

SIR Royalty Income Fund

Consolidated Financial Statements
(Unaudited)

**For the three-month and nine-month periods
ended September 30, 2014 and September 30, 2013**

SIR Royalty Income Fund
Consolidated Statements of Financial Position
(Unaudited)

	September 30, 2014 \$	December 31, 2013 \$
Assets		
Current assets		
Cash	489,932	577,089
Prepaid expenses and other assets	7,092	27,333
Amounts due from related parties (note 8)	984,903	1,034,319
	<u>1,481,927</u>	<u>1,638,741</u>
Loan receivable from SIR Corp. (note 3)	40,000,000	40,000,000
Investment in SIR Royalty Limited Partnership (note 4)	35,961,821	28,985,871
	<u>77,443,748</u>	<u>70,624,612</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	83,542	69,071
Income taxes payable	407,362	536,062
	<u>490,904</u>	<u>605,133</u>
Deferred income taxes	1,534,000	1,493,000
	<u>2,024,904</u>	<u>2,098,133</u>
Fund units (note 6)	81,147,287	74,171,337
Deficit	<u>(5,728,443)</u>	<u>(5,644,858)</u>
Total unitholders' equity	<u>75,418,844</u>	<u>68,526,479</u>
	<u>77,443,748</u>	<u>70,624,612</u>
Subsequent events (notes 6 and 12)		

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, 2014 \$	Three-month period ended September 30, 2013 \$	Nine-month period ended September 30, 2014 \$	Nine-month period ended September 30, 2013 \$
Investment income				
Equity income from SIR Royalty Limited Partnership (notes 4 and 8)	2,233,090	1,949,362	6,386,919	5,553,315
Interest income (note 3)	750,000	750,000	2,250,000	2,250,000
	<u>2,983,090</u>	<u>2,699,362</u>	<u>8,636,919</u>	<u>7,803,315</u>
General and administrative expenses	<u>90,768</u>	<u>94,792</u>	<u>315,794</u>	<u>317,582</u>
Net earnings before income taxes	2,892,322	2,604,570	8,321,125	7,485,733
Income tax expense (note 11)	<u>775,600</u>	<u>692,500</u>	<u>2,231,600</u>	<u>2,101,300</u>
Net earnings and comprehensive income for the period	<u>2,116,722</u>	<u>1,912,070</u>	<u>6,089,525</u>	<u>5,384,433</u>
Basic and diluted earnings per Fund unit (note 7)	<u>\$ 0.29</u>	<u>\$ 0.28</u>	<u>\$ 0.85</u>	<u>\$ 0.82</u>

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

SIR Royalty Income Fund

Consolidated Statements of Changes in Unitholders' Equity (Unaudited)

	Nine-month period ended September 30, 2014			
	Number of Fund units	Amount \$	Deficit \$	Total \$
Balance - Beginning of period	6,775,567	74,171,337	(5,644,858)	68,526,479
Net earnings for the period	-	-	6,089,525	6,089,525
Distributions declared and paid (note 6)	-	-	(6,173,110)	(6,173,110)
Issuance of Fund units (note 6)	500,000	6,975,950	-	6,975,950
Balance - End of period	7,275,567	81,147,287	(5,728,443)	75,418,844

	Nine-month period ended September 30, 2013			
	Number of Fund units	Amount \$	Deficit \$	Total \$
Balance - Beginning of period	5,880,567	63,162,837	(5,436,769)	57,726,068
Net earnings for the period	-	-	5,384,433	5,384,433
Distributions declared and paid (note 6)	-	-	(5,398,445)	(5,398,445)
Issuance of Fund units (note 6)	895,000	11,008,500	-	11,008,500
Balance - End of period	6,775,567	74,171,337	(5,450,781)	68,720,556

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, 2014 \$	Three-month period ended September 30, 2013 \$	Nine-month period ended September 30, 2014 \$	Nine-month period ended September 30, 2013 \$
Cash provided by (used in)				
Operating activities				
Net earnings and comprehensive income for the period	2,116,722	1,912,070	6,089,525	5,384,433
Items not affecting cash				
Deferred income taxes (note 11)	14,000	14,000	41,000	132,000
Current income taxes (note 11)	761,600	678,500	2,190,600	1,969,300
Equity income from SIR Royalty Limited Partnership	(2,233,090)	(1,949,362)	(6,386,919)	(5,553,315)
Distributions received from SIR Royalty Limited Partnership	2,072,192	1,924,950	6,151,686	5,088,558
Income taxes paid	(773,191)	-	(2,319,300)	(1,028,303)
Net change in non-cash working capital items (note 9)	92,146	95,560	319,361	319,693
	2,050,379	2,675,718	6,085,953	6,312,366
Financing activities				
Distributions paid to unitholders	(2,073,537)	(1,931,037)	(6,173,110)	(5,692,473)
Change in cash during the period	(23,158)	744,681	(87,157)	619,893
Cash - Beginning of period	513,090	191,800	577,089	316,588
Cash - End of period	489,932	936,481	489,932	936,481

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

SIR Royalty Income Fund

Notes to Consolidated Financial Statements

(Unaudited)

September 30, 2014 and September 30, 2013

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 4).

The address of the registered office of the Fund, the Trust, and SIR GP Inc. is 5360 South Service Road, Suite 200, Burlington, Ontario. The consolidated financial statements were approved by the Board of Trustees on November 4, 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 and summary of significant accounting policies

The Fund prepares its interim condensed consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), applicable to the preparation of interim financial statements, including International Accounting Standard (IAS) 34, Interim Financial Reporting. The disclosures contained in these interim consolidated financial statements do not include all requirements of IFRS for annual financial statements and should be read in conjunction with the 2013 annual consolidated financial statements and notes thereto. The financial performance of the Fund for the interim period is not necessarily indicative of the results that may be expected for the full year due to the seasonality of the Fund's business.

SIR Royalty Income Fund

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(Unaudited)

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The accounting policies as applied in these interim consolidated financial statements are consistent with those followed in the 2013 annual consolidated financial statements, except for the adoption of the following new pronouncement.

Adoption of new accounting standards and amendments

Effective January 1, 2014, the following amendment has been adopted by the Fund:

IAS 36, Impairment of Assets

IAS 36, Impairment of assets has been amended to include limited scope amendments to the impairment disclosures. Management has determined that this amendment had no impact on these interim consolidated financial statements.

IFRS issued but not yet effective

IFRS 9, Financial Instruments - Classification and Measurement

In July 2014, the International Accounting Standards Board (IASB), issued the final version of IFRS 9, Financial Instruments, bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. The mandatory effective date of IFRS 9 would be annual periods beginning on or after January 1, 2018 with early adoption permitted. Management is evaluating the standard and has not yet determined the impact on its consolidated financial statements.

IFRS 7, Financial Instruments – Disclosure

IFRS 7, Financial Instruments: Disclosure has been amended to require disclosures on transition from IAS 39 to IFRS 9. This amendment is effective on adoption of IFRS 9, which is effective for years beginning on or after January 1, 2015. Management is evaluating the amendment and has not yet determined the impact on the consolidated financial statements.

IFRS 15 – Revenue from Contracts with Customers

IFRS 15, Revenue from Contracts with Customers specifies how and when to recognize revenue as well as requiring entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18, Revenue, IAS 11, Construction Contracts, and a number of revenue-related interpretations. Application of the standard is mandatory for all IFRS reporters and it applies to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts. IFRS 15 must be applied in an entity's first annual IFRS financial statements for periods beginning on or after January 1, 2017 and early adoption is permitted. Management is evaluating this standard and has not yet determined the impact on the consolidated financial statements.

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IAS 24, Related Party Transactions

IAS 24, Related party transactions has been amended to (i) revise the definition of “related party” to include an entity that provides key management personnel services to the reporting entity or its parent, and (ii) clarify related disclosure requirements. This amendment is effective for annual periods beginning on or after July 1, 2014. Management is evaluating this amendment and has not yet determined the impact on the consolidated financial statements.

3 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 \$2,250,000 was earned during the nine-month periods ended September 30, 2014 and September 30, 2013 (three-month periods ended September 30, 2014 and September 30, 2013 – \$750,000).

SIR has a credit facility that consists of a term loan (the Term Loan) and three development loans. On June 23, 2014, SIR entered into a Third Amended and Restated Loan Agreement (the Credit Agreement) that includes the Term Loan and the Tranche A and Tranche B Development Loans which were outstanding as at December 31, 2013 and now provides for additional financing of \$6.0 million (Tranche C Development Loan). All loans under the Credit Agreement, are due on November 13, 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. The Tranche B Development Loan has a variable rate equal to the greater of 5.9% 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. Interest on the Tranche C Development Loan is calculated as the greater of 5.55% per annum and the three-month Canadian dollar bankers' acceptance rate plus 5.30% per annum. The Tranche C Development Loan is not to exceed \$6.0 million and was intended to be drawn by September 19, 2014, but the date was open to extension until March 19, 2015. SIR has advised the Fund that rather than seeking an extension of its credit facility at this time, it plans to exchange some of its Class A GP Units of the Partnership into Fund units and sell these units (see note 12).

The lender has made available the Tranche A, Tranche B and Tranche C Development Loans 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.

SIR Royalty Income Fund

Notes to Consolidated Financial Statements

(Unaudited)

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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.

4 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 aggregate.

During the nine-month period ended September 30, 2014, SIR converted 500,000 (September 30, 2013 – 895,000) of its Class A GP Units in the Partnership into 500,000 (September 30, 2013 – 895,000) Fund units and sold these Fund units. In accordance with the exchange agreement, the Fund converted the 500,000 (September 30, 2013 – 895,000) Class A GP Units received into 500,000 (September 30, 2013 – 895,000) Class A LP Units. The 500,000 (September 30, 2013 – 895,000) Class A LP Units were issued by the Partnership to the Trust at a fair value of \$6,975,950 (September 30, 2013 - \$11,008,500).

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 September 30, 2014, the Fund's interest in the residual earnings of the Partnership was 74.5% (September 30, 2013 – 75.6%). 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.

SIR Royalty Income Fund

Notes to Consolidated Financial Statements

(Unaudited)

September 30, 2014 and September 30, 2013

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

	Three-month period ended September 30, 2014 \$	Three-month period ended September 30, 2013 \$	Nine-month period ended September 30, 2014 \$	Nine-month period ended September 30, 2013 \$
Balance - Beginning of period	35,961,821	28,985,871	28,985,871	17,977,371
Issuance of Class A LP units	-	-	6,975,950	11,008,500
Equity income	2,233,090	1,949,362	6,386,919	5,553,315
Distributions declared	(2,233,090)	(1,949,362)	(6,386,919)	(5,553,315)
Balance - End of period	<u>35,961,821</u>	<u>28,985,871</u>	<u>35,961,821</u>	<u>28,985,871</u>

The summarized financial information of the Partnership is as follows:

	As at September 30, 2014 \$	As at December 31, 2013 \$
Cash	723,981	534,590
Other current assets	266,387	507,857
Intangible assets	<u>88,933,733</u>	<u>77,497,638</u>
Total assets	<u>89,924,101</u>	<u>78,540,085</u>
Current liabilities and total liabilities	<u>990,358</u>	<u>1,042,437</u>
Partners' Interest		
SIR Royalty Income Fund	24,146,486	19,171,810
SIR Corp.	<u>64,787,257</u>	<u>58,325,838</u>
Total partners' interest	<u>88,933,743</u>	<u>77,497,648</u>

SIR Royalty Income Fund

Notes to Consolidated Financial Statements

(Unaudited)

September 30, 2014 and September 30, 2013

	Three-month Period ended September 30, 2014 \$	Three-month Period ended September 30, 2013 \$	Nine-month Period ended September 30, 2014 \$	Nine-month Period ended September 30, 2013 \$
Revenues	3,995,530	3,572,159	11,654,998	10,645,058
Net earnings and comprehensive income of the Partnership	3,973,494	3,540,422	11,586,375	10,564,334

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

	As at September 30, 2014 \$	As at December 31, 2013 \$
Investment in the Partnership	35,961,821	28,985,871
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	(8,282,245)	(6,280,971)
Partners' interest to SIR Royalty Income Fund	24,146,486	19,171,810

SIR Royalty Income Fund

Notes to Consolidated Financial Statements

(Unaudited)

September 30, 2014 and September 30, 2013

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

	Three-month period ended September 30, 2014 \$	Three-month period ended September 30, 2013 \$	Nine-month period ended September 30, 2014 \$	Nine-month period ended September 30, 2013 \$
Net earnings and comprehensive income of the Partnership	3,973,494	3,540,422	11,586,375	10,564,334
Priority income allocated to SIR Corp. (Class C GP and Class B GP units)	(750,003)	(750,003)	(2,250,009)	(2,250,009)
Residual earnings	3,223,491	2,790,419	9,336,366	8,314,325
SIR Corp.'s share	(990,401)	(841,057)	(2,949,447)	(2,761,010)
Equity income	2,233,090	1,949,362	6,386,919	5,553,315

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 September 30, 2014 \$		As at December 31, 2013 \$	
	Carrying Amount	Maximum Exposure to Loss	Carrying Amount	Maximum Exposure to Loss
Distributions receivable	3,302,206	3,302,206	3,066,973	3,066,973
Advances payable	(2,552,074)	(2,552,074)	(2,269,697)	(2,269,697)
Amounts due from related parties	750,132	750,132	797,276	797,276
Investment in SIR Royalty Limited Partnership	35,961,821	35,961,821	28,985,871	28,985,871
Total	36,711,953	36,711,953	29,783,147	29,783,147

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.

SIR Royalty Income Fund

Notes to Consolidated Financial Statements

(Unaudited)

September 30, 2014 and September 30, 2013

5 Financial instruments

Classification

As at September 30, 2014 and December 31, 2013, the classifications of the financial instruments, as well as their carrying and fair values, are as follows:

	Classification	Carrying and fair value	
		As at September 30, 2014 \$	As at December 31, 2013 \$
Cash	Loans and receivables	489,932	577,089
Distributions and interest receivable from related parties	Loans and receivables	3,552,206	3,316,973
Loan receivable from SIR Corp.	Loans and receivables	See below	See below
Accounts payable and accrued liabilities	Financial liabilities at amortized cost	83,542	69,071
Advances payable to related parties	Financial liabilities at amortized cost	2,567,303	2,282,654

Carrying and fair values

Cash, distributions and interest receivable from related parties, accounts payable and accrued liabilities, 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 September 30, 2014 are \$40,000,000 and \$35,961,821, respectively (December 31, 2013 – \$40,000,000 and \$28,985,871, 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 September 30, 2014 is estimated to be approximately \$94,655,000 (December 31, 2013 – \$94,790,000) based on the fair value of the Fund units as of the close of business on September 30, 2014.

6 Fund units

An unlimited number of Fund units may be issued pursuant to the Declaration of Trust. Fund units are redeemable by the holder at a price equal to the lesser of 90% of the market price of a Fund unit during the ten consecutive trading day period ending on the trading day immediately prior to the date on which the Fund units were surrendered for redemption and an amount based on the closing price on the redemption date, subject to certain restrictions. Each holder of Fund units participates pro rata in any distributions from the Fund.

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(Unaudited)

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During the nine-month period ended September 30, 2014, SIR converted 500,000 (September 30, 2013 – 895,000) of its Class A GP Units into 500,000 (September 30, 2013 – 895,000) Fund units and sold these Fund units. In exchange for the Fund issuing an additional 500,000 (September 30, 2013 – 895,000) Fund units, the Fund received an increased interest in the Partnership recorded at fair value of \$6,975,950 (September 30, 2013 – \$11,008,500). The issuance of the Fund units has been recorded at \$6,975,950 (September 30, 2013 – \$11,008,500), 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 500,000 (September 30, 2013 – 895,000) Class A LP Units. Accordingly, the Partnership issued 500,000 (September 30, 2013 – 895,000) Class A LP Units to the Fund.

These transactions did not have a dilutive effect on the Fund. As at September 30, 2014, there are 7,275,567 (December 31, 2013 – 6,775,567) Fund units issued and outstanding. Each Fund unit is entitled to one vote at any meeting of unitholders.

During the three-month and nine-month periods ended September 30, 2014, the Fund declared distributions of \$0.285 and \$0.855 per unit, respectively (three-month and nine-month periods ended September 30, 2013 – \$0.285 and \$0.82 per unit, respectively). Subsequent to September 30, 2014, the Fund declared distributions of \$0.095 per unit for each of the months of October and November 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.

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 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.

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(Unaudited)

September 30, 2014 and September 30, 2013

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 three-month period ended September 30, 2014	\$ 2,116,722	\$ 724,815	\$ 2,841,537
Net earnings per Fund unit for the three-month period ended September 30, 2014	\$ 0.29	\$ -	\$ 0.29
Weighted average number of Fund units outstanding for the period	7,275,567	2,491,344	9,766,911
Net earnings for the nine-month period ended September 30, 2014	\$ 6,089,525	\$ 2,154,817	\$ 8,244,342
Net earnings per Fund unit for the nine-month period ended September 30, 2014	\$ 0.85	\$ -	\$ 0.85
Weighted average number of Fund units outstanding for the period	7,202,307	2,564,604	9,766,911
Net earnings for the three-month period ended September 30, 2013	\$ 1,912,070	\$ 620,103	\$ 2,532,173
Net earnings per Fund unit for the three-month period ended September 30, 2013	\$ 0.28	\$ -	\$ 0.28
Weighted average number of Fund units outstanding for the period	6,775,567	2,187,951	8,963,518
Net earnings for the nine-month period ended September 30, 2013	\$ 5,384,433	\$ 1,976,579	\$ 7,361,012
Net earnings per Fund unit for the nine-month period ended September 30, 2013	\$ 0.82	\$ -	\$ 0.82
Weighted average number of Fund units outstanding for the period	6,526,956	2,436,562	8,963,518

SIR Royalty Income Fund

Notes to Consolidated Financial Statements

(Unaudited)

September 30, 2014 and September 30, 2013

8 Related party transactions and balances

During the three-month and nine-month periods ended September 30, 2014, the Fund recorded equity income of \$2,233,090 and \$6,386,919, respectively (three-month and nine-month periods ended September 30, 2013 – \$1,949,362 and \$5,553,315, respectively) and received distributions of \$2,072,192 and \$6,151,686, respectively (three-month and nine-month periods ended September 30, 2013 – \$1,924,950 and \$5,088,558, 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 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 into Class A GP Units based on the formula defined in the Partnership Agreement. The number of Class B GP Units that SIR converted into Class A GP Units was reduced by an adjustment for the permanent closure of nil (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.

SIR Royalty Income Fund

Notes to Consolidated Financial Statements

(Unaudited)

September 30, 2014 and September 30, 2013

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, 2014 and September 30, 2013, the Partnership provided these services to the Fund and the Trust for consideration of \$18,000 (three-month periods ended September 30, 2014 and September 30, 2013 – \$6,000), which was the amount of consideration agreed to by the related parties.

Amounts due from (to) related parties consist of:

	As at September 30, 2014 \$	As at December 31, 2013 \$
SIR Royalty Limited Partnership		
Distribution receivable	3,302,206	3,066,973
Advances payable	(2,552,074)	(2,269,697)
	<hr/>	<hr/>
Amounts receivable from SIR Royalty Limited Partnership - net	750,132	797,276
SIR Corp.		
Interest receivable	250,000	250,000
Advances payable	(15,229)	(12,957)
	<hr/>	<hr/>
Amounts receivable from SIR Corp. - net	234,771	237,043
	<hr/>	<hr/>
Amounts due from related parties - net	984,903	1,034,319

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

Notes to Consolidated Financial Statements

(Unaudited)

September 30, 2014 and September 30, 2013

9 Net change in non-cash working capital items

Net change in non-cash working capital items comprises:

	Three-month period ended September 30, 2014 \$	Three-month period ended September 30, 2013 \$	Nine-month period ended September 30, 2014 \$	Nine-month period ended September 30, 2013 \$
Prepaid expenses and other assets	14,291	14,140	20,241	21,757
Amounts due from related parties	57,376	50,714	284,649	279,061
Accounts payable and accrued liabilities	20,479	30,706	14,471	18,875
	<u>92,146</u>	<u>95,560</u>	<u>319,361</u>	<u>319,693</u>

10 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.

11 Income taxes

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 both, the three-month and nine-month periods ended September 30, 2014 was 26.5% (three-month and nine-month periods ended September 30, 2013 – 26.5%).

Income tax expense is as follows:

	Three-month period ended September 30, 2014 \$	Three-month period ended September 30, 2013 \$	Nine-month period ended September 30, 2014 \$	Nine-month period ended September 30, 2013 \$
Current	761,600	678,500	2,190,600	1,969,300
Deferred	14,000	14,000	41,000	132,000
	<u>775,600</u>	<u>692,500</u>	<u>2,231,600</u>	<u>2,101,300</u>

The Fund's income not distributed to its unitholders is taxable at a rate of 49.53% (September 30, 2013 – 49.53%). Distributions to unitholders are taxable at the combined federal and provincial tax rate, which is 26.5% for the three-month and nine-month periods ended September 30, 2014 (three-month and nine-month periods ended September 30, 2013 – 26.5%).

SIR Royalty Income Fund

Notes to Consolidated Financial Statements

(Unaudited)

September 30, 2014 and September 30, 2013

12 Subsequent event

Subsequent to September 30, 2014, SIR filed a notice of its intention to convert up to 350,000 of its 2,491,344 Class A GP Units of the Partnership into Fund units and sell these Fund units. The Fund units are expected to be sold privately, and/or through the facilities of the Toronto Stock Exchange or other marketplaces.

As a result of SIR exercising its right to convert these Class A GP Units into Fund units, the Fund will issue up to 350,000 Fund units to SIR in exchange for an increased interest in the Partnership. Accordingly, this transaction will not have a dilutive effect on the Fund.