

SIR Royalty Income Fund

Consolidated Financial Statements
(Unaudited)

**For the three-month and nine-month periods
ended September 30, 2015 and September 30, 2014**

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

	September 30, 2015	December 31, 2014
	\$	\$
Assets		
Current assets		
Cash	542,739	478,655
Prepaid expenses and other assets	8,104	27,652
Amounts due from related parties (note 8)	3,683,450	3,454,564
	<u>4,234,293</u>	<u>3,960,871</u>
Loan receivable from SIR Corp. (note 3)	40,000,000	40,000,000
Investment in SIR Royalty Limited Partnership (note 4)	40,371,821	40,371,821
	<u>84,606,114</u>	<u>84,332,692</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	93,729	104,647
Income taxes payable	365,900	387,172
Amounts due to related parties (note 8)	2,769,794	2,477,002
	<u>3,229,423</u>	<u>2,968,821</u>
Deferred income taxes (note 11)	1,588,500	1,548,000
	<u>4,817,923</u>	<u>4,516,821</u>
Fund units (note 6)	85,557,287	85,557,287
Deficit	<u>(5,769,096)</u>	<u>(5,741,416)</u>
Total unitholders' equity	<u>79,788,191</u>	<u>79,815,871</u>
	<u>84,606,114</u>	<u>84,332,692</u>

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

SIR Royalty Income Fund

Consolidated Statements of Earnings and Comprehensive Income

(Unaudited)

	Three-month period ended September 30, 2015 \$	Three-month period ended September 30, 2014 \$	Nine-month period ended September 30, 2015 \$	Nine-month period ended September 30, 2014 \$
Investment income				
Equity income from SIR Royalty Limited Partnership (notes 4 and 8)	2,434,703	2,233,090	6,863,914	6,386,919
Interest income (note 3)	750,000	750,000	2,250,000	2,250,000
	<u>3,184,703</u>	<u>2,983,090</u>	<u>9,113,914</u>	<u>8,636,919</u>
General and administrative expenses	<u>93,995</u>	<u>90,768</u>	<u>309,834</u>	<u>315,794</u>
Net earnings before income taxes	3,090,708	2,892,322	8,804,080	8,321,125
Income tax expense (note 11)	<u>827,600</u>	<u>775,600</u>	<u>2,311,900</u>	<u>2,231,600</u>
Net earnings and comprehensive income for the period	<u>2,263,108</u>	<u>2,116,722</u>	<u>6,492,180</u>	<u>6,089,525</u>
Basic and diluted earnings per Fund unit (note 7)	<u>\$ 0.30</u>	<u>\$ 0.29</u>	<u>\$ 0.85</u>	<u>\$ 0.85</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, 2015			
	Number of Fund units	Amount \$	Deficit \$	Total \$
Balance - Beginning of period	7,625,567	85,557,287	(5,741,416)	79,815,871
Net earnings for the period	-	-	6,492,180	6,492,180
Distributions declared and paid (note 6)	-	-	(6,519,860)	(6,519,860)
Balance - End of period	7,625,567	85,557,287	(5,769,096)	79,788,191

	Nine-month period ended September 30, 2014			
	Number of Fund units	Amount \$	Number of Fund units	Amount \$
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

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, 2015 \$	Three-month period ended September 30, 2014 \$	Nine-month period ended September 30, 2015 \$	Nine-month period ended September 30, 2014 \$
Cash provided by (used in)				
Operating activities				
Net earnings for the period	2,263,108	2,116,722	6,492,180	6,089,525
Items not affecting cash				
Deferred income taxes (note 11)	13,500	14,000	40,500	41,000
Current income taxes (note 11)	814,100	761,600	2,271,400	2,190,600
Equity income from SIR Royalty Limited Partnership	(2,434,703)	(2,233,090)	(6,863,914)	(6,386,919)
Distributions received from SIR Royalty Limited Partnership	2,207,956	2,072,192	6,623,871	6,151,686
Income taxes paid	(650,926)	(773,191)	(2,292,672)	(2,319,300)
Net change in non-cash working capital items (note 9)	94,749	92,146	312,579	319,361
	2,307,784	2,050,379	6,583,944	6,085,953
Financing activities				
Distributions paid to unitholders	(2,173,287)	(2,073,537)	(6,519,860)	(6,173,110)
Change in cash during the period	134,497	(23,158)	64,084	(87,157)
Cash - Beginning of period	408,242	513,090	478,655	577,089
Cash - End of period	542,739	489,932	542,739	489,932

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

SIR Royalty Income Fund

Notes to Consolidated Financial Statements
September 30, 2015 and September 30, 2014
(Unaudited)

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 is 5360 South Service Road, Suite 200, Burlington, Ontario. The consolidated financial statements were approved by the Board of Trustees on November 9, 2015.

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 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 2014 audited 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.

The accounting policies as applied in these interim consolidated financial statements are consistent with those followed in the 2014 annual consolidated financial statements, except for the adoption of the following new pronouncement.

SIR Royalty Income Fund

Notes to Consolidated Financial Statements

September 30, 2015 and September 30, 2014

(Unaudited)

Adoption of new accounting standards and amendments

Effective January 1, 2015, the following amendment has been adopted by the Fund:

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. Management has determined that this amendment had no impact on these 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. Management is evaluating the amendment and has not yet determined the impact on its 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, 2015 and September 30, 2014 (three-month periods ended September 30, 2015 and September 30, 2014 – \$750,000).

On July 6, 2015, SIR entered into a new credit agreement (New Credit Agreement) with a Schedule I Canadian chartered bank (the Lender) to refinance its previous term debt under the June 23, 2014 Third Amended and Restated Loan Agreement (Previous Term Debt). The New Credit Agreement between SIR and the Lender provides for a three-year facility for a maximum principal amount of \$30,000,000 consisting of a \$20,000,000 revolving term credit facility (Credit Facility 1), and a \$10,000,000 revolving term loan (Credit Facility 2). SIR and the Lender have also entered into a purchase card agreement providing credit of up to an additional \$5,000,000. The Previous Term Debt was repaid by a full draw down of Credit Facility 2 and a partial draw down of Credit Facility 1.

SIR Royalty Income Fund

Notes to Consolidated Financial Statements

September 30, 2015 and September 30, 2014

(Unaudited)

Credit Facility 1 is for general corporate and operating purposes, bearing interest at the prime rate plus 2.25% and/or the bankers' acceptance rate plus 3.25%, principal repaid in one bullet repayment on July 6, 2018. A standby fee of 0.65% is charged on the undrawn balance of Credit Facility 1. Credit Facility 2 bears interest at the prime rate plus 2.25% and/or the bankers' acceptance rate plus 3.25%. The initial advance on Credit Facility 2 is repayable in quarterly instalments of \$500,000, with the remaining outstanding principal balance due on July 6, 2018. Subsequent advances on Credit Facility 2 may be requested (subject to availability and lender approval), in minimum multiples of \$1,000,000, annually on the anniversary of the closing date of the New Credit Agreement (July 6), to finance capital spending on new and renovated restaurants. Each subsequent advance will be repayable in equal quarterly instalments based on a five year amortization, with the remaining outstanding principal balance due on July 6, 2018.

The New Credit Agreement is secured by substantially all of the assets of SIR and most of its subsidiaries, which are also guarantors. The Partnership and the Fund have not guaranteed the New Credit Agreement. The New 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, as contemplated in the existing agreements, subordinated and postponed their claims against SIR to the claims of the Lender. The terms of the subordination are as contemplated in the previous agreements between the Fund, the Partnership and SIR. This subordination includes a subordination of the Partnership's rights under the License and Royalty Agreement between the Partnership and SIR whereby the Partnership licenses to SIR the right to use trademarks and related intellectual property in return for royalty payments based on revenues and will be effected pursuant to the terms of an Intercreditor Agreement which will replace the current Amended and Restated Subordination and Postponement Agreement.

Under the Intercreditor Agreement, absent a default or event of default under the New Credit Agreement, ordinary payments to the Fund and the Partnership can continue and the Partnership can exercise any and all of its rights to preserve the trademarks and related intellectual property governed by the License and Royalty Agreement. However, if a default or an event of default were to occur, the Fund and the Partnership agree not to take actions on their security until the Lender has been repaid in full. However, payments by SIR, to the Fund and the Partnership, will be permitted for such amounts as are required to fund their monthly operating expenses, up to an annual limit. In addition, the Fund, the Partnership and SIR will have the right, acting cooperatively, to reduce payments of Royalties and/or interest on the SIR Loan by up to 50% without triggering a cross default under the New Credit Agreement for a period of up to nine consecutive months. SIR and each obligor provided an undertaking to cooperate and explore all options with the Fund to maximize value to the Fund's unit holders and SIR and its shareholders in exchange for the subordinating parties not demanding repayment or enforcing security as a result of any such related party obligation default. The Intercreditor Agreement also contains various other typical covenants of the Fund and the Partnership.

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

SIR Royalty Income Fund

Notes to Consolidated Financial Statements

September 30, 2015 and September 30, 2014

(Unaudited)

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 of its Class A GP Units in the Partnership into 500,000 Fund units and sold these Fund units. In accordance with the exchange agreement, the Fund converted the 500,000 Class A GP Units received into 500,000 Class A LP Units. The 500,000 Class A LP Units were issued by the Partnership to the Trust at a fair value of \$6,975,950 (note 6). There were no conversions of Class A GP Units into Fund units during the nine-month period ended September 30, 2015.

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, 2015, the Fund's interest in the residual earnings of the Partnership was 75.4% (September 30, 2014 – 74.5%). 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:

	Three-month period ended September 30, 2015 \$	Three-month period ended September 30, 2014 \$	Nine-month period ended September 30, 2015 \$	Nine-month period ended September 30, 2014 \$
Balance - Beginning of period	40,371,821	35,961,821	40,371,821	28,985,871
Issuance of Class A LP units	-	-	-	6,975,950
Equity income	2,434,703	2,233,090	6,863,914	6,386,919
Distributions declared	(2,434,703)	(2,233,090)	(6,863,914)	(6,386,919)
Balance - End of period	40,371,821	35,961,821	40,371,821	35,961,821

SIR Royalty Income Fund

Notes to Consolidated Financial Statements
September 30, 2015 and September 30, 2014
(Unaudited)

The summarized financial information of the Partnership is as follows:

	As at September 30, 2015 \$	As at December 31, 2014 \$
Cash	223,231	143,363
Other current assets	4,730,013	4,521,136
Intangible assets	93,387,824	88,933,733
Total assets	<u>98,341,068</u>	<u>93,598,232</u>
Current liabilities and total liabilities	<u>4,953,234</u>	<u>4,664,489</u>
Partners' Interest		
SIR Royalty Income Fund	27,628,759	27,628,759
SIR Corp.	65,759,075	61,304,984
Total partners' interest	<u>93,387,834</u>	<u>88,933,743</u>

	Three-month Period ended September 30, 2015 \$	Three-month Period ended September 30, 2014 \$	Nine-month Period ended September 30, 2015 \$	Nine-month Period ended September 30, 2014 \$
Revenues	<u>4,212,973</u>	<u>3,995,530</u>	<u>12,042,276</u>	<u>11,654,998</u>
Net earnings and comprehensive income of the Partnership	<u>4,193,280</u>	<u>3,973,494</u>	<u>11,986,909</u>	<u>11,586,375</u>

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

	As at September 30, 2015 \$	As at December 31, 2014 \$
Investment in the Partnership	40,371,821	40,371,821
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	<u>(9,209,972)</u>	<u>(9,209,972)</u>
Partners' interest to SIR Royalty Income Fund	<u>27,628,759</u>	<u>27,628,759</u>

SIR Royalty Income Fund

Notes to Consolidated Financial Statements
September 30, 2015 and September 30, 2014
(Unaudited)

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

	Three-month period ended September 30, 2015 \$	Three-month period ended September 30, 2014 \$	Nine-month period ended September 30, 2015 \$	Nine-month period ended September 30, 2014 \$
Net earnings and comprehensive income of the Partnership	4,193,280	3,973,494	11,986,909	11,586,375
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	3,443,277	3,223,491	9,736,900	9,336,366
SIR Corp.'s share	(1,008,574)	(990,401)	(2,872,986)	(2,949,447)
Equity income	2,434,703	2,233,090	6,863,914	6,386,919

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, 2015 \$	As at December 31, 2014 \$		
	Carrying Amount	Maximum Exposure to Loss	Carrying Amount	Maximum Exposure to Loss
Distributions receivable	3,429,117	3,429,117	3,189,074	3,189,074
Advances payable	(2,769,794)	(2,769,794)	(2,477,002)	(2,477,002)
Amounts due from related parties	659,323	659,323	712,072	712,072
Investment in SIR Royalty Limited Partnership	40,371,821	40,371,821	40,371,821	40,371,821
Total	41,031,144	41,031,144	41,083,893	41,083,893

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

September 30, 2015 and September 30, 2014

(Unaudited)

5 Financial instruments

Classification

As at September 30, 2015 and December 31, 2014, the classifications of the financial instruments, as well as their carrying and fair values, are as follows:

		Carrying and fair value	
		As at September 30, 2015 \$	As at December 31, 2014 \$
Cash	Loans and receivables	542,739	478,655
Distributions, interest and advances receivable from related parties	Loans and receivables	3,683,450	3,454,564
Loan receivable from SIR Corp.	Loans and receivables	See below	See below
Accounts payable and accrued liabilities	Financial liabilities at amortized cost	93,729	104,647
Advances payable to related parties	Financial liabilities at amortized cost	2,769,794	2,477,002

Carrying and fair values

Cash, distributions, interest and advances 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, 2015 are \$40,000,000 and \$40,371,821, respectively (December 31, 2014 – \$40,000,000 and \$40,371,821, 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, 2015 is estimated to be approximately \$96,463,000 (December 31, 2014 – \$97,226,000) based on the fair value of the Fund units as of the close of business on September 30, 2015.

SIR Royalty Income Fund

Notes to Consolidated Financial Statements

September 30, 2015 and September 30, 2014

(Unaudited)

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.

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

During the three-month period ended December 31, 2014, SIR converted 350,000 of its Class A GP Units into 350,000 Fund units and sold these Fund units. In exchange for the Fund issuing an additional 350,000 Fund units, the Fund received an increased interest in the Partnership recorded at fair value of \$4,410,000. The issuance of the Fund units has been recorded at \$4,410,000, 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 350,000 Class A LP Units. Accordingly, the Partnership issued 350,000 Class A LP Units to the Fund.

There were no conversions of Class A GP Units into Fund units during the nine-month period ended September 30, 2015.

These transaction did not have a dilutive effect on the Fund. As at September 30, 2015, there are 7,625,567 (December 31, 2014 – 7,625,567) 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, 2015, the Fund declared distributions of \$0.285 and \$0.855 per unit, respectively (three-month and nine-month periods ended September 30, 2014 – \$0.285 and \$0.855 per unit, respectively). Subsequent to September 30, 2015, the Fund declared distributions of \$0.095 per unit for each of the months of October and November 2015.

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.

SIR Royalty Income Fund

Notes to Consolidated Financial Statements

September 30, 2015 and September 30, 2014

(Unaudited)

7 Earnings per Fund unit

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

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

SIR Royalty Income Fund

Notes to Consolidated Financial Statements

September 30, 2015 and September 30, 2014

(Unaudited)

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, 2015	\$	2,263,108	\$ 738,507	\$ 3,001,615
Net earnings per Fund unit for the three-month period ended September 30, 2015	\$	0.30	\$	\$ 0.30
Weighted average number of Fund units outstanding for the period		7,625,567	2,488,421	10,113,988
Net earnings for the nine-month period ended September 30, 2015	\$	6,492,180	\$ 2,118,553	\$ 8,610,733
Net earnings per Fund unit for the nine-month period ended September 30, 2015	\$	0.85	\$	\$ 0.85
Weighted average number of Fund units outstanding for the period		7,625,567	2,488,421	10,113,988
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

SIR Royalty Income Fund

Notes to Consolidated Financial Statements

September 30, 2015 and September 30, 2014

(Unaudited)

8 Related party transactions and balances

During the three-month and nine-month periods ended September 30, 2015, the Fund recorded equity income of \$2,434,703 and \$6,863,914, respectively (three-month and nine-month periods ended September 30, 2014 – \$2,233,090 and \$6,386,919, respectively) and received distributions of \$2,207,956 and \$6,623,871, respectively (three-month and nine-month periods ended September 30, 2014 – \$2,072,192 and \$6,151,686, 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, 2015, two (January 1, 2014 – 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 two new SIR Restaurants on January 1, 2015 (January 1, 2014 – four), as well as the Second Incremental Adjustment for four new SIR Restaurants added to Royalty Pooled Restaurants on January 1, 2014 (January 1, 2013 – four), 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, 2014 – nil) SIR Restaurants during the prior year. The net effect of these adjustments to Royalty Pooled Restaurants was that SIR converted 347,077 (January 1, 2014 – 803,393) Class B GP Units into 347,077 (January 1, 2014 – 803,393) Class A GP Units on January 1, 2015 at an estimated fair value of \$4,454,091 (January 1, 2014 – \$11,436,095).

In addition, the revenues of the four new SIR Restaurants added to Royalty Pooled Restaurants on January 1, 2014 were less than 80% of the Initial Adjustment's estimated revenue (January 1, 2013 – four new SIR Restaurants exceeded 80% of the Initial Adjustment's estimated revenue) and, as a result, the distributions on the Class A GP Units were reduced by a special conversion refund of \$5,378 in December 2014 and paid in January 2015 (a special conversion distribution of \$168,819 was declared in December 2013 and paid in January 2014).

SIR Royalty Income Fund

Notes to Consolidated Financial Statements

September 30, 2015 and September 30, 2014

(Unaudited)

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, 2015 and September 30, 2014, the Partnership provided these services to the Fund and the Trust for consideration of \$18,000 (three-month periods ended September 30, 2015 and September 30, 2014 – \$6,000), which was the amount of consideration agreed to by the related parties and has been recorded in general and administrative expenses.

Amounts due from (to) related parties consist of:

	As at September 30, 2015 \$	As at December 31, 2014 \$
SIR Corp.		
Interest receivable	250,000	250,000
Advances receivable	4,333	15,490
Amounts receivable from SIR Corp.	<u>254,333</u>	<u>265,490</u>
Distributions receivable from SIR Royalty Limited Partnership	<u>3,429,117</u>	<u>3,189,074</u>
Amounts due from related parties	<u>3,683,450</u>	<u>3,454,564</u>
Advances payable to SIR Royalty Limited Partnership	<u>2,769,794</u>	<u>2,477,002</u>

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

September 30, 2015 and September 30, 2014

(Unaudited)

9 Net change in non-cash working capital items

Net change in non-cash working capital items comprises:

	Three-month period ended September 30, 2015 \$	Three-month period ended September 30, 2014 \$	Nine-month period ended September 30, 2015 \$	Nine-month period ended September 30, 2014 \$
Prepaid expenses and other assets	15,430	14,291	19,548	20,241
Amounts due from related parties	43	-	11,157	-
Accounts payable and accrued liabilities	22,733	20,479	(10,918)	14,471
Amounts due to related parties	56,543	57,376	292,792	284,649
	<u>94,749</u>	<u>92,146</u>	<u>312,579</u>	<u>319,361</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, 2015 was 26.5% (three-month and nine-month periods ended September 30, 2014 – 26.5%).

Income tax expense is as follows:

	Three-month period ended September 30, 2015 \$	Three-month period ended September 30, 2014 \$	Nine-month period ended September 30, 2015 \$	Nine-month period ended September 30, 2014 \$
Current	814,100	761,600	2,271,400	2,190,600
Deferred	13,500	14,000	40,500	41,000
	<u>827,600</u>	<u>775,600</u>	<u>2,311,900</u>	<u>2,231,600</u>

SIR Royalty Income Fund

Notes to Consolidated Financial Statements

September 30, 2015 and September 30, 2014

(Unaudited)

The Fund's income not distributed to its unitholders is taxable at a rate of 49.53% (September 30, 2014 – 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, 2015 (three-month and nine-month periods ended September 30, 2014 – 26.5%).

12 Comparative figures

Certain of the prior period balances have been reclassified to conform to the current period's financial statement presentation.