SIR Royalty Income Fund

Consolidated Financial Statements
December 31, 2013 and 2012

March 7, 2014

Independent Auditor's Report

To the Unitholders of
SIR Royalty Income Fund

We have audited the accompanying consolidated financial statements of SIR Royalty Income Fund and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2013 and December 31, 2012 and the consolidated statements of earnings and comprehensive income, changes in unitholders' equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of SIR Royalty Income Fund and its subsidiaries as at December 31, 2013 and December 31, 2012 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants
Toronto, Ontario

SIR Royalty Income Fund

Consolidated Statements of Financial Position

As at December 31, 2013 and 2012

	2013 $	2012 $
Assets		
Current assets		
Cash	577,089	316,588
Prepaid expenses and other assets	27,333	28,274
Amounts due from related parties (note 10)	1,034,319	1,106,254
Income taxes receivable	-	6,539
	1,638,741	1,457,655
Loan receivable from SIR Corp. (note 5)	40,000,000	40,000,000
Investment in SIR Royalty Limited Partnership (note 6)	28,985,871	17,977,371
	70,624,612	59,435,026
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	69,071	69,930
Distributions payable to unitholders	-	294,028
Income taxes payable	536,062	-
	605,133	363,958
Deferred income taxes (note 14)	1,493,000	1,345,000
	2,098,133	1,708,958
Fund units (note 8)	74,171,337	63,162,837
Deficit	(5,644,858)	(5,436,769)
Total unitholders' equity	68,526,479	57,726,068
	70,624,612	59,435,026

Subsequent events (notes 8, 10 and 15)

Approved by the Board of Trustees

(Signed) "Peter Luit" Director (Signed) "Peter Fowler" Director

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

SIR Royalty Income Fund

Consolidated Statements of Earnings and Comprehensive Income

For the years ended December 31, 2013 and 2012

	2013 $	2012 $
Investment income		
Equity income from SIR Royalty Limited Partnership (notes 6 and 10)	7,315,183	5,416,566
Interest income (note 5)	3,000,000	3,000,000
	10,315,183	8,416,566
General and administrative expenses (note 10)	417,290	373,607
Net earnings before income taxes	9,897,893	8,042,959
Income tax expense (note 14)	2,776,500	2,181,000
Net earnings and comprehensive income for the year	7,121,393	5,861,959
Basic and diluted earnings per Fund unit (note 9)	$1.08	$1.08

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

SIR Royalty Income Fund

Consolidated Statements of Changes in Unitholders' Equity

For the years ended December 31, 2013 and 2012

	Year ended December 31, 2013			
	Number of Fund units	Amount $	Deficit $	Total $
Balance - Beginning of year	5,880,567	63,162,837	(5,436,769)	57,726,068
Net earnings for the year	-	-	7,121,393	7,121,393
Distributions declared (note 8)	-	-	(7,329,482)	(7,329,482)
Issuance of Fund units (note 8)	895,000	11,008,500	-	11,008,500
Balance - End of year	6,775,567	74,171,337	(5,644,858)	68,526,479

	Year ended December 31, 2012			
	Number of Fund units	Amount $	Deficit $	Total $
Balance - Beginning of year	5,356,667	56,352,137	(5,389,770)	50,962,367
Net earnings for the year	-	-	5,861,959	5,861,959
Distributions declared (note 8)	-	-	(5,908,958)	(5,908,958)
Issuance of Fund units (note 8)	523,900	6,810,700	-	6,810,700
Balance - End of year	5,880,567	63,162,837	(5,436,769)	57,726,068

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

SIR Royalty Income Fund

Consolidated Statements of Cash Flows

For the years ended December 31, 2013 and 2012

	2013 $	2012 $
Cash provided by (used in)		
Operating activities		
Net earnings and comprehensive income for the year	7,121,393	5,861,959
Items not affecting cash		
Deferred income taxes (note 14)	148,000	44,000
Current income taxes	2,628,500	2,137,000
Equity income from SIR Royalty Limited Partnership	(7,315,183)	(5,416,566)
Distributions received from SIR Royalty Limited Partnership	7,216,079	5,330,420
Income taxes paid	(2,085,899)	(4,287,539)
Net change in non-cash working capital items (note 12)	171,121	161,780
	7,884,011	3,831,054
Financing activities		
Distributions paid to unitholders	(7,623,510)	(5,614,930)
Change in cash during the year	260,501	(1,783,876)
Cash - Beginning of year	316,588	2,100,464
Cash - End of year	577,089	316,588

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 registered office of the Fund, the Trust, SIR, and the Partnership is 5360 South Service Road, Suite 200, Burlington, Ontario. The consolidated financial statements were approved by the Board of Trustees on March 7, 2014.

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

The Fund prepares its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board.

3 Summary of significant accounting policies

The significant accounting policies used in the preparation of the consolidated financial statements are as follows:

Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention.

Consolidation

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

The Fund consolidates an investee when it is exposed to or has rights to variable returns from its involvement with the investee and has the ability to affect these returns through its power over the investee. Subsidiaries are fully consolidated from the date on which control is obtained by the Fund and are deconsolidated from the date 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.

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.

Financial assets and liabilities are offset and the net amount is reported in the consolidated statements of financial position 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) 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 cash and 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.

ii) Financial liabilities at amortized cost: Financial liabilities at amortized cost comprise accounts payable and accrued liabilities and distributions payable to unitholders. Accounts payable and accrued liabilities, and distributions payable to unitholders 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, distributions payable to unitholders 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.

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 and unconsolidated structured entities

Associates are entities over which the Fund has significant influence, but not control, and include the investment in the Partnership.

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, and the relevant activities are directed by means of contractual arrangements. The Fund has determined that its investment in the Partnership is an investment in a structured entity.

The Partnership is a structured entity established to own the Canadian trademarks used in connection with the operations of the SIR Restaurants. SIR consolidates the Partnership, as the sale of Canadian trademarks to the Partnership had no impact on SIR's use of the Canadian trademarks. The Fund has voting control of SIR GP Inc., the managing general partner for the Partnership, with an 80% ownership of SIR GP Inc.'s common shares; however, the Fund does not have the ability to affect the returns on the investment in the Partnership through its power over the Partnership. Accordingly, since the Fund is able to significantly influence the Partnership, it is accounted for as an investment in an associate.

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 statements of earnings and its share of other comprehensive income of associates is included in other comprehensive income.

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 statements of earnings.

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 statements of earnings.

Earnings per Fund unit

Earnings per Fund unit are based on the weighted average number of Fund units outstanding during the period. Diluted earnings per Fund unit are 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 statements of cash flows.

Income taxes

Income taxes comprise current and deferred taxes and are recognized in the consolidated statements of earnings and comprehensive income.

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.

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 statements of financial position 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.

Adoption of new accounting standards and amendments

Effective January 1, 2013, the following standards and amendments have been adopted by the Fund:

IFRS 10, Consolidated Financial Statements

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

IFRS 12, Disclosure of Interests in Other Entities

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. Management has determined that the adoption of this standard required additional disclosures in its consolidated financial statements.

IFRS 13, Fair Value Measurement

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

IFRS issued but not yet effective

IFRS 9, Financial Instruments - Classification and Measurement

IFRS 9, Financial Instruments, is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is measured using amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest; otherwise, it is at fair value through profit or loss. IFRS 9 was amended in November 2013 to (i) include guidance on hedge accounting, (ii) allow entities to early adopt the requirement to recognize changes in fair value attributable to changes in an entity's own credit risk, from financial liabilities designated under the fair value option, in other comprehensive income, without having to adopt the remainder of IFRS 9, and (iii) remove the previous mandatory effective date of January 1, 2015, although the standard is available for early adoption. Management is evaluating the standard and has not yet determined the impact on its consolidated financial statements.

IAS 36, Impairment of assets

IAS 36, Impairment of assets has been amended to include limited scope amendments to the impairment disclosures. The amendments are effective for annual periods beginning on or after January 1, 2014. Management is evaluating this standard and has not yet determined the impact on its consolidated financial statements.

4 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 that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Investment in the Partnership/consolidation of structured entities

The Partnership receives royalties on the SIR Rights, which are licensed to SIR for use in Royalty Pooled Restaurants. The Fund and SIR each hold an investment in the Partnership. Generally, the Partnership units have no voting rights, except in certain specified conditions.

The determination of the entity having the ability to affect the returns on their investment in the Partnership required significant judgment. Based on an evaluation of the activities of the Partnership and the Partnership Agreement, management concluded the substance of the relationships between the Partnership, SIR and the Fund indicates the Partnership is controlled by SIR. In addition, the evaluation of whether or not the Fund has significant influence over the Partnership is a matter of significant judgment. Based on a review of the operating and financing activities of the Partnership, management has concluded that the Fund is able to significantly influence these activities. Management has re-evaluated its policy upon the acquisition of additional investments in the Class A LP units in 2012 and 2013 and has concluded that these acquisitions do not require a change in its accounting policy for the investment in the Partnership. Accordingly, the Fund's investment in the Partnership continues to be accounted for as an investment in an associate.

Valuation of the SIR Loan and investment in the Partnership

Management reviews for objective evidence whether there may be an impairment of the SIR Loan or the investment in the Partnership. The review includes a review of the earnings, cash flows and available cash of SIR on a prospective basis to assess SIR's ability to meet its obligations to the Fund for interest payments on the SIR Loan and to the Partnership for the Royalty. Based on the analysis completed during the years ended December 31, 2013 and 2012, no impairments have been recorded in the consolidated financial statements.

5 Loan receivable from SIR Corp.

The SIR Loan of $40,000,000 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 $3,000,000 was earned during the year ended December 31, 2013 (2012 – $3,000,000).

SIR has a credit facility that consists of a term loan (the Term Loan) and three development loans. On August 23, 2013, SIR entered into a Second Amended and Restated Loan Agreement (the Credit Agreement) that includes the Term Loan and the Tranche A Development Loan which were outstanding as at December 31, 2012 and also provided for additional committed financing (Tranche B Development Loan) and uncommitted financing (Tranche C Development Loan). All loans under the Credit Agreement, except the Tranche C Development Loan, are due on November 14, 2016. The Term Loan and the Tranche A Development Loan have a variable interest rate equal to the greater of 6.0% per annum and the three-month Canadian dollar bankers' acceptance rate plus 5.75% per annum, which on November 17, 2013 totalled 6.95%. The Tranche B Development Loan has a variable rate equal to the greater of 6.0% per annum and the three-month Canadian dollar bankers' acceptance rate plus 5.65% per annum. SIR can also elect to fix the interest rate. The amortization periods for the Term Loan, the Tranche A Development Loan and the Tranche B Development Loan are ten years, seven years and seven years, respectively. SIR has requested a commitment from the lender for additional funding under the Tranche C Development Loan. Terms and conditions of the Tranche C Development Loan have not yet been agreed on by the lender and SIR.

The lender has made available the Tranche A Development Loan and Tranche B Development Loan to SIR 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 Tranche A Development Loan and Tranche B Development Loan have been fully drawn and no further advances are permitted.

The Credit Agreement is collateralized by a general security agreement and entitles the lender to a first charge on all of SIR's assets, including a pledge of all shares and the investment in the Partnership and a specific assignment of the rights under the Licence and Royalty Agreement. However, the lender does not have a pledge over the assets of the Partnership. The Partnership and the Fund did not guarantee the credit agreement.

Under an Amended and Restated Subordination and Postponement Agreement, absent a default or event of default under the Credit Agreement, ordinary payments to the Fund and the Partnership could continue. 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 lender is pursuing remedies). The Amended and Restated Subordination and Postponement Agreement also contains various other typical covenants of the Fund and the Partnership. In addition, SIR provided an undertaking to the Fund and the Partnership to restrict the amount of the 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. In November 2012, 523,900 Class A LP Units were issued to the Trust at a fair value of $6,810,700. In March 2013, 895,000 Class A LP Units were issued to the Trust at a fair value of $11,008,500. The Class A LP Units were issued as part of a series of transactions in connection with SIR converting Class A GP Units into Fund units (note 8). The holders of the Class A LP Units are entitled to receive a pro rata share of all residual distributions of the Partnership. As at December 31, 2013, the Fund's interest in the residual earnings of the Partnership was 75.6% (2012 – 67.8%). Generally, the Partnership units have no voting rights, except in certain specified conditions.

The Partnership makes cash distributions to its partners in the following order of priority: i) First, to the holders of the Class C GP Units and the Class C LP Units, ii) second, to the holders of the Class B GP Units, iii) third, to the holders of the Ordinary GP Units, and iv) thereafter, to the holders of the Class A GP Units, the Class A LP Units, and the Ordinary LP Units.

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

	Year ended December 31, 2013 $	Year ended December 31, 2012 $
Balance - Beginning of year	17,977,371	11,166,671
Issuance of Class A LP units	11,008,500	6,810,700
Equity income	7,315,183	5,416,566
Distributions declared	(7,315,183)	(5,416,566)
Balance - End of year	28,985,871	17,977,371

The summarized financial information of the Partnership is as follows:

	As at December 31, 2013 $	As at December 31, 2012 $
Cash	534,590	254,859
Other current assets	507,857	768,806
Non-current assets	77,497,638	73,171,784
Total assets	78,540,085	74,195,449
Current liabilities and total liabilities	1,042,437	1,023,655
Partners' Interest		
SIR Royalty Income Fund	19,171,810	11,675,470
SIR Corp.	58,325,838	61,496,324
Total partners' interest	77,497,648	73,171,794

	Year ended December 31, 2013 $	Year ended December 31, 2012 $
Revenues	14,123,410	13,327,053
Net earnings and comprehensive income of the Partnership	14,023,948	13,248,921

The reconciliation of the Fund's investment in the Partnership to the Partnership's partners' interest is as follows:

	As at December 31, 2013 $	As at December 31, 2012 $
Investment in the Partnership	28,985,871	17,977,371
Transaction costs incurred by the Partnership to issue Ordinary LP units	(3,533,090)	(3,533,090)
Difference between carrying value and fair value on the conversion of the Class A GP units to Class A LP units	(6,280,971)	(2,768,811)
Partners' interest to SIR Royalty Income Fund	19,171,810	11,675,470

The reconciliation of the Partnership's net earnings to the Fund's equity income is as follows:

	Year ended December 31, 2013 $	Year ended December 31, 2012 $
Net earnings and comprehensive income of the Partnership	14,023,948	13,248,921
Priority income allocated to SIR Corp. (Class C GP and Class B GP units)	(3,168,831)	(3,022,719)
Residual earnings	10,855,117	10,226,202
SIR Corp.'s share	(3,539,934)	(4,809,636)
Equity income	7,315,183	5,416,566

The following table presents the carrying amounts of assets and liabilities recognized by the Fund relating to its interest in the Partnership as well as the Fund's maximum exposure to loss from those interests:

	As at December 31, 2013 $		As at December 31, 2012 $	
	Carrying Amount	Maximum Exposure to Loss	Carrying Amount	Maximum Exposure to Loss
Distributions receivable	3,066,973	3,066,973	2,967,869	2,967,869
Advances payable	(2,269,697)	(2,269,697)	(2,110,140)	(2,110,140)
Amounts due from related parties	797,276	797,276	857,729	857,729
Investment in SIR Royalty Limited Partnership	28,985,871	28,985,871	17,977,371	17,977,371
Total	29,783,147	29,783,147	18,835,100	18,835,100

The maximum exposure to loss is equal to the current carrying amounts of the assets and liabilities recognized by the Fund. The Fund does not provide financial support to the Partnership, nor has the Fund provided any guarantees or other contingent support to the Partnership.

7 Financial instruments

Classification

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

	Classification	Carrying and fair value As at December 31, 2013 $	Carrying and fair value As at December 31, 2012 $
Cash	Loans and receivables	577,089	316,588
Distributions and interest receivable from related parties	Loans and receivables	3,316,973	3,217,869
Loan receivable from SIR Corp.	Loans and receivables	see below	see below
Accounts payable and accrued liabilities	Financial liabilities at amortized cost	69,071	69,930
Distributions payable to unitholders	Financial liabilities at amortized cost	-	294,028
Advances payable to related parties	Financial liabilities at amortized cost	2,282,654	2,111,615

Carrying and fair values

Cash, distributions and interest receivable from related parties, accounts payable and accrued liabilities, distributions payable to unitholders and advances payable to related parties are short-term financial instruments whose fair value approximates the carrying amount given that they will mature in the short term. The SIR Loan is accounted for at amortized cost and the investment in the Partnership is accounted for by the equity method. The carrying values of the SIR Loan and the investment in the Partnership as at December 31, 2013 are $40,000,000 and $28,985,871, respectively (2012 – $40,000,000 and $17,977,371, respectively). The fair values of the SIR Loan and the investment in the Partnership could only be determined through the valuation of the individual assets. The aggregate fair value of the SIR Loan and the investment in the Partnership as at December 31, 2013 is estimated to be approximately $94,790,000 (2012 – $72,331,000) based on the fair value of the Fund units as of the close of business on December 31, 2013.

Objectives and policy relating to financial risk management

Financial risk management is carried out by management and the Trustees of the Fund. The Fund's main financial risk exposure, as well as its risk management policy, is detailed as follows:

Interest rate risk

The SIR Loan has a fixed interest rate of 7.5% per annum and has been designated as loans and receivable financial asset. Accordingly, changes in interest rates would not impact the consolidated statements of earnings and comprehensive income or the carrying value of the SIR Loan. However, the fair value of the SIR Loan will vary with changes in interest rates. The Fund is restricted to investing excess cash in short-term investments and it is not the Fund's practice to hedge against changes in interest rates.

Credit risk

The Fund is exposed to credit risk in its cash, distributions and interest receivable from related parties and the SIR Loan. The maximum exposure to credit risk is the full carrying value of the financial instruments. The Fund minimizes the credit risk of cash by depositing funds with reputable financial institutions and minimizes the credit risk of its distributions and interest receivable from related parties by managing and analyzing the cash flow of these related parties through the preparation of budgets and forecasts of these related parties. As at December 31, 2013, distributions and interest receivable from related parties are not past due. Credit risk also arises from the potential default of SIR on the SIR Loan. Management monitors the SIR Loan for impairment. To date, a provision for uncollectible amounts has not been necessary.

SIR has certain restrictions relating to its bank financing, which could affect payments to the Fund if a default or an event of default were to occur (note 5).

Liquidity risk

Liquidity risk is the risk the Fund will not be able to meet its financial obligations as they fall due and meet expected distributions to its unitholders. The Fund currently settles these obligations out of cash. The ability to do this relies on the Fund collecting its distributions from the Partnership and interest on the SIR Loan. The Fund intends to maintain equal monthly distributions to its unitholders. However, the Trustees of the Fund may authorize increased or decreased distributions from time to time or halt distributions entirely, as they see fit, at their sole discretion. Both the Fund and the Partnership prepare budgets and forecasts to evaluate their ability to meet future cash obligations.

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.

During the year ended December 31, 2013, SIR converted 895,000 (2012 – 523,900) of its Class A GP Units into 895,000 (2012 – 523,900) Fund units and sold these Fund units. In exchange for the Fund issuing an additional 895,000 (2012 – 523,900) Fund units, the Fund received an increased interest in the Partnership recorded at fair value of $11,008,500 (2012 – $6,810,700). The issuance of the Fund units has been recorded at $11,008,500 (2012 – $6,810,700), being the gross proceeds received by SIR for the sale of the Fund units received. In accordance with the exchange agreement between the Fund, the Partnership, the Trust and SIR, the Fund exchanged the Class A GP Units received from SIR for the 895,000 (2012 – 523,900) Class A LP Units. Accordingly, the Partnership issued 895,000 (2012 – 523,900) Class A LP Units to the Fund.

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

During the year ended December 31, 2013, the Fund declared distributions of $1.105 per unit (2012 – $1.081 per unit). Subsequent to December 31, 2013, the Fund declared distributions of $0.095 per unit for each of the months of January and February 2014.

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.

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 year.

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:

	Basic	Adjustment for conversion of Class A GP units	Diluted
Net earnings for the year ended December 31, 2013	$ 7,121,393	$ 2,539,413	$ 9,660,805
Earnings per Fund unit for the year ended December 31, 2013	$ 1.08	$ -	$ 1.08
Weighted average number of Fund units outstanding for the year ended December 31, 2013	6,589,109	2,374,409	8,963,518
Net earnings for the year ended December 31, 2012	$ 5,861,959	$ 3,504,410	$ 9,366,369
Earnings per Fund unit for the year ended December 31, 2012	$ 1.08	$ -	$ 1.08
Weighted average number of Fund units outstanding for the year ended December 31, 2012	5,422,155	3,244,904	8,667,059

10 Related party transactions and balances

During the year ended December 31, 2013, the Fund recorded equity income of $7,315,183 (2012 – $5,416,566) and received distributions of $7,216,079 (2012 – $5,330,420) 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, 2014, four (January 1, 2013 – four) new SIR Restaurants were added to Royalty Pooled Restaurants in accordance with the Partnership Agreement. As consideration for the additional Royalty associated with the addition of four new SIR Restaurants on January 1, 2014 (January 1, 2013 – four), as well as the Second Incremental Adjustment for four new SIR Restaurants added to Royalty Pooled Restaurants on January 1, 2013 (January 1, 2012 – one), SIR converted its Class B GP Units in to Class A GP Units based on the formula defined in the Partnership Agreement. The number of Class B GP Units that SIR converted into Class A GP Units was reduced by an adjustment for the permanent closure of nil (January 1, 2013 – two) SIR Restaurants during the prior year. The net effect of these adjustments to Royalty Pooled Restaurants was that SIR converted 803,393 (January 1, 2013 – 296,459) Class B GP Units into 803,393 (January 1, 2013 – 296,459) Class A GP Units on January 1, 2014 at an estimated fair value of $11,436,095 (January 1, 2013 – $4,325,854).

In December 2013, an additional distribution on the Class B GP units of $168,819 (December 2012 – $22,707) was declared and paid in cash in January 2014 (January 2013).

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 year ended December 31, 2013, the Partnership provided these services to the Fund and the Trust for consideration of $24,000 (2012 – $24,000), which was the amount of consideration agreed to by the related parties.

Amounts due from (to) related parties consist of:

	As at December 31, 2013 $	As at December 31, 2012 $
SIR Royalty Limited Partnership		
Distribution receivable	3,066,973	2,967,869
Advances payable	(2,269,697)	(2,110,140)
Amounts receivable from SIR Royalty Limited Partnership - net	797,276	857,729
SIR Corp.		
Interest receivable	250,000	250,000
Advances payable	(12,957)	(1,475)
Amounts receivable from SIR Corp. - net	237,043	248,525
Amounts due from related parties - net	1,034,319	1,106,254

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

Compensation of key management

The Fund does not have any employees. Compensation awarded to the Board of Trustees consists of fees of $99,600 for the year ended December 31, 2013 (2012 – $78,400).

11 Capital management

The Fund’s capital consists of units of the Fund, as described in note 8. The objectives in managing the capital are to safeguard the Fund’s ability to continue as a going concern, to provide an adequate return to its unitholders appropriate to their level of risk and to distribute excess cash to the unitholders. The Fund has no third party debt or bank lines of credit. The Fund had no capital expenditures during the year ended December 31, 2013 and is not expected to have significant capital expenditures in the future.

SIR has a credit agreement, which requires the Fund and the Partnership to subordinate and postpone their claims against SIR to the claims of the lender in the event of a default (note 5).

12 Net change in non-cash working capital items

Net change in non-cash working capital items comprises:

	Year ended December 31, 2013 $	Year ended December 31, 2012 $
Prepaid expenses and other assets	941	3,441
Amounts due from related parties	171,039	161,771
Accounts payable and accrued liabilities	(859)	(3,432)
	171,121	161,780

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.

14 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. The Fund's first income tax payment was made on March 31, 2012.

Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual rate used for the year ended December 31, 2013 was 26.5% (2012 – 26.5%).

Income tax expense is as follows:

	Year ended December 31, 2013 $	Year ended December 31, 2012 $
Current	2,628,500	2,137,000
Deferred	148,000	44,000
	2,776,500	2,181,000

The Fund's income not distributed to its unitholders is taxable at a rate of 49.53% (2012 – 46.41%). Distributions to unitholders are taxable at the combined federal and provincial tax rate, which is 26.5% for the year ended December 31, 2013 (2012 – 26.5%).

The reconciliation of the Fund's effective tax rate to the combined Canadian federal and provincial tax rate is as follows:

	Year ended December 31, 2013 $	Year ended December 31, 2012 $
Earnings before income taxes	9,897,893	8,042,959
Income tax provision at 49.53% (2012 – 46.41%)	4,902,426	3,732,737
Add (deduct):		
Distribution income not taxable	(382,482)	(190,782)
Partnership expenses deductible for tax purposes	58,000	44,000
Change in tax rates	90,000	-
Taxable interest income of Fund eliminated on consolidation	364,606	150,801
Non-deductible expenses	50,969	43,320
Differences in tax rates	(2,307,019)	(1,599,076)
	2,776,500	2,181,000

Deferred tax liabilities consist of the following:

	Investment in the Partnership $
Balance as at December 31, 2011	1,301,000
Charged to consolidated statements of earnings	44,000
Balance as at December 31, 2012	1,345,000
Charged to consolidated statements of earnings	148,000
Balance as at December 31, 2013	1,493,000

15 Subsequent event

Subsequent to December 31, 2013, on February 10, 2014, SIR converted 500,000 of its Class A GP units in the Partnership into 500,000 Fund units and sold these Fund units generating gross proceeds of $6,975,950. As a result of the conversion of the Class A GP units into Fund units, SIR's interest in the Partnership changed. The 500,000 Class A GP units received by the Fund in exchange for the Fund units issued were converted to 500,000 Class A LP units of the Partnership. Accordingly, this transaction does not have a dilutive effect on the Fund unitholders. After the net effect of the adjustments to Royalty Pooled Restaurants on January 1, 2014 (note 10) and the conversion of the Class A GP units into Fund units, SIR's interest in the Partnership changed to 25.5% and the Fund's interest in the residual earnings of the Partnership changed to 74.5%.