SIR Royalty Income Fund

Consolidated Financial Statements
(Unaudited)
For the three-month periods ended
March 31, 2012 and 2011

SIR Royalty Income Fund

Consolidated Balance Sheets
(Unaudited)

	March 31, 2012 $	December 31, 2011 $
Assets		
Current assets		
Cash and cash equivalents	50,023	2,100,464
Prepaid expenses and other assets	35,604	31,715
Amounts due from related parties (note 8)	1,111,455	1,181,879
Income taxes receivable	31,844	-
	1,228,926	3,314,058
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
	52,395,597	54,480,729
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	53,798	73,362
Income taxes payable	-	2,144,000
	53,798	2,217,362
Deferred income taxes	1,312,000	1,301,000
	1,365,798	3,518,362
Fund units (note 6)	56,352,137	56,352,137
Deficit	(5,322,338)	(5,389,770)
Total unitholders' equity	51,029,799	50,962,367
	52,395,597	54,480,729

Subsequent event (note 6)

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, 2012 $	Three-month period ended March 31, 2011 $
Investment income		
Equity income from SIR Royalty Limited Partnership (notes 5 and 8)	1,251,566	1,103,048
Interest income (note 4)	750,000	750,000
	2,001,566	1,853,048
Expenses		
General and administrative (note 8)	85,524	98,779
Net earnings before income taxes	1,916,042	1,754,269
Income tax expense (note 9)	514,800	502,928
Net earnings and comprehensive income for the period	1,401,242	1,251,341
Basic and diluted earnings per Fund unit (note 7)	$ 0.26	$ 0.23

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, 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 and paid (note 6)	-	-	(1,333,810)	(1,333,810)
Balance - End of period	5,356,667	56,352,137	(5,322,338)	51,029,799

	Three-month period ended March 31, 2011			
	Number of Fund units	Amount $	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 6)	-	-	(1,505,223)	(1,505,223)
Balance - End of period	5,356,667	56,352,137	(5,604,023)	50,748,114

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, 2012 $	Three-month period ended March 31, 2011 $
Cash provided by (used in)		
Operating activities		
Net earnings for the period	1,401,242	1,251,341
Items not affecting cash		
Deferred income taxes (note 9)	11,000	11,928
Equity income from SIR Royalty Limited Partnership	(1,251,566)	(1,103,048)
Distributions received from SIR Royalty Limited Partnership	1,098,050	1,098,051
Net change in non-cash working capital items (note 10)	(1,975,357)	589,787
	(716,631)	1,848,059
Financing activities		
Distributions paid to unitholders	(1,333,810)	(1,505,223)
Change in cash and cash equivalents	(2,050,441)	342,836
Cash and cash equivalents - Beginning of period	2,100,464	40
Cash and cash equivalents - End of period	50,023	342,876
Supplemental information		
Income taxes paid	2,679,644	-

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 5).

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 8, 2012.

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 financial statements in accordance with International Financial Reporting Standards (IFRS) applicable to the preparation of interim financial statements, including IAS 34. 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 2011 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.

The Fund prepares its consolidated financial statements in accordance with IFRS for interim financial statements 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. The accounting policies as applied in these unaudited interim consolidated financial statements are consistent with those followed in the 2011 audited annual consolidated financial statements except for the adoption of the following new pronouncement.

IFRS 7, Financial Instruments - Disclosures, has been amended to include additional disclosure requirements in the reporting of transfer transactions and risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitization of financial assets. The adoption of this standard did not have a material impact on the consolidated financial statements of the Fund.

3 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.

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.

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 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.

IAS 1, Presentation of Financial Statements, has been amended to require entities to separate items presented in other comprehensive income into two groups, based on whether or not items may be recycled in the future. Entities that choose to present other comprehensive income items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012, with earlier application permitted.

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, 2012 (three-month period ended March 31, 2011 - $750,000).

SIR has a $26,000,000 term loan and a $12,000,000 development loan (the Amended Credit Agreement) that are due on November 14, 2016. These loans qualify 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 subordinated and postponed their claims against SIR to the claims of the lender.

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.

5 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, 2012 $	Three-month period ended March 31, 2011 $
Balance - Beginning of period	11,166,671	11,166,671
Equity income	1,251,566	1,103,048
Distributions declared	(1,251,566)	(1,103,048)
Balance - End of period	11,166,671	11,166,671

The summarized financial information of the Partnership is as follows:

	March 31, 2012 $	December 31, 2011 $
Total assets	74,358,820	72,387,851
Total liabilities	1,187,026	1,122,448

	Three-month period ended March 31, 2012 $	Three-month period ended March 31, 2011 $
Revenues	3,197,346	2,894,128
Net earnings	3,185,664	2,870,401

6 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, 2012 and December 31, 2011, 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, 2012, the Fund declared distributions of $0.249 per unit (three-month period ended March 31, 2011 - $0.281 per unit). Subsequent to March 31, 2012, the Fund declared distributions of $0.083 per unit in each of the months of April and May 2012.

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.

7 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	$ 1,401,242	$ 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

	Three-month period ended March 31, 2011		
	Basic earnings	Adjustment for conversion of Class A GP units	Diluted earnings
Net earnings	$ 1,251,341	$ 725,685	$ 1,977,026
Net earnings per Fund unit	$ 0.23	-	$ 0.23
Weighted average number of Fund units outstanding	5,356,667	3,106,514	8,463,181

8 Related party transactions and balances

During the three-month period ended March 31, 2012, the Fund recorded equity income of $1,251,566 (three-month period ended March 31, 2011 - $1,103,048) and received distributions of $1,098,050 (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.

On January 1, 2012, one (2011 - one) new SIR Restaurant was added to and nil (2011 - nil) 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 - one) new restaurant on January 1, 2012, as well as the second incremental adjustment for the one (2010 - nil) new SIR Restaurant added to the Royalty Pooled Restaurants on January 1, 2011, SIR converted certain of its Class B GP units into

Class A GP units based on the formula defined in the Partnership Agreement. The number of Class B GP units that SIR converted into Class A GP units was reduced by an adjustment for the permanent closure of nil (2011 - nil) SIR Restaurants during the prior year. The net effect of these adjustments to the Royalty Pooled Restaurants was that SIR converted 203,878 (2011 - 137,190) Class B GP units into 203,878 (2011 - 137,190) Class A GP units on January 1, 2012 at an estimated fair value of $1,906,391 (2011 - $1,419,912).

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, 2012, the Partnership provided these services to the Fund and the Trust for consideration of $6,000 (three-month period ended March 31, 2011 - $6,000), which was the amount of consideration agreed to by the related parties.

Amounts due from (to) related parties consist of:

	March 31, 2012 $	December 31, 2011 $
SIR Royalty Limited Partnership		
Distribution receivable	3,035,239	2,881,723
Advances payable	(2,173,784)	(1,949,844)
Amounts due from SIR Royalty Limited Partnership - net	861,455	931,879
SIR Corp.		
Interest receivable	250,000	250,000
Amounts due from related parties - net	1,111,455	1,181,879

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 $19,900 for the three-month period ended March 31, 2012 (three-month period ended March 31, 2011 - $19,400).

9 Income taxes

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, 2012 was 26.50% (March 31, 2011 - 28.25%).

Income tax expense is as follows:

	Three-month period ended March 31, 2012 $	Three-month period ended March 31, 2011 $
Current	503,800	491,000
Deferred	11,000	11,928
	514,800	502,928

10 Net change in non-cash working capital items

Net change in non-cash working capital items comprises:

	Three-month period ended March 31, 2012 $	Three-month period ended March 31, 2011 $
Prepaid expenses and other assets	(3,889)	(4,397)
Amounts due to related parties	223,940	135,910
Income taxes receivable	(31,844)	-
Accounts payable and accrued liabilities	(19,564)	(32,726)
Income taxes payable	(2,144,000)	491,000
	(1,975,357)	589,787

11 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.