SIR Royalty Income Fund

Consolidated Financial Statements
(Unaudited)
For the three-month and nine-month periods ended September 30, 2011 and 2010

SIR Royalty Income Fund
Consolidated Balance Sheets
(Unaudited)

	September 30, 2011 $	December 31, 2010 $
Assets		
Current assets		
Cash and cash equivalents	1,283,482	40
Prepaid expenses and other assets	6,126	31,704
Amounts due from related parties (note 9)	1,358,652	1,231,078
	2,648,260	1,262,822
Loan receivable from SIR Corp. (note 5)	40,000,000	40,000,000
Investment in SIR Royalty Limited Partnership (note 6)	11,166,671	11,166,671
	53,814,931	52,429,493
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	81,406	173,209
Income taxes payable	1,591,800	-
	1,673,206	173,209
Deferred income taxes	1,289,572	1,254,288
	2,962,778	1,427,497
Fund units (note 7)	56,352,137	56,352,137
Deficit	(5,499,984)	(5,350,141)
Total unitholders' equity	50,852,153	51,001,996
	53,814,931	52,429,493

Subsequent event (note 7)

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 September 30, 2011 $	Three-month period ended September 30, 2010 $	Nine-month period ended September 30, 2011 $	Nine-month period ended September 30, 2010 $
Investment income				
Equity income from SIR Royalty Limited Partnership (notes 6 and 9)	1,274,075	1,193,186	3,703,440	3,550,316
Interest income (note 5)	750,000	750,000	2,250,000	2,250,000
	2,024,075	1,943,186	5,953,440	5,800,316
Expenses				
General and administrative (note 9)	91,464	85,580	303,355	296,595
Operating income	1,932,611	1,857,606	5,650,085	5,503,721
Change in amortized cost of Fund units (note 7)	-	(1,848,050)	-	(14,650,484)
Net earnings (loss) before income taxes	1,932,611	9,556	5,650,085	(9,146,763)
Income tax expense (note 10)	555,728	-	1,627,084	-
Net earnings (loss) and comprehensive income (loss) for the period	1,376,883	9,556	4,023,001	(9,146,763)
Basic and diluted earnings per Fund unit (note 8)	$ 0.26		$ 0.75	

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

SIR Royalty Income Fund
Consolidated Statements of Unitholders' Equity
(Unaudited)

	Nine-month period ended September 30, 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	-	-	4,023,001	4,023,001
Distributions declared and paid (note 7)	-	-	(4,172,844)	(4,172,844)
Balance - End of period	5,356,667	56,352,137	(5,499,984)	50,852,153

	Nine-month period ended September 30, 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	-	-	(9,146,763)	(9,146,763)
Balance - End of period	-	-	1,154,008	1,154,008

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, 2011 $	Three-month period ended September 30, 2010 $	Nine-month period ended September 30, 2011 $	Nine-month period ended September 30, 2010 $
Cash provided by (used in)				
Operating activities				
Net earnings (loss) for the period	1,376,883	9,556	4,023,001	(9,146,763)
Items not affecting cash				
Deferred income taxes	11,428	-	35,284	-
Change in amortized cost of Fund units	-	1,848,050	-	14,650,484
Equity income from SIR Royalty Limited Partnership	(1,274,075)	(1,193,186)	(3,703,440)	(3,550,316)
Distributions received from SIR Royalty Limited Partnership	1,098,051	1,098,049	3,294,151	3,294,150
Net change in non-cash working capital items (note 11)	547,173	85,526	1,807,290	296,546
	1,759,460	1,847,995	5,456,286	5,544,101
Financing activities				
Distributions paid to unitholders	(1,333,810)	(1,848,050)	(4,172,844)	(5,544,150)
Change in cash and cash equivalents	425,650	(55)	1,283,442	(49)
Cash and cash equivalents - Beginning of period	857,832	102	40	96
Cash and cash equivalents - End of period	1,283,482	47	1,283,482	47

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 6).

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 on January 1, 2011. 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 as at

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 November 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 the 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 and the interim consolidated financial statements for the three-month period ended March 31, 2011.

3 Summary of significant accounting policies

The Fund prepares its consolidated financial statements in accordance with IFRS as applicable to interim financial reporting. The accounting policies applied in these interim consolidated financial statements are consistent with those followed in the interim consolidated financial statements for the three-month period ended March 31, 2011.

IFRS issued but not yet effective

IFRS 9, Financial Instruments - 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. Each of the new standards is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. Management is evaluating the standards and has not yet determined the impact 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 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.

IAS 1, Presentation of financial statements

IAS 1 is amended to change the disclosure of items presented in other comprehensive income (OCI), including a requirement to separate items presented in OCI into two groups based on whether or not they may be recycled to profit or loss in the future. The standard is effective for years beginning on or after July 1, 2012. Management is evaluating the standard and has not yet determined the impact on its consolidated financial statements.

4 Transition to IFRS

These are the Fund's third 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 the interim consolidated financial statements for the three-month period ended March 31, 2011 have been applied in preparing the interim consolidated financial statements for the three-month and nine-month periods ended September 30, 2010 and the opening consolidated balance sheet at the date of transition.

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

The effects of the Fund's transition to IFRS, described in note 2, are 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.

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

The reconciliation of equity as previously reported under Canadian GAAP to IFRS as at December 31, 2010 and January 1, 2010 is presented in the interim consolidated financial statements for the three-month period ended March 31, 2011.

The reconciliation of equity as previously reported under Canadian GAAP to IFRS as at September 30, 2010 is as follows.

				September 30, 2010
	(iii)	**Canadian GAAP $**	**Effect of transition to IFRS $**	**IFRS $**
Current assets				
Cash and cash equivalents		47	-	47
Prepaid expenses and other assets		5,418	-	5,418
Amounts due from related parties		1,136,363	-	1,136,363
		1,141,828	-	1,141,828
Loan receivable from SIR Corp.		40,000,000	-	40,000,000
Investment in SIR Royalty Limited Partnership		11,166,671	-	11,166,671
		52,308,499	-	52,308,499
Current liabilities				
Accounts payable and accrued liabilities		83,200	-	83,200
Fund units	b	-	49,817,003	49,817,003
		83,200	49,817,003	49,900,203
Deferred income taxes	a	676,000	578,288	1,254,288
		759,200	50,395,291	51,154,491
Fund units	b	51,166,670	(51,166,670)	-
Retained earnings	a, b	382,629	771,379	1,154,008
Total unitholders' equity		51,549,299	(50,395,291)	1,154,008
		52,308,499	-	52,308,499

The reconciliation of the comprehensive loss for the year ended December 31, 2010 is presented in the interim consolidated financial statements for the three-month period ended March 31, 2011.

The reconciliation of comprehensive income (loss) as previously reported under Canadian GAAP to IFRS for the three-month and nine-month periods ended September 30, 2010 is as follows.

				Three-month period ended September 30, 2010
	(iii)	**Canadian GAAP $**	**Effect of transition to IFRS $**	**IFRS $**
Investment income				
Equity income from SIR Royalty Limited Partnership		1,193,186	-	1,193,186
Interest income		750,000	-	750,000
		1,943,186	-	1,943,186
Expenses				
General and administrative		85,580	-	85,580
Operating income		1,857,606	-	1,857,606
Change in amortized cost of Fund units	b	-	(1,848,050)	(1,848,050)
Net earnings and comprehensive income for the period		1,857,606	(1,848,050)	9,556

				Nine-month period ended September 30, 2010
	(iii)	**Canadian GAAP $**	**Effect of transition to IFRS $**	**IFRS $**
Investment income				
Equity income from SIR Royalty Limited Partnership		3,550,316	-	3,550,316
Interest income		2,250,000	-	2,250,000
		5,800,316	-	5,800,316
Expenses				
General and administrative		(296,595)	-	(296,595)
Operating income		5,503,721	-	5,503,721
Change in amortized cost of Fund units	b	-	(14,650,484)	(14,650,484)
Net earnings (loss) and comprehensive income (loss) for the period		5,503,721	(14,650,484)	(9,146,763)

ii) Adjustments to the interim consolidated statement of cash flows

The reconciliation of the consolidated statement of cash flows for the year ended December 31, 2010 is presented in the interim consolidated financial statements for the three-month period ended March 31, 2011.

The reconciliation of the interim consolidated statements of cash flows for the three-month and nine-month periods ended September 30, 2010 is as follows.

				Three-month period ended September 30, 2010
	(iii)	**Canadian GAAP $**	**Effect of transition to IFRS $**	**IFRS $**
Cash provided by (used in)				
Operating activities				
Net earnings for the period		1,857,606	(1,848,050)	9,556
Items not affecting cash				
Change in amortized cost of Fund units	b	-	1,848,050	1,848,050
Equity income from SIR Royalty Limited Partnership		-	(1,193,186)	(1,193,186)
Distributions received from SIR Royalty Limited Partnership		-	1,098,049	1,098,049
Net change in non-cash working capital items		(9,611)	95,137	85,526
		1,847,995	-	1,847,995
Financing activities				
Distributions paid to unitholders		(1,848,050)	-	(1,848,050)
Change in cash and cash equivalents		(55)	-	(55)
Cash and cash equivalents - Beginning of period		102	-	102
Cash and cash equivalents - End of period		47	-	47

				Nine-month period ended September 30, 2010
	(iii)	**Canadian GAAP $**	**Effect of transition to IFRS $**	**IFRS $**
Cash provided by (used in)				
Operating activities				
Net earnings (loss) for the period		5,503,721	(14,650,484)	(9,146,763)
Items not affecting cash				
Change in amortized cost of Fund units	b	-	14,650,484	14,650,484
Equity income from SIR Royalty Limited Partnership		-	(3,550,316)	(3,550,316)
Distributions received from SIR Royalty Limited Partnership		-	3,294,150	3,294,150
Net change in non-cash working capital items		40,380	256,166	296,546
		5,544,101	-	5,544,101
Financing activities				
Distributions paid to unitholders		(5,544,150)	-	(5,544,150)
Change in cash and cash equivalents		(49)	-	(49)
Cash and cash equivalents - Beginning of period		96	-	96
Cash and cash equivalents - End of period		47	-	47

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 income 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, September 30, 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 Fund 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. On 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.

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 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, 2011 and 2010 (three-month periods ended September 30, 2011 and 2010 - $750,000).

On August 26, 2011, SIR entered into an Amended and Restated Loan Agreement (Credit Agreement) with its existing senior lender to add a $12,000,000 Development Loan to the $26,000,000 Term Loan that was negotiated on November 13, 2009. The Development Loan is to be used to finance new restaurants and renovation programs.

Subject to the terms and conditions of the Credit Agreement, the lender agrees to make the Development Loan available to SIR by way of multiple Advances, disbursed on or prior to May 18, 2012 in accordance with the terms of the Credit Agreement. The Development Loan is a non-revolving credit facility and any repayments in whole or in part of the Development Loan may not be re-borrowed or utilized again hereunder and shall not entitle SIR to obtain further Advances in respect of such amounts repaid. The aggregate outstanding principal amount of all Advances under the Development Loan shall not exceed $12,000,000 at any time. The lender shall make available the Development Loan to the Borrower only for the purpose of financing: (a) costs incurred in connection with the acquisition of furniture, fixtures, equipment and leasehold improvements relating to new Locations; and (b) renovations and capital expenditure costs relating to existing Locations. The terms of the Credit Agreement remain substantially consistent with the November 13, 2009 credit agreement. The Development Loan has a five-year term and a seven-year amortization. The Development Loan has a variable interest rate that is lower than the variable rate on the existing Term Loan. SIR can also elect to fix the interest rate.

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. Accordingly, the Subordination and Postponement Agreement was amended on August 26, 2011.

Under the First Amendment to the Subordination and Postponement Agreement, absent a default or event of default under the Credit Agreement, ordinary payments to the Partnership and the Fund are permitted. However, if a default or an event of default were to occur, then payments to the Fund and the Partnership are likely to cease and the related rights of the Fund and the Partnership will be subject to a "standstill" obligation for a period of up to 120 days (which may be extended if the lender is pursuing remedies). The First Amendment to the Subordination and Postponement Agreement also contains various other typical covenants of the Fund and the Partnership. On August 26, 2011, SIR entered into an agreement with the Fund and the Partnership to restrict the amount of additional debt that SIR can incur without the consent of the Fund and the Partnership (which consent shall not be unreasonably withheld).

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.

6 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 September 30, 2011 $	**Three-month period ended September 30, 2010 $**	**Nine-month period ended September 30, 2011 $**	**Nine-month period ended September 30, 2010 $**
Balance - Beginning of period	11,166,671	11,166,671	11,166,671	11,166,671
Equity income	1,274,075	1,193,186	3,703,440	3,550,316
Distributions declared	(1,274,075)	(1,193,186)	(3,703,440)	(3,550,316)
Balance - End of period	11,166,671	11,166,671	11,166,671	11,166,671

The summarized financial information of the Partnership is as follows:

	September 30, 2011 $	**December 31, 2010 $**
Total assets	72,555,133	71,137,136
Total liabilities	1,289,730	1,291,645

	Three-month period ended September 30, 2011 $	**Three-month period ended September 30, 2010 $**	**Nine-month period ended September 30, 2011 $**	**Nine-month period ended September 30, 2010 $**
Revenues	3,167,220	3,005,600	9,296,417	8,933,819
Net earnings	3,144,856	2,972,895	9,230,100	8,851,140

7 Fund units

An unlimited number of Fund units may be issued pursuant to the Declaration of Trust. Fund units are redeemable by the holder at a price equal to the lesser of 90% of the market price of a 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 September 30, 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 nine-month period ended September 30, 2011, the Fund declared distributions of $0.779 per unit (nine-month period ended September 30, 2010 - $1.035 per unit). Subsequent to September 30, 2011, the Fund declared distributions of $0.083 per unit for each of the months of October and November 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, on amendment of the Declaration of Trust, the Fund units were reclassified to unitholders' equity.

For the three-month and nine-month periods ended September 30, 2010, the Fund units were accounted for as a financial liability at amortized cost. For the three-month and nine-month periods ended September 30, 2010, the distributions declared by the Trustees of $1,848,050 and $5,544,150, respectively, have been recorded as a reduction of the financial liability. In addition, the changes in the carrying value of the Fund units of $1,848,050 and $14,650,484 for the three-month and nine-month periods ended September 30, 2010 have been recorded in the interim consolidated statements 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.

8 Earnings per Fund unit

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

SIR has the right to convert the Class A GP units 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 September 30, 2011
		Basic earnings		**Adjustment for conversion of Class A GP units**		**Diluted earnings**
Net earnings for the period	$	1,376,883	$	798,493	$	2,175,376
Earnings per Fund unit for the period	$	0.26	$	-	$	0.26
Weighted average number of Fund units outstanding for the period		5,356,667		3,106,514		8,463,181

						Nine-month period ended September 30, 2011
		Basic earnings		**Adjustment for conversion of Class A GP units**		**Diluted earnings**
Net earnings for the period	$	4,023,001	$	2,333,050	$	6,356,051
Earnings per Fund unit for the period	$	0.75	$	-	$	0.75
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 for the three-month and nine-month periods ended September 30, 2010 and, accordingly, earnings per Fund unit is not presented for the comparable periods.

9 Related party transactions and balances

During the three-month and nine-month periods ended September 30, 2011, the Fund recorded equity income of $1,274,075 and $3,703,440, respectively (three-month and nine-month periods ended September 30, 2010 - $1,193,186 and $3,550,316, respectively) and received distributions of $1,098,051 and $3,294,151, respectively (three-month and nine-month periods ended September 30, 2010 - $1,098,049 and $3,294,150, respectively) 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 on 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 Make-Whole Payments 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. 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. In December 2009, an additional distribution of $336,594 was declared and paid in cash in January 2010.

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).

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 nine-month periods ended September 30, 2011 and 2010, the Partnership provided these services to the Fund and the Trust for consideration of $18,000 (three-month periods ended September 30, 2011 and 2010 - $6,000), which was the amount of consideration agreed to by the related parties.

Amounts due from (to) related parties consist of:

	September 30, 2011 $	December 31, 2010 $
SIR Royalty Limited Partnership		
Distribution receivable	3,148,827	2,739,538
Advances payable	(2,040,175)	(1,669,139)
Amounts receivable from SIR Royalty Limited Partnership - net	1,108,652	1,070,399
SIR Corp.		
Interest receivable	250,000	250,000
Advances payable	-	(89,321)
Amounts receivable from SIR Corp. - net	250,000	160,679
Amounts due from related parties - net	1,358,652	1,231,078

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 $18,300 and $59,100 for the three-month and nine-month periods ended September 30, 2011, respectively (three-month and nine-month periods ended September 30, 2010 - $19,300 and $58,800, respectively).

10 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-month and nine-month periods ended September 30, 2011 was 28.25%.

Income tax expense is as follows:

	Three-month period ended September 30, 2011 $	Three-month period ended September 30, 2010 $	Nine-month period ended September 30, 2011 $	Nine-month period ended September 30, 2010 $
Current	544,300	-	1,591,800	-
Deferred	11,428	-	35,284	-
	555,728	-	1,627,084	-

11 Net change in non-cash working capital items

Net change in non-cash working capital items comprises:

	Three-month period ended September 30, 2011 $	Three-month period ended September 30, 2010 $	Nine-month period ended September 30, 2011 $	Nine-month period ended September 30, 2010 $
Prepaid expenses and other assets	13,716	13,692	25,578	18,889
Amounts due from related parties	(32,167)	53,205	281,715	312,206
Accounts payable and accrued liabilities	21,324	18,629	(91,803)	(34,549)
Income taxes payable	544,300	-	1,591,800	-
	547,173	85,526	1,807,290	296,546

12 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.