SIR Royalty Income Fund

Consolidated Financial Statements
(Unaudited)
For the three-month periods ended
March 31, 2013 and March 31, 2012

SIR Royalty Income Fund

Consolidated Statements of Financial Position
(Unaudited)

	March 31, 2013 $	December 31, 2012 $
Assets		
Current assets		
Cash and cash equivalents	81,999	316,588
Prepaid expenses and other assets	34,797	28,274
Amounts due from related parties (note 7)	990,484	1,106,254
Income taxes receivable	-	6,539
	1,107,280	1,457,655
Loan receivable from SIR Corp. (note 3)	40,000,000	40,000,000
Investment in SIR Royalty Limited Partnership (note 4)	28,985,871	17,977,371
	70,093,151	59,435,026
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	62,920	69,930
Distributions payable to unitholders	-	294,028
Income taxes payable	17,955	-
	80,875	363,958
Deferred income taxes	1,448,000	1,345,000
	1,528,875	1,708,958
Fund units (note 5)	74,171,337	63,162,837
Deficit	(5,607,061)	(5,436,769)
Total unitholders' equity	68,564,276	57,726,068
	70,093,151	59,435,026

Subsequent event (note 5)

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, 2013 $	Three-month period ended March 31, 2012 $
Investment income		
Equity income from SIR Royalty Limited Partnership (notes 4 and 7)	1,484,568	1,251,566
Interest income (note 3)	750,000	750,000
	2,234,568	2,001,566
Expenses		
General and administrative (note 7)	111,730	85,524
Net earnings before income taxes	2,122,838	1,916,042
Income tax expense (note 8)	661,900	514,800
Net earnings and comprehensive income for the period	1,460,938	1,401,242
Basic and diluted earnings per Fund unit (note 6)	$ 0.24	$ 0.26

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, 2013			
	Number of Fund units	Amount $	Deficit $	Total $
Balance - Beginning of period	5,880,567	63,162,837	(5,436,769)	57,726,068
Net earnings for the period	-	-	1,460,938	1,460,938
Distributions declared (note 5)	-	-	(1,631,230)	(1,631,230)
Issuance of Fund Units (note 5)	895,000	11,008,500	-	11,008,500
Balance - End of period	6,775,567	74,171,337	(5,607,061)	68,564,276

	Three-month period ended March 31, 2012			
	Number of Fund units	Amount $	Deficit $	Total $
Balance - Beginning of period	5,356,667	56,352,137	(5,389,770)	50,962,367
Net earnings for the period	-	-	1,401,242	1,401,242
Distributions declared (note 5)	-	-	(1,333,810)	(1,333,810)
Balance - End of period	5,356,667	56,352,137	(5,322,338)	51,029,799

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, 2013 $	Three-month period ended March 31, 2012 $
Cash provided by (used in)		
Operating activities		
Net earnings for the period	1,460,938	1,401,242
Items not affecting cash		
Deferred income taxes (note 8)	103,000	11,000
Current income taxes	558,900	503,800
Equity income from SIR Royalty Limited Partnership	(1,484,568)	(1,251,566)
Distributions received from SIR Royalty Limited Partnership	1,474,403	1,098,050
Income taxes paid	(534,406)	(2,679,644)
Net change in non-cash working capital items (note 9)	112,402	200,487
	1,690,669	(716,631)
Financing activities		
Distributions paid to unitholders	(1,925,258)	(1,333,810)
Change in cash and cash equivalents	(234,589)	(2,050,441)
Cash and cash equivalents - Beginning of period	316,588	2,100,464
Cash and cash equivalents - End of period	81,999	50,023

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

1 Nature of operations and seasonality

Nature of operations

SIR Royalty Income Fund (the Fund) is a trust established on August 23, 2004 under the laws of the Province of Ontario, Canada.

On October 1, 2004, 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 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). The Fund indirectly participates in the revenues generated under the Licence and Royalty Agreement through its Investment in the Partnership (note 4).

The address of the Fund's registered office is 5360 South Service Road, Suite 200, Burlington, Ontario. The interim consolidated financial statements were approved by the Board of Trustees on May 9, 2013.

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, equity income from the Partnership recognized by the Fund will vary in conjunction with the seasonality in revenues experienced by SIR.

2 Basis of presentation and summary of significant accounting policies

The Fund prepares its interim condensed consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) applicable to the preparation of interim financial statements, including International Accounting Standard (IAS) 34, Interim Financial Reporting. The disclosures contained in these unaudited interim consolidated financial statements do not include all requirements of IFRS for annual financial statements and should be read in conjunction with the 2012 audited annual consolidated financial statements and notes thereto. The financial performance of the Fund for the interim period is not necessarily indicative of the results that may be expected for the full year due to the seasonality of the Fund's business.

The accounting policies as applied in these unaudited interim consolidated financial statements are consistent with those followed in the 2012 audited annual consolidated financial statements, except for the adoption of the following new pronouncements.

IFRS 10, Consolidated Financial Statements

IFRS 10 requires an entity to consolidate an investee when it is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. IFRS 10 replaced Standing Interpretations Committee 12, Consolidation - Special Purpose Entities, and parts of IAS 27. Management has determined that the adoption of this standard has no impact on the interim consolidated financial statements.

IFRS 12, Disclosure of Interests in Other Entities

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off-balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. Management has determined that the adoption of this standard has no impact on the interim consolidated financial statements.

IFRS 13, Fair Value Measurement

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Management has determined that the adoption of this standard has no impact on the interim consolidated financial statements.

IFRS issued but not yet effective

IFRS 9, Financial Instruments - classification and measurement

IFRS 9, Financial Instruments, is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is measured using amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest; otherwise, it is at fair value through profit or loss. IFRS 9 is effective for years beginning on or after January 1, 2015. Management is evaluating the standard and has not yet determined the impact on its consolidated financial statements.

3 Loan receivable from SIR Corp.

The SIR loan bears interest at 7.5% per annum, is due on 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, 2013 (three-month period ended March 31, 2012 - $750,000).

SIR has a credit facility (the Amended Credit Agreement) that consists of a term loan (the Term Loan) and a development loan (the Development Loan). Both the Term Loan and the Development Loan are due on November 14, 2016 and have a variable interest rate equal to the greater of 6.0% per annum and the three-month Canadian dollar bankers' acceptance rate plus 5.75% per annum, which on February 10, 2013 totalled 6.94%. SIR can also elect to fix the interest rate. The amortization period for the Term Loan and the Development Loan are ten years and seven years, respectively.

The Partnership and the Fund did not guarantee the Amended Credit Agreement.

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.

4 Investment in SIR Royalty Limited Partnership

On October 12, 2004, the Fund, indirectly through the Trust and SIR GP Inc., respectively, acquired all of the Ordinary LP units and 99 Ordinary GP units. The holders of the Ordinary LP units are entitled to receive a pro rata share of distributions and the holders of the Ordinary GP units receive a fixed monthly distribution of $5. In November 2012, 523,900 Class A LP Units were issued to the Trust at a fair value of $6,810,700. On March 14, 2013, 895,000 Class A LP Units were issued to the Trust at a fair value of $11,008,500. The Class A LP Units were issued as part of a series of transactions in connection with SIR converting Class A GP Units into Fund units (note 5). The holders of the Class A LP Units are entitled to receive a pro rata share of all residual distributions of the Partnership. The continuity of the Investment in the Partnership is as follows:

	Three-month period ended March 31, 2013 $	Three-month period ended March 31, 2012 $
Balance - Beginning of period	17,977,371	11,166,671
Issuance of Class A LP Units	11,008,500	-
Equity income	1,484,568	1,251,566
Distributions declared	(1,484,568)	(1,251,566)
Balance - End of period	28,985,871	11,166,671

The summarized financial information of the Partnership is as follows:

	March 31, 2013 $	December 31, 2012 $
Total assets	78,749,839	74,195,449
Total liabilities	1,252,191	1,023,655

	Three-month period ended March 31, 2013 $	Three-month period ended March 31, 2012 $
Revenues	3,291,393	3,197,346
Net earnings and comprehensive income of the Partnership	3,263,817	3,185,664

5 Fund units

An unlimited number of Fund units may be issued pursuant to the Declaration of Trust. Fund units are redeemable by the holder at a price equal to the lesser of 90% of the market price of a Fund unit during the ten consecutive trading day period ending on the trading day immediately prior to the date on which the Fund units were surrendered for redemption and an amount based on the closing price on the redemption date, subject to certain restrictions. Each holder of Fund units participates pro rata in any distributions from the Fund.

In November 2012, SIR converted 523,900 Class A GP Units of the Partnership into 523,900 Fund units and sold these Fund units. In exchange for the Fund issuing an additional 523,900 Fund units, the Fund received an increased interest in the Partnership recorded at fair value of $6,810,700. The issuance of the Fund units has been recorded at $6,810,700, being the gross proceeds received by SIR for the sale of the Fund units received. In accordance with the exchange agreement between the Fund, the Partnership, the Trust and SIR, the Fund exchanged the Class A GP Units received from SIR for the 523,900 Class A LP Units. Accordingly, the Partnership issued 523,900 Class A LP Units to the Fund.

On March 14, 2013, SIR converted 895,000 Class A GP Units of the Partnership into 895,000 Fund units and sold these Fund units. In exchange for the Fund issuing an additional 895,000 Fund units, the Fund received an increased interest in the Partnership recorded at fair value of $11,008,500. The issuance of the Fund units has been recorded at $11,008,500, being the gross proceeds received by SIR for the sale of the Fund units received. In accordance with the exchange agreement between the Fund, the Partnership, the Trust and SIR, the Fund exchanged the Class A GP Units received from SIR for the 895,000 Class A LP Units. Accordingly, the Partnership issued 895,000 Class A LP Units to the Fund.

These transactions did not have a dilutive effect on the Fund unitholders. As at March 31, 2013, there are 6,775,567 (December 31, 2012 - 5,880,567; March 31, 2012 - 5,356,667) Fund units issued and outstanding. Each Fund unit is entitled to one vote at any meeting of unitholders.

During the three-month period ended March 31, 2013, the Fund declared distributions of $0.264 per unit (three-month period ended March 31, 2012 - $0.249 per unit). Subsequent to March 31, 2013, the Fund declared distributions of $0.088 per unit in each of the months of April and May 2013.

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 revenues, earnings and cash flows.

6 Earnings per Fund unit

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

SIR has the right to convert the Class A GP units into Fund units. 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 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:

	Three-month period ended March 31, 2012		
	Basic earnings	**Adjustment for conversion of Class A GP units**	**Diluted earnings**
Net earnings	$ 1,460,938	$ 707,196	$ 2,168,134
Net earnings per Fund unit	$ 0.24	-	$ 0.24
Weighted average number of Fund units outstanding	6,029,734	2,933,784	8,963,518

	Three-month period ended March 31, 2012		
	Basic earnings	**Adjustment for conversion of Class A GP units**	**Diluted earnings**
Net earnings	$ 1,401,242	$ 865,951	$ 2,267,193
Net earnings per Fund unit	$ 0.26	-	$ 0.26
Weighted average number of Fund units outstanding	5,356,667	3,310,392	8,667,059

7 Related party transactions and balances

During the three-month period ended March 31, 2013, the Fund recorded equity income of $1,484,568 (three-month period ended March 31, 2012 - $1,251,566) and received distributions of $1,474,403 (three-month period ended March 31, 2012 - $1,098,050) from the Partnership. The Fund, indirectly through the Trust, is entitled to receive a pro rata share of all residual distributions. The Fund's equity income is dependent upon the revenues generated by SIR for the restaurants subject to the Licence and Royalty Agreement. 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 a conversion formula defined in the Partnership 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 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 will 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, 2013, four (January 1, 2012 - one) new SIR Restaurants were added to Royalty Pooled Restaurants in accordance with the Partnership Agreement. As consideration for the additional Royalty associated with the addition of four new SIR Restaurants on January 1, 2013 (January 1, 2012 - one), as well as the Second Incremental Adjustment for one new SIR Restaurant added to Royalty Pooled Restaurants on January 1, 2012 (January 1, 2011 - one), SIR converted its Class B GP Units in to 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 two (January 1, 2012 - nil) SIR Restaurants during the prior year. The net effect of these adjustments to Royalty Pooled Restaurants was that SIR converted 296,459 (January 1, 2012 - 203,878) Class B GP Units into 296,459 (January 1, 2012 - 203,878) Class A GP Units on January 1, 2013 at an estimated fair value of $4,325,854 (January 1, 2012 - $1,906,391).

In December 2012, an additional distribution of $22,707 (2011 - $33,667) was declared and paid in cash in January 2013 (January 2012).

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

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 three-month period ended March 31, 2013, the Partnership provided these services to the Fund and the Trust for consideration of $6,000 (three-month period ended March 31, 2012 - $6,000), which was the amount of consideration agreed to by the related parties.

Amounts due from (to) related parties consist of:

	March 31, 2013 $	December 31, 2012 $
SIR Royalty Limited Partnership		
Distribution receivable	2,978,034	2,967,869
Advances payable	(2,236,075)	(2,110,140)
Amounts due from SIR Royalty Limited Partnership - net	741,959	857,729
SIR Corp.		
Interest receivable	250,000	250,000
Advances payable	(1,475)	(1,475)
Amounts due from SIR Corp. - net	248,525	248,525
Amounts due from related parties - net	990,484	1,106,254

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

Compensation of key management

The Fund does not have any employees. Compensation awarded to the Board of Trustees consists of fees of $26,500 for the three-month period ended March 31, 2013 (three-month period ended March 31, 2012 - $19,900).

8 Income taxes

Prior to January 1, 2011, the Fund was not taxable so long as it distributed its taxable income to its unitholders.

Effective January 1, 2011, as a result of changes in legislation relating to income trusts, the Fund is required to pay income taxes at the prevailing corporate income tax rates on its taxable income. The Fund's first income tax payment was made on March 31, 2012.

Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual rate used for the three months ended March 31, 2013 was 26.50% (March 31, 2012 - 26.50%).

Income tax expense is as follows:

	Three-month period ended March 31, 2013 $	Three-month period ended March 31, 2012 $
Current	558,900	503,800
Deferred	103,000	11,000
	661,900	514,800

9 Net change in non-cash working capital items

Net change in non-cash working capital items comprises:

	Three-month period ended March 31, 2013 $	Three-month period ended March 31, 2012 $
Prepaid expenses and other assets	(6,523)	(3,889)
Amounts due to related parties	125,935	223,940
Accounts payable and accrued liabilities	(7,010)	(19,564)
	112,402	200,487

10 Economic dependence

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

11 Financial instruments

Classification

As at March 31, 2013 and December 31, 2012, the classifications of the financial instruments, as well as their carrying and fair values, are as follows:

		Carrying and fair value	
	Classification	**March 31, 2013 $**	**December 31, 2012 $**
Cash	Loans and receivables	81,999	316,588
Distributions and interest receivable from related parties	Loans and receivables	3,228,034	3,217,869
Loan receivable from SIR Corp.	Loans and receivables	see below	see below
Accounts payable and accrued liabilities	Financial liabilities at amortized cost	62,920	69,930
Distributions payable to unitholders	Financial liabilities at amortized cost	-	294,028
Advances payable to related parties	Financial liabilities at amortized cost	2,237,550	2,111,615

Carrying and fair values

Cash, distributions and interest receivable from related parties, accounts payable and accrued liabilities, distributions payable to unitholders and advances payable to related parties are short-term financial instruments whose fair value approximates the carrying amount given that they will mature in the short term. The SIR loan is accounted for at amortized cost and the investment in the Partnership is accounted for by the equity method. The carrying values of the SIR loan and the investment in the Partnership as at March 31, 2013 are $40,000,000 and $28,985,871, respectively (December 31, 2012 - $40,000,000 and $17,977,371, 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 as at March 31, 2013 is estimated to be approximately $83,678,000 (December 31, 2012 - $72,331,000) based on the fair value of the Fund units as of the close of business on March 28, 2013.