

SIR Royalty Income Fund

Consolidated Financial Statements
(Unaudited)

**For the three-month and nine-month periods ended
September 30, 2009 and 2008**

SIR Royalty Income Fund

Consolidated Balance Sheets

(Unaudited)

	September 30, 2009 \$	December 31, 2008 \$
Assets		
Current assets		
Cash and cash equivalents	167	230
Prepaid expenses and other assets	5,495	70,033
Amounts due from related parties (note 8)	1,377,446	1,422,690
	<u>1,383,108</u>	<u>1,492,953</u>
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
	<u>52,549,779</u>	<u>52,659,624</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	143,063	136,771
Future income taxes	797,000	797,000
	<u>940,063</u>	<u>933,771</u>
Unitholders' Equity (note 6)	51,609,716	51,725,853
	<u>52,549,779</u>	<u>52,659,624</u>

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 September 30, 2009 \$	Three-month period ended September 30, 2008 \$	Nine-month period ended September 30, 2009 \$	Nine-month period ended September 30, 2008 \$
Investment income				
Distribution income from SIR Royalty Limited Partnership (notes 5 and 8)	1,205,492	1,275,629	3,524,990	3,819,041
Interest income (note 4)	750,000	750,000	2,250,000	2,250,000
	<hr/> 1,955,492	<hr/> 2,025,629	<hr/> 5,774,990	<hr/> 6,069,041
Expenses				
General and administrative (note 8)	123,297	109,486	346,977	357,819
	<hr/>	<hr/>	<hr/>	<hr/>
Net earnings and comprehensive income for the period	<hr/> 1,832,195	<hr/> 1,916,143	<hr/> 5,428,013	<hr/> 5,711,222
	<hr/>	<hr/>	<hr/>	<hr/>
Basic and diluted earnings per Fund unit (note 7)	<hr/> \$0.34	<hr/> \$0.36	<hr/> \$1.01	<hr/> \$1.07

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 September 30, 2009 \$	Three-month period ended September 30, 2008 \$	Nine-month period ended September 30, 2009 \$	Nine-month period ended September 30, 2008 \$
Balance - Beginning of period	51,625,571	51,721,696	51,725,853	51,488,801
Net earnings for the period	1,832,195	1,916,143	5,428,013	5,711,222
Distributions declared and paid (note 6)	(1,848,050)	(1,848,050)	(5,544,150)	(5,410,234)
Balance - End of period	51,609,716	51,789,789	51,609,716	51,789,789

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 September 30, 2009 \$	Three-month period ended September 30, 2008 \$	Nine-month period ended September 30, 2009 \$	Nine-month period ended September 30, 2008 \$
Cash provided by (used in)				
Operating activities				
Net earnings for the period	1,832,195	1,916,143	5,428,013	5,711,222
Net change in non-cash working capital items (note 9)	15,784	(68,026)	116,074	(300,956)
	1,847,979	1,848,117	5,544,087	5,410,266
Financing activities				
Distributions paid	(1,848,050)	(1,848,050)	(5,544,150)	(5,410,234)
Change in cash and cash equivalents				
	(71)	67	(63)	32
Cash and cash equivalents - Beginning of period				
	238	70	230	105
Cash and cash equivalents - End of period				
	167	137	167	137

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

SIR Royalty Income Fund

Notes to Consolidated Financial Statements

(Unaudited)

September 30, 2009

1 Nature of operations, basis of presentation 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.

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 Royalty Pooled Restaurants (the Licence and Royalty Agreement). The Fund participates, indirectly, in the revenues generated under the Licence and Royalty Agreement through its investment in the Partnership (note 5).

Basis of presentation

The disclosures contained in these unaudited interim consolidated financial statements do not include all requirements of generally accepted accounting principles for annual financial statements and should be read in conjunction with the 2008 audited annual consolidated financial statements and notes thereto. The financial performance of the Fund for the interim periods is not necessarily indicative of the results that may be expected for the full year due to the seasonality of the Fund's business.

Seasonality

The full-service restaurant sector of the Canadian 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, distribution income recognized by the Fund will vary in conjunction with the seasonality in revenues experienced by SIR.

2 Summary of significant accounting policies and changes in accounting policies

The Fund prepares its financial statements in accordance with Canadian generally accepting accounting principles and 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 disclosed in these unaudited interim consolidated financial statements are consistent with those followed in the 2008 audited annual consolidated financial statements, except as noted below.

SIR Royalty Income Fund

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Effective January 1, 2009, the Fund adopted The Canadian Institute of Chartered Accountants (CICA) Handbook Section 3064, Goodwill and Intangible Assets. Handbook Section 3064 replaces Handbook Section 3062, Goodwill and Intangible Assets, and Handbook Section 3450, Research and Development Costs, and establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The provisions relating to the definition and initial recognition of intangible assets, including internally generated intangible assets, are equivalent to the corresponding provisions of International Financial Reporting Standards IAS 38, Intangible Assets. This standard is effective for the Fund for interim and annual financial statements beginning on January 1, 2009. Management has determined that the adoption of this standard had no impact on the disclosures in its consolidated financial statements.

3 Recently issued accounting pronouncements

International Financial Reporting Standards (IFRS)

The CICA plans to converge Canadian generally accepted accounting principles with IFRS over a transition period expected to end in 2011. Management is reviewing the transition to IFRS on the Fund's consolidated financial statements and has not yet determined the impact.

Business Combinations, Consolidated Financial Statements and Non-Controlling Interests

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

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 \$2,250,000 was earned during the nine-month periods ended September 30, 2009 and 2008 (three-month periods ended September 30, 2009 and 2008 - \$750,000).

During 2007, SIR entered into a Credit Agreement for a maximum principal amount of \$16,000,000. The facility was used primarily to facilitate construction of new restaurants by SIR. The loan is collateralized by substantially all of the assets of SIR and most of its subsidiaries, which are also guarantors. The Partnership and the Fund have not guaranteed the Credit Facility. On August 9, 2007, the Fund entered into an agreement to subordinate and postpone its claims against SIR in favour of the bank.

SIR Royalty Income Fund

Notes to Consolidated Financial Statements

(Unaudited)

September 30, 2009

The bank debt is “permitted indebtedness” within the meaning of the agreements between the Fund, the Partnership and SIR and, as a result, the Fund and the Partnership have, as contemplated in the existing agreements, subordinated and postponed their claims against SIR to the claims of the bank. This subordination, which includes a subordination of the Partnership’s rights under the Licence and Royalty Agreement between the Partnership and SIR whereby the Partnership licenses to SIR the right to use the trademarks and related intellectual property in return for royalty payments based on revenues, has been effected pursuant to the terms of an Interlender Agreement.

Under the Interlender Agreement, absent a default or event of default under the Credit Agreement, ordinary payments to the Partnership and the Fund can continue and the Partnership can exercise any and all of its rights to preserve the trademarks and related intellectual property governed by the Licence and Royalty Agreement. However, if a default or an event of default were to occur, then payments to the Fund and the Partnership could cease and the related rights of the Fund and the Partnership could be subject to a “standstill” obligation for a period of up to 120 days (which may be extended if the bank is pursuing remedies). The Interlender Agreement also contains various other typical covenants of the Fund and the Partnership.

SIR has the right to require the Fund to, indirectly, purchase the Class C GP units of the Partnership and assume a portion of the SIR loan as consideration for the acquisition of the Class C GP units.

5 Investment in SIR Royalty Limited Partnership

On October 12, 2004, the Fund, indirectly through the Trust, acquired all of the Ordinary LP units of the Partnership. The holders of the Ordinary LP and Class A GP units are entitled to receive a pro rata share of distributions of the Partnership.

The distributions from the Partnership primarily comprise revenues earned by the Partnership under the Licence and Royalty Agreement (note 1) less certain general and administrative expenses. Distributions for the three- and nine-month periods ended September 30, 2009 amounted to \$1,205,492 and \$3,524,990, respectively (three- and nine-month periods ended September 30, 2008 - \$1,275,629 and \$3,819,041, respectively).

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 unit during the 10 consecutive trading day period ending on the trading day immediately prior to the date on which the units were surrendered for redemption and an amount based on the closing price on the redemption date, subject to certain restrictions. Each holder of units of the Fund participates pro rata in any distributions from the Fund. Income tax obligations related to the distributions by the Fund are obligations of the unitholders.

As at September 30, 2009 and December 31, 2008, there are 5,356,667 units issued and outstanding. Each unit is entitled to one vote at any meeting of unitholders.

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September 30, 2009

During the nine-month period ended September 30, 2009, the Fund declared distributions of \$1.035 per unit (nine-month period ended September 30, 2008 - \$1.010 per unit). Subsequent to September 30, 2009, the Fund declared a distribution of \$0.115 per unit for the month of September 2009.

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 are computed by dividing net earnings by the weighted average number of Fund units outstanding during the period.

SIR has the right to convert the Class A GP units of the Partnership into units of the Fund. Diluted earnings per Fund unit are calculated using the weighted average number of Fund units outstanding adjusted to include the effect of the conversion of the Class A GP units of the Partnership into Fund units.

The following table reconciles the basic and diluted weighted average number of Fund units outstanding and basic and diluted earnings per Fund unit:

	Basic earnings	Adjustment for conversion of Class A GP units	Diluted earnings
Net earnings for the nine-month period ended September 30, 2009	\$5,428,013	\$2,761,693	\$8,189,706
Net earnings per Fund unit for the nine-month period ended September 30, 2009	\$1.01		\$1.01
Net earnings for the three-month period ended September 30, 2009	\$1,832,195	\$932,195	\$2,764,390
Net earnings per Fund unit for the three-month period ended September 30, 2009	\$0.34		\$0.34
Weighted average number of Fund units outstanding for the three- and nine-month periods ended September 30, 2009	5,356,667	2,725,415	8,082,082
Net earnings for the nine-month period ended September 30, 2008	\$5,711,222	\$1,757,646	\$7,468,868
Net earnings per Fund unit for the nine-month period ended September 30, 2008	\$1.07		\$1.07
Net earnings for the three-month period ended September 30, 2008	\$1,916,143	\$589,699	\$2,505,842
Net earnings per Fund unit for the three-month period ended September 30, 2008	\$0.36		\$0.36
Weighted average number of Fund units outstanding for the three- and nine-month periods ended September 30, 2008	5,356,667	1,648,544	7,005,211

SIR Royalty Income Fund

Notes to Consolidated Financial Statements

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September 30, 2009

8 Related party transactions and balances

During the three- and nine-month periods ended September 30, 2009, the Fund received distribution income of \$1,205,492 and \$3,524,990, respectively, from the Partnership (three-month period ended September 30, 2008 - \$1,275,629; and nine-month period ended September 30, 2008 - \$3,819,041). The Fund, indirectly through the Trust, is entitled to receive a pro rata share of all residual distributions. The Fund's distribution income is dependent upon the 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 closed during a reporting period. SIR is not required to pay any Make-Whole Payment in respect of a closed restaurant following the date on which the number of 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 of the Partnership into Class A GP units of the Partnership 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 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 may 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 2008, an Additional Distribution of \$177,888 (2007 - \$76,935) was declared and paid in cash in January 2009. Currently, management is not able to determine if the revenues of the six new SIR Restaurants added to Royalty Pooled Restaurants on January 1, 2009 will be greater or less than 80% of the initial estimated revenues.

On January 1, 2009, six (2008 - three) new SIR Restaurants were added to and nil (2008 - two) closed SIR Restaurants were removed from Royalty Pooled Restaurants in accordance with the Partnership Agreement. As consideration for the additional Royalty associated with the addition of six (2008 - three) new restaurants on January 1, 2009, as well as the second incremental adjustment for the three (2007 - three) new SIR Restaurants added to Royalty Pooled Restaurants on January 1, 2008, 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 (2008 - two) SIR Restaurants during the prior year. The net effect of these adjustments to Royalty Pooled Restaurants was that SIR converted 1,076,871 (2008 - 193,535) Class B GP units of the Partnership into 1,076,871 (2008 - 193,535) Class A GP units of the Partnership on January 1, 2009 at an estimated fair value of \$5,972,477 (2008 - \$1,455,577).

Class A GP units of the Partnership and Class B GP units of the Partnership are held by SIR.

SIR Royalty Income Fund

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(Unaudited)

September 30, 2009

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 of the Partnership. SIR, on behalf of SIR GP Inc., also provides services to the Partnership for its administration. For the nine-month periods ended September 30, 2009 and 2008, the Partnership provided these services to the Fund and the Trust for consideration of \$18,000 (three-month periods ended September 30, 2009 and 2008 - \$6,000), which was the amount of consideration agreed to by the related parties.

Amounts due from (to) related parties consist of:

	September 30, 2009	December 31, 2008
	\$	\$
SIR Royalty Limited Partnership		
Distribution receivable	2,662,424	2,431,584
Advances payable	(1,459,054)	(1,190,744)
	<hr/>	<hr/>
Amounts receivable from SIR Royalty Limited Partnership - net	1,203,370	1,240,840
SIR Corp.		
Interest receivable	250,000	250,000
Advances payable	(75,924)	(68,150)
	<hr/>	<hr/>
Amounts receivable from SIR Corp. - net	174,076	181,850
	<hr/>	<hr/>
Amounts due from related parties - net	1,377,446	1,422,690
	<hr/>	<hr/>

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.

SIR Royalty Income Fund

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(Unaudited)

September 30, 2009

9 Net change in non-cash working capital items

Net change in non-cash working capital items comprises:

	Three-month period ended September 30, 2009 \$	Three-month period ended September 30, 2008 \$	Nine-month period ended September 30, 2009 \$	Nine-month period ended September 30, 2008 \$
Prepaid expenses and other assets	26,974	25,921	64,538	62,767
Amounts due from related parties	153,067	(120,828)	45,244	(347,729)
Accounts payable and accrued liabilities	(164,257)	26,881	6,292	(15,994)
	<u>15,784</u>	<u>(68,026)</u>	<u>116,074</u>	<u>(300,956)</u>

10 Economic dependence

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