

SIR Royalty Income Fund

Consolidated Financial Statements
(Unaudited)

**For the three-month periods ended
March 31, 2011 and 2010**

SIR Royalty Income Fund

Consolidated Balance Sheets

(Unaudited)

	March 31, 2011 \$	December 31, 2010 \$	January 1, 2010 \$
Assets			
Current assets			
Cash and cash equivalents	342,876	40	96
Prepaid expenses and other assets	36,101	31,704	24,307
Amounts due from related parties (note 10)	1,100,165	1,231,078	1,192,403
	1,479,142	1,262,822	1,216,806
Loan receivable from SIR Corp. (note 6)	40,000,000	40,000,000	40,000,000
Investment in SIR Royalty Limited Partnership (note 7)	11,166,671	11,166,671	11,166,671
	52,645,813	52,429,493	52,383,477
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	140,483	173,209	117,749
Income taxes payable	491,000	-	-
Fund units (note 8)	-	-	40,710,669
	631,483	173,209	40,828,418
Deferred income taxes	1,266,216	1,254,288	1,254,288
	1,897,699	1,427,497	42,082,706
Fund units (note 8)	56,352,137	56,352,137	-
Retained earnings (deficit)	(5,604,023)	(5,350,141)	10,300,771
Total unitholders' equity	50,748,114	51,001,996	10,300,771
	52,645,813	52,429,493	52,383,477
Subsequent event (note 8)			

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

SIR Royalty Income Fund

Consolidated Statements of Earnings (Loss) and Comprehensive Income (Loss)
(Unaudited)

	Three-month period ended March 31, 2011 \$	Three-month period ended March 31, 2010 \$
Investment income		
Equity income from SIR Royalty Limited Partnership (notes 7 and 10)	1,103,048	1,097,212
Interest income (note 6)	750,000	750,000
	<u>1,853,048</u>	<u>1,847,212</u>
Expenses		
General and administrative (note 10)	98,779	78,466
	<u>1,754,269</u>	<u>1,768,746</u>
Operating income	1,754,269	1,768,746
Change in amortized cost of Fund units (note 8)	-	(12,400,684)
Net earnings (loss) before income taxes	1,754,269	(10,631,938)
Income tax expense (note 11)	502,928	-
Net earnings (loss) and comprehensive income (loss) for the period	<u>1,251,341</u>	<u>(10,631,938)</u>
Basic and diluted earnings per Fund unit (note 9)	<u>\$ 0.23</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, 2011			
	Number of Fund units	Amount \$	Retained earnings (deficit) \$	Total \$
Balance - Beginning of period	5,356,667	56,352,137	(5,350,141)	51,001,996
Net earnings for the period	-	-	1,251,341	1,251,341
Distributions declared and paid (note 8)	-	-	(1,505,223)	(1,505,223)
Balance - End of period	5,356,667	56,352,137	(5,604,023)	50,748,114

	Three-month period ended March 31, 2010			
	Number of Fund units	Amount \$	Retained earnings (deficit) \$	Total \$
Balance - Beginning of period	-	-	10,300,771	10,300,771
Net loss for the period	-	-	(10,631,938)	(10,631,938)
Balance - End of period	-	-	(331,167)	(331,167)

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, 2011 \$	Three-month period ended March 31, 2010 \$
Cash provided by (used in)		
Operating activities		
Net earnings (loss) for the period	1,251,341	(10,631,938)
Items not affecting cash		
Deferred income taxes	11,928	-
Change in amortized cost of Fund units	-	12,400,684
Equity income from SIR Royalty Limited Partnership	(1,103,048)	(1,097,212)
Distributions received from SIR Royalty Limited Partnership	1,098,051	1,098,051
Net change in non-cash working capital items (note 12)	589,787	78,392
	<u>1,848,059</u>	<u>1,847,977</u>
Financing activities		
Distributions paid to unitholders	(1,505,223)	(1,848,050)
	<u>342,836</u>	<u>(73)</u>
Change in cash and cash equivalents		
Cash and cash equivalents - Beginning of period	<u>40</u>	<u>96</u>
Cash and cash equivalents - End of period	<u>342,876</u>	<u>23</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, 2011

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 7).

The address of the Fund's registered office is 5360 South Service Road, Suite 200, Burlington, Ontario.

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 adoption of International Financial Reporting Standards

The Fund prepares its interim consolidated financial statements in accordance with Canadian generally accepted accounting principles, as set out in the Handbook of The Canadian Institute of Chartered Accountants (CICA Handbook). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards (IFRS) and requires publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Fund has commenced reporting on this basis in these interim consolidated financial statements. In these interim consolidated financial statements, the term "Canadian GAAP" refers to Canadian generally accepted accounting principles before the adoption of IFRS.

These interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including International Accounting Standard (IAS) 34, Interim Financial Reporting, and IFRS 1, First-time Adoption of International Financial Reporting Standards. The Fund has consistently applied the same accounting policies in its opening IFRS consolidated balance sheet at

SIR Royalty Income Fund

Notes to Consolidated Financial Statements

(Unaudited)

March 31, 2011

January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 4 discloses the impact of the transition to IFRS on the Fund's reported consolidated balance sheet, financial performance and cash flows. The Fund has not elected to apply any IFRS elections to its transition to IFRS. The interim consolidated financial statements have been prepared using the measurement basis for each type of asset, liability, income and expense specified by those IFRS that are in effect as of June 7, 2011, the date the Board of Trustees approved these interim consolidated financial statements. Any subsequent changes to IFRS that are given effect in the Fund's annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these interim consolidated financial statements, including the transition adjustments recognized on the conversion to IFRS. The interim consolidated financial statements should be read in conjunction with the Fund's Canadian GAAP annual consolidated financial statements for the year ended December 31, 2010.

3 Summary of significant accounting policies

Consolidation

The Fund prepares its consolidated financial statements in accordance with IFRS as applicable to interim financial reporting and includes the accounts of the Fund and its subsidiaries, namely the Trust and SIR GP Inc. All intercompany accounts and transactions have been eliminated.

Subsidiaries are those entities that the Fund controls by having the power to govern the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Fund controls another entity. Subsidiaries are fully consolidated from the date on which control is obtained by the Fund and are deconsolidated from the date that control ceases.

Use of estimates

The preparation of these consolidated 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 consolidated financial statements. Actual results could differ materially from those estimates in the near term.

Cash and cash equivalents

Cash is defined as cash and short-term investments with original maturities of three months or less.

Financial instruments

Financial assets and liabilities are recognized when the Fund becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Fund has transferred substantially all risks and rewards of ownership.

SIR Royalty Income Fund

Notes to Consolidated Financial Statements

(Unaudited)

March 31, 2011

Financial assets and liabilities are offset and the net amount is reported in the consolidated balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the Fund classifies its financial instruments in the following categories, depending on the purpose for which the instruments were acquired:

- i) Financial assets and liabilities at fair value through profit or loss: A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short term. Derivative financial instruments are also included in this category unless they are designated as hedges. The financial instruments held by the Fund classified in this category are cash and cash equivalents.

Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the consolidated statement of earnings (loss). Gains and losses arising from changes in fair value are presented in the consolidated statement of earnings (loss) in the period in which they arise. Financial assets and liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized or paid beyond 12 months of the consolidated balance sheet date, which is classified as non-current.

- ii) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Fund's loans and receivables comprise amounts due from related parties, which are included in current assets due to their short-term nature, and the SIR loan, which is classified as non-current. Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.
- iii) Financial liabilities at amortized cost: Financial liabilities at amortized cost comprise accounts payable and accrued liabilities, and the Fund units until December 20, 2010. Accounts payable and accrued liabilities and the Fund units are initially recognized at the amount required to be paid less, when material, a discount to reduce the financial liabilities to fair value. Subsequently, accounts payable and accrued liabilities and the Fund units are measured at amortized cost using the effective interest method.

Financial liabilities are classified as current liabilities if payment is due within 12 months; otherwise, they are presented as non-current liabilities.

On December 20, 2010, the Declaration of Trust was amended and, subsequent to this date, the Fund units are classified as equity (note 8).

SIR Royalty Income Fund

Notes to Consolidated Financial Statements

(Unaudited)

March 31, 2011

Impairment of financial assets

At each reporting date, the Fund assesses whether there is objective evidence that a financial asset at amortized cost is impaired. If such evidence exists, the Fund recognizes an impairment loss as the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

Investments in associates

Associates are entities over which the Fund has significant influence, but not control, and include the Investment in the Partnership. The financial results of the Fund's investments in associates are included in the Fund's consolidated results according to the equity method. Subsequent to the acquisition date, the Fund's share of profits or losses of associates is recognized in the consolidated statement of earnings (loss) and its share of other comprehensive income (loss) of associates is included in other comprehensive income (loss).

Unrealized gains on transactions between the Fund and an associate are eliminated to the extent of the Fund's interest in the associate. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Dilution gains and losses arising from changes in interests in investments in associates are recognized in the consolidated statement of earnings (loss).

The Fund assesses whether there is any objective evidence that its interests in associates are impaired. If impaired, the carrying value of the Fund's share of the underlying assets of the associates is written down to its estimated recoverable amount (being the higher of fair value less cost to sell and value in use) and charged to the consolidated statement of earnings (loss).

Earnings per Fund unit

Earnings per Fund unit is based on the weighted average number of Fund units outstanding during the period. Diluted earnings per Fund unit is calculated to reflect the dilutive effect, if any, of SIR exercising its right to exchange its Class A GP units into Fund units at the beginning of the period.

Distributions

Distributions to unitholders are intended to be made monthly in arrears and are recorded when declared by the Trustees of the Fund. Distributions to unitholders are recorded as a financing activity in the consolidated statement of cash flows.

SIR Royalty Income Fund

Notes to Consolidated Financial Statements

(Unaudited)

March 31, 2011

Income taxes

As a result of certain legislative changes to the tax treatment of income trusts in Canada, beginning on January 1, 2011, the Fund is required to pay income taxes on its taxable income at the prevailing corporate income tax rates.

Income taxes comprise current and deferred taxes and are recognized in the consolidated statement of earnings (loss) and comprehensive income (loss).

Current income taxes are the expected taxes payable on taxable income for the year, using tax rates enacted, or substantively enacted, at the end of the reporting period. The Fund's first income tax payment is due on March 31, 2012.

In general, deferred income taxes are recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income taxes are determined on a non-discounted basis using tax rates and laws that have been enacted, or substantively enacted, at the consolidated balance sheet date and are expected to apply when the deferred income tax asset or liability is settled. Deferred income tax assets are recognized to the extent it is probable that the assets can be recovered.

IFRS issued but not yet effective

IFRS 9, Financial Instruments - Classification and Measurement - IFRS 9 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, 2013. Management is evaluating the standard and has not yet determined the impact on its consolidated financial statements.

In May 2011, the International Accounting Standards Board issued the following standards, which have not yet been adopted by the Fund: IFRS 10, Consolidated Financial Statements, IFRS 11, Joint Arrangements, IFRS 12, Disclosure of Interests in Other Entities, IAS 27, Separate Financial Statements, IFRS 13, Fair Value Measurement, and amended IAS 28, Investments in Associates and Joint Ventures. Each of the new standards is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. Management has not yet begun the process of assessing the impact that the new and amended standards will have on its consolidated financial statements or whether to early-adopt any of the new requirements.

SIR Royalty Income Fund

Notes to Consolidated Financial Statements

(Unaudited)

March 31, 2011

The following is a brief summary of the new standards:

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. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces Standing Interpretations Committee (SIC) 12, Consolidation - Special Purpose Entities, and parts of IAS 27.

IFRS 11, Joint Arrangements

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity-account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC 13, Jointly Controlled Entities - Non-monetary Contributions by Venturers.

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.

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. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and, in many cases, does not reflect a clear measurement basis or consistent disclosures.

Amendments to other standards

In addition, there have been amendments to existing standards, including IAS 27 and IAS 28. IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 through 13.

SIR Royalty Income Fund

Notes to Consolidated Financial Statements

(Unaudited)

March 31, 2011

4 Transition to IFRS

These are the Fund's first interim consolidated financial statements prepared in accordance with IFRS for interim financial reporting. The date of transition to IFRS is January 1, 2010. The Fund's IFRS accounting policies presented in note 3 have been applied in preparing the interim consolidated financial statements for the three-month period ended March 31, 2010 and the opening consolidated balance sheet at the date of transition.

The Fund has applied IFRS 1 in preparing these first IFRS interim consolidated financial statements. The effects of the transition to IFRS on equity, total comprehensive income and reported cash flows is presented in this section and is further explained in the notes that accompany the tables. The Fund has not made any elections under IFRS 1.

The effect of the Fund's transition to IFRS, described in note 2, is summarized as follows:

- i) Reconciliation of equity and comprehensive income as previously reported under Canadian GAAP to IFRS;
- ii) Adjustments to the interim consolidated statement of cash flows; and
- iii) Notes to reconciliations.

SIR Royalty Income Fund

Notes to Consolidated Financial Statements

(Unaudited)

March 31, 2011

i) Reconciliation of equity and comprehensive income as previously reported under Canadian GAAP to IFRS

Reconciliation of equity as previously reported under Canadian GAAP to IFRS:

	(iii)	As at December 31, 2010			As at January 1, 2010		
		Canadian GAAP \$	Effect of transition to IFRS \$	IFRS \$	Canadian GAAP \$	Effect of transition to IFRS \$	IFRS \$
Current assets							
Cash and cash equivalents		40	-	40	96	-	96
Prepaid expenses and other assets		31,704	-	31,704	24,307	-	24,307
Amounts due from related parties		1,231,078	-	1,231,078	1,192,403	-	1,192,403
		1,262,822	-	1,262,822	1,216,806	-	1,216,806
Loan receivable from SIR Corp.		40,000,000	-	40,000,000	40,000,000	-	40,000,000
Investment in SIR Royalty Limited Partnership		11,166,671	-	11,166,671	11,166,671	-	11,166,671
		52,429,493	-	52,429,493	52,383,477	-	52,383,477
Current liabilities							
Accounts payable and accrued liabilities		173,209	-	173,209	117,749	-	117,749
Fund units	b	-	-	-	-	40,710,669	40,710,669
		173,209	-	173,209	117,749	40,710,669	40,828,418
Deferred income taxes	a	676,000	578,288	1,254,288	676,000	578,288	1,254,288
		849,209	578,288	1,427,497	793,749	41,288,957	42,082,706
Fund units	b	51,166,670	5,185,467	56,352,137	51,166,670	(51,166,670)	-
Retained earnings (deficit)	a, b	413,614	(5,763,755)	(5,350,141)	423,058	9,877,713	10,300,771
Total unitholders' equity		51,580,284	(578,288)	51,001,996	51,589,728	(41,288,957)	10,300,771
		52,429,493	-	52,429,493	52,383,477	-	52,383,477

SIR Royalty Income Fund
Notes to Consolidated Financial Statements
(Unaudited)
March 31, 2011

		As at March 31, 2010		
		Canadian GAAP \$	Effect of transition to IFRS \$	IFRS \$
	(iii)			
Current assets				
Cash and cash equivalents		23	-	23
Prepaid expenses and other assets		32,892	-	32,892
Amounts due from related parties		1,054,456	-	1,054,456
		1,087,371	-	1,087,371
Loans receivable from SIR Corp.		40,000,000	-	40,000,000
Investment in SIR Royalty Limited Partnership		11,166,671	-	11,166,671
		52,254,042	-	52,254,042
Current liabilities				
Accounts payable and accrued liabilities		67,618	-	67,618
Fund units	b	-	51,263,303	51,263,303
		67,618	51,263,303	51,330,921
Deferred income taxes	a	676,000	578,288	1,254,288
		743,618	51,841,591	52,585,209
Fund units	b	51,166,670	(51,166,670)	-
Retained earnings (deficit)	a, b	343,754	(674,921)	(331,167)
Total unitholders' equity (deficiency)		51,510,424	(51,841,591)	(331,167)
		52,254,042	-	52,254,042

SIR Royalty Income Fund
Notes to Consolidated Financial Statements
(Unaudited)
March 31, 2011

Reconciliation of comprehensive income (loss) as previously reported under Canadian GAAP to IFRS:

		Three-month period ended March 31, 2010		
	(iii)	Canadian GAAP \$	Effect of transition to IFRS \$	IFRS \$
Investment income				
Equity income from SIR Royalty Limited Partnership		1,097,212	-	1,097,212
Interest income		750,000	-	750,000
		1,847,212	-	1,847,212
Expenses				
General and administrative		78,466	-	78,466
		1,768,746	-	1,768,746
Operating income		1,768,746	-	1,768,746
Change in amortized cost of Fund units	b	-	(12,400,684)	(12,400,684)
Net earnings (loss) and comprehensive income (loss) for the period		1,768,746	(12,400,684)	(10,631,938)
		Year ended December 31, 2010		
	(iii)	Canadian GAAP \$	Effect of transition to IFRS \$	IFRS \$
Investment income				
Equity income from SIR Royalty Limited Partnership		4,798,875	-	4,798,875
Interest income		3,000,000	-	3,000,000
		7,798,875	-	7,798,875
Expenses				
General and administrative		416,119	-	416,119
		7,382,756	-	7,382,756
Operating income		7,382,756	-	7,382,756
Change in amortized cost of Fund units	b	-	(22,417,652)	(22,417,652)
Net earnings (loss) and comprehensive income (loss) for the year		7,382,756	(22,417,652)	(15,034,896)

SIR Royalty Income Fund

Notes to Consolidated Financial Statements

(Unaudited)

March 31, 2011

ii) Adjustments to the interim consolidated statement of cash flows

	Three-month period ended March 31, 2010		
(iii)	Canadian GAAP \$	Effect of transition to IFRS \$	IFRS \$
Cash provided by (used in)			
Operating activities			
Net earnings (loss) for the period	1,768,746	(12,400,684)	(10,631,938)
Items not affecting cash			
Change in amortized cost of Fund units	b -	12,400,684	12,400,684
Equity income from SIR Royalty Limited Partnership	-	(1,097,212)	(1,097,212)
Distributions received from SIR Royalty Limited Partnership	-	1,098,051	1,098,051
Net change in non-cash working capital items	79,231	(839)	78,392
	1,847,977	-	1,847,977
Financing activities			
Distributions paid to unitholders	(1,848,050)	-	(1,848,050)
	(73)	-	(73)
Change in cash and cash equivalents	(73)	-	(73)
Cash and cash equivalents - Beginning of period	96	-	96
Cash and cash equivalents - End of period	23	-	23

SIR Royalty Income Fund

Notes to Consolidated Financial Statements

(Unaudited)

March 31, 2011

		Year ended December 31, 2010		
	(iii)	Canadian GAAP \$	Effect of transition to IFRS \$	IFRS \$
Cash provided by (used in)				
Operating activities				
Net earnings (loss) for the year		7,382,756	(22,417,652)	(15,034,896)
Items not affecting cash				
Change in amortized cost of Fund units	b	-	22,417,652	22,417,652
Equity income from SIR Royalty Limited Partnership		-	(4,798,875)	(4,798,875)
Distributions received from SIR Royalty Limited Partnership		-	4,692,201	4,692,201
Net change in non-cash working capital items		9,388	106,674	116,062
		7,392,144	-	7,392,144
Financing activities				
Distributions paid to unitholders		(7,392,200)	-	(7,392,200)
Change in cash and cash equivalents		(56)	-	(56)
Cash and cash equivalents - Beginning of year		96	-	96
Cash and cash equivalents - End of year		40	-	40

iii) Notes to reconciliations

- a) In accordance with IFRS, the deferred income tax liability relating to the Investment in the Partnership is determined using the effective tax rate on undistributed profits of 46.41%. Under Canadian GAAP, a rate of 25% is used to estimate the deferred income tax liability. As a result, an adjustment of \$578,288 is recorded to increase the deferred income tax liability and decrease retained earnings as at January 1, 2010 and December 31, 2010.
- b) Under Canadian GAAP, the Fund's units were classified as equity and monthly distributions on these units flowed through unitholders' equity. IFRS describes a financial liability as a contractual obligation to deliver cash or another financial asset. The Fund has determined that, under IFRS, its units should be classified as a financial liability as the Fund's Declaration of Trust contained a clause creating a contractual obligation to deliver cash or another financial asset under certain circumstances. Upon adopting IFRS, the Fund units have been classified as a liability and accounted for at amortized cost, with changes in the carrying value of the Fund units (at the reporting date) recorded in the consolidated statement of earnings (loss) and comprehensive income (loss) as change in amortized cost of Fund units. Distributions are accounted for as a reduction of the financial liability until December 20, 2010.

SIR Royalty Income Fund

Notes to Consolidated Financial Statements

(Unaudited)

March 31, 2011

On December 20, 2010, the Declaration of Trust was amended to enable the Fund units to meet the definition of a puttable instrument under IFRS and, therefore, the Fund units were classified as equity in the consolidated financial statements from that point on. Subsequent to December 20, 2010, monthly distributions flow through unitholders' equity.

5 Additional IFRS information for the year ended December 31, 2010

The following IFRS disclosures are material to an understanding of these interim consolidated financial statements.

i) Critical accounting estimates and judgments

The Fund makes estimates and assumptions concerning the future that will, by definition, seldom equal actual results. The following are estimates and judgments not previously reported under Canadian GAAP that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Income taxes

Effective January 1, 2011, the Fund became subject to income taxes at the prevailing corporate rates. Management uses judgment to estimate current and deferred income taxes. This involves determining taxable income and temporary differences between income for tax and accounting purposes.

ii) Financial instrument disclosures

The following loss has been included in the consolidated statement of earnings (loss) for the three-month period ended March 31, 2010 and year ended December 31, 2010 that were not previously included in net income under Canadian GAAP:

	Three-month period ended March 31, 2010	Year ended December 31, 2010
	\$	\$
Change in amortized cost of Fund units	<u>(12,400,684)</u>	<u>(22,417,652)</u>

The Fund units were measured at amortized cost and changes in carrying value were recorded in the consolidated statement of earnings (loss) until December 20, 2010, at which time the Fund units were transferred to unitholders' equity.

SIR Royalty Income Fund

Notes to Consolidated Financial Statements

(Unaudited)

March 31, 2011

6 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, 2011 (three-month period ended March 31, 2010 - \$750,000).

SIR has entered into a \$26,000,000 senior term debt facility (the Credit Agreement). The Partnership and the Fund did not guarantee the Credit Agreement. The 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 lender.

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.

7 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. The continuity of the Investment in the Partnership is as follows:

	Three-month period ended March 31, 2011 \$	Three-month period ended March 31, 2010 \$
Balance - Beginning of period	11,166,671	11,166,671
Equity income	1,103,048	1,097,212
Distributions declared	(1,103,048)	(1,097,212)
Balance - End of period	<u>11,166,671</u>	<u>11,166,671</u>

SIR Royalty Income Fund
Notes to Consolidated Financial Statements
(Unaudited)
March 31, 2011

The summarized financial information of the Partnership is as follows:

	March 31, 2011	December 31, 2010
	\$	\$
Total assets	72,449,885	71,137,136
Total liabilities	1,184,482	1,291,645
	Three-month period ended March 31, 2011	Three-month period ended March 31, 2010
	\$	\$
Revenues	2,894,128	2,858,385
Net earnings	2,870,401	2,827,663

8 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.

As at March 31, 2011, December 31, 2010 and January 1, 2010, there are 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, 2011, the Fund declared distributions of \$0.281 per unit (three-month period ended March 31, 2010 - \$0.345 per unit). Subsequent to March 31, 2011, the Fund declared distributions of \$0.083 per unit for each of the months of April and May 2011.

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.

On December 20, 2010, the Declaration of Trust was amended to remove the requirement to pay distributions in certain circumstances. Prior to December 20, 2010, the Fund units were classified as a liability in the consolidated balance sheet. Accordingly, on December 20, 2010, upon amendment of the Declaration of Trust, the Fund units were reclassified to equity.

For the three-month period ended March 31, 2010, the Fund units were accounted for as a financial liability at amortized cost. For the three-month period ended March 31, 2010, the distributions declared by the Trustees of

SIR Royalty Income Fund

Notes to Consolidated Financial Statements

(Unaudited)

March 31, 2011

\$1,848,050 have been recorded as a reduction of the financial liability. In addition, the change in the carrying value of the Fund units of \$12,400,684 has been recorded in the consolidated statement of earnings (loss) and comprehensive income (loss). The carrying value of the Fund units approximates its fair value. The fair value of the Fund units is determined using the quoted market price of Fund units at each reporting date.

On December 20, 2010, the fair value and carrying value of the Fund units was \$56,352,137 and was reclassified from liabilities to unitholders' equity in the consolidated balance sheet.

9 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, 2011		
	Basic earnings	Adjustment for conversion of Class A GP units	Diluted earnings
Net earnings for the period	\$ 1,251,341	\$ 725,685	\$ 1,977,026
Earnings per Fund unit for the period	\$ 0.23	\$ -	\$ 0.23
Weighted average number of Fund units outstanding for the period	5,356,667	3,106,514	8,463,181

The Fund units were classified as a liability as at March 31, 2010 and, accordingly, earnings per Fund unit is not presented for the comparable period.

SIR Royalty Income Fund

Notes to Consolidated Financial Statements

(Unaudited)

March 31, 2011

10 Related party transactions and balances

During the three-month period ended March 31, 2011, the Fund recorded equity income of \$1,103,048 (three-month period ended March 31, 2010 - \$1,097,212) and received distributions of \$1,098,051 (three-month period ended March 31, 2010 - \$1,098,051) 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. In December 2010, an additional distribution of \$nil (2009 - \$336,594) was declared and paid in cash in January 2011.

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 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.

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, 2011

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, 2011, the Partnership provided these services to the Fund and the Trust for consideration of \$6,000 (three-month period ended March 31, 2010 - \$6,000), which was the amount of consideration agreed to by the related parties.

Amounts due from (to) related parties consist of:

	March 31, 2011	December 31, 2010
	\$	\$
SIR Royalty Limited Partnership		
Distribution receivable	2,744,535	2,739,538
Advances payable	(1,805,049)	(1,669,139)
	<hr/>	<hr/>
Amounts receivable from SIR Royalty Limited Partnership - net	939,486	1,070,399
	<hr/>	<hr/>
SIR Corp.		
Interest receivable	250,000	250,000
Advances payable	(89,321)	(89,321)
	<hr/>	<hr/>
Amounts receivable from SIR Corp. - net	160,679	160,679
	<hr/>	<hr/>
Amounts due from related parties - net	<u>1,100,165</u>	<u>1,231,078</u>

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 \$19,400 for the three-month period ended March 31, 2011 (three-month period ended March 31, 2010 - \$19,600).

11 Income taxes

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

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, 2011 was 28.25%.

SIR Royalty Income Fund

Notes to Consolidated Financial Statements

(Unaudited)

March 31, 2011

Income tax expense is as follows:

	Three-month period ended March 31, 2011 \$	Three-month period ended March 31, 2010 \$
Current	491,000	-
Deferred	11,928	-
	<hr/>	<hr/>
	502,928	-
	<hr/>	<hr/>

12 Net change in non-cash working capital items

Net change in non-cash working capital items comprises:

	Three-month period ended March 31, 2011 \$	Three-month period ended March 31, 2010 \$
Prepaid expenses and other assets	(4,397)	(8,585)
Amounts due from related parties	135,910	137,108
Accounts payable and accrued liabilities	(32,726)	(50,131)
Income taxes payable	491,000	-
	<hr/>	<hr/>
	589,787	78,392
	<hr/>	<hr/>

13 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.