund

Notes to Consolidated Financial Statements

(Unaudited)

March 31, 2008

5 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 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 for the three-month period ended March 31, 2008 amount to \$1,187,306 (three-month period ended March 31, 2007 - \$1,122,194).

6 Financial instruments

Classification

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

		<u>Carrying and fair value</u>	
		<u>March 31,</u>	<u>December 31,</u>
		<u>2008</u>	<u>2007</u>
		\$	\$
	Classification		
Cash and cash equivalents	Held for trading	172	105
Amounts due from related parties	Loans and receivables	1,208,554	1,171,353
Loan receivable from SIR Corp.	Held to maturity	see below	see below
Investment in SIR Royalty Limited Partnership	Held to maturity	see below	see below
Accounts payable and accrued liabilities	Other financial liabilities	100,718	120,313

Carrying and fair value

Cash and cash equivalents, amounts due from related parties and accounts payable and accrued liabilities are short term financial instruments whose fair value approximates the carrying amount given that they will mature in the short term. The carrying value of the SIR loan and the investment in the Partnership at March 31, 2008 is \$40,000,000 and \$11,166,671, respectively (December 31, 2007 - \$40,000,000 and \$11,166,671, respectively). The fair values of the SIR loan and the investment in the Partnership could only be determined through the valuation of the individual assets. The aggregate fair value of the SIR loan and the investment in the Partnership is approximately \$48,103,103 based on the market value of the Fund units as of the close of business on March 31, 2008.

SIR Royalty Income Fund

Notes to Consolidated Financial Statements

(Unaudited)

March 31, 2008

Objectives and policy relating to financial risk management.

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

Interest rate risk

The SIR loan has a fixed interest rate of 7.5% per annum and has been designated as a held to maturity financial asset. Accordingly, changes in interest rates would not impact the consolidated statements of earnings and comprehensive income or the carrying value of the SIR loan. However, the fair value of the SIR loan will vary with changes in interest rates. The Fund is restricted to investing excess cash in short-term investments and it is not the Fund's practice to hedge against changes in interest rates.

Credit risk

The Fund is exposed to credit risk in its cash and cash equivalents, amounts due from related parties and the SIR loan. The maximum exposure to credit risk is the full carrying value of the financial instrument. The Fund minimizes the credit risk of cash and cash equivalents by depositing funds with reputable financial institutions and minimizes the credit risk of its 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 March 31, 2008, no amounts due from related parties are past due. Credit risk also arises from the potential default of SIR on the SIR loan. Management monitors the SIR loan for impairment. To date, a provision for uncollectible amounts has not been necessary.

SIR has certain restrictions related to its bank financing which could affect payments to the Fund, if a default or an event of default were to occur (see note 4)

Liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due and meet expected distributions to its unitholders. The Fund currently settles these obligations out of cash and cash equivalents. The ability to do this relies on the Fund collecting its distributions from the Partnership and interest on the SIR loan. The Fund intends to maintain equal monthly distributions to its unitholders. However, the Trustees of the Fund may authorize increased or decreased distributions from time to time or halt distributions entirely, as they see fit, in their sole discretion and failure to pay a distribution is not an event of default. Both the Fund and the Partnership prepare budgets and forecasts to evaluate their ability to meet future cash obligations.

SIR Royalty Income Fund

Notes to Consolidated Financial Statements

(Unaudited)

March 31, 2008

7 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.

As at March 31, 2008 and December 31, 2007, there are 5,356,667 units issued and outstanding. Each unit is entitled to one vote at any meeting of unitholders.

During the three-month period ended March 31, 2008, the Fund declared distributions of \$0.33 per unit (three-month period ended March 31, 2007 - \$0.315 per unit). Subsequent to March 31, 2008, the Fund declared a distribution of \$0.110 per unit for the month of March 2008.

The distribution policy of the Fund is, at the discretion of the Trustees, to make distributions of its available cash to the fullest extent possible, taking into account trends in revenue, earnings and cash flows.

SIR Royalty Income Fund

Notes to Consolidated Financial Statements

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March 31, 2008

8 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.

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.

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 three-month period ended March 31, 2008	\$1,813,396	\$558,078	\$2,371,474
Net earnings per Fund unit for the three-month period ended March 31, 2008	\$0.34		\$0.34
Weighted average number of Fund units outstanding for the three-month period ended March 31, 2008	5,356,667	1,648,544	7,005,211
Net earnings for the three-month period ended March 31, 2007	\$1,730,040	\$469,923	\$2,199,963
Net earnings per Fund unit for the three-month period ended March 31, 2007	\$0.32		\$0.32
Weighted average number of Fund units outstanding for the three-month period ended March 31, 2007	5,356,667	1,455,009	6,811,676

SIR Royalty Income Fund

Notes to Consolidated Financial Statements

(Unaudited)

March 31, 2008

9 Related party transactions and balances

During the three-month period ended March 31, 2008, the Fund received distribution income of \$1,187,306 from the Partnership (three-month period ended March 31, 2007 - \$1,122,194). 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 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 of the Partnership to Class A GP units of the Partnership based on a conversion formula defined in the License and Royalty Agreement.

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. In December 2007, an Additional Distribution of \$76,935 (2006 - \$231,351) was declared and paid in cash in January 2008. Currently, management is not able to determine if the revenue of the three new restaurants added to the Royalty pool on January 1, 2008 will be greater or less than 80% of the initial estimated revenue.

On January 1, 2008, three (2007 – 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 (2007 – three) new restaurants on January 1, 2008, 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, 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).

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

SIR Royalty Income Fund

Notes to Consolidated Financial Statements

(Unaudited)

March 31, 2008

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 three-month period ended March 31, 2008, the Partnership provided these services to the Fund and the Trust for consideration of \$6,000 (three-month period ended March 31, 2007 - \$6,000), which was the amount of consideration agreed to by the related parties.

Amounts due from (to) related parties consist of:

	March 31, 2008 \$	December 31, 2007 \$
SIR Royalty Limited Partnership		
Distribution receivable	2,343,846	2,174,240
Advances payable	(1,346,583)	(1,214,178)
	<hr/>	<hr/>
Amounts receivable from SIR Royalty Limited Partnership	997,263	960,062
	<hr/>	<hr/>
SIR Corp.		
Interest receivable	250,000	250,000
Advances payable	(38,709)	(38,709)
	<hr/>	<hr/>
Amounts receivable from SIR Corp.	211,291	211,291
	<hr/>	<hr/>
Amounts due from related parties – net	<u>1,208,554</u>	<u>1,171,353</u>

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

10 Capital management

The Fund's capital consists of units of the Fund as described in note 7. The objectives in managing the capital are to safeguard the Fund's ability to continue as a going concern, to provide an adequate return to unitholders appropriate for the level of risk and to distribute excess cash to the unitholders. The Fund has no third party debt or bank lines of credit. The Fund had no capital expenditures during the three-month period ended March 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 Fund and the Partnership to subordinate and postpone their claims against SIR to the claims of the bank, in the event of a default (see note 4).

SIR Royalty Income Fund

Notes to Consolidated Financial Statements

(Unaudited)

March 31, 2008

11 Net change in non-cash working capital items

Net change in non-cash working capital items comprises:

	Three-month period ended March 31, 2008 \$	Three-month period ended March 31, 2007 \$
Prepaid expenses and other assets	11,167	13,994
Amounts due from related parties	(37,201)	(11,762)
Accounts payable and accrued liabilities	(19,595)	(44,922)
	<u>(45,629)</u>	<u>(42,690)</u>

12 Economic dependence

The Fund's income is derived from interest income on the SIR loan and distributions from the Partnership and accordingly, the Fund is economically dependent upon SIR.