SIR Royalty Income Fund

Consolidated Financial Statements
December 31, 2011, December 31, 2010
and January 1, 2010

March 20, 2012

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 balance sheets as at December 31, 2011, December 31, 2010 and January 1, 2010 and the consolidated statements of earnings (loss) and comprehensive income (loss), changes in unitholders' equity and cash flows for the years ended December 31, 2011 and December 31, 2010, 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 audits 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.

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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, 2011, December 31, 2010 and January 1, 2010 and their financial performance and their cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

SIR Royalty Income Fund

Consolidated Balance Sheets

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Assets			
Current assets			
Cash	2,100,464	40	96
Prepaid expenses and other assets	31,715	31,704	24,307
Amounts due from related parties (note 11)	1,181,879	1,231,078	1,192,403
	3,314,058	1,262,822	1,216,806
Loan receivable from SIR Corp. (note 6)	40,000,000	40,000,000	40,000,000
Investment in SIR Royalty Limited Partnership (note 7)	11,166,671	11,166,671	11,166,671
	54,480,729	52,429,493	52,383,477
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	73,362	173,209	117,749
Income taxes payable	2,144,000	-	-
Fund units (note 9)	-	-	40,710,669
	2,217,362	173,209	40,828,418
Deferred income taxes (note 15)	1,301,000	1,254,288	1,254,288
	3,518,362	1,427,497	42,082,706
Fund units (note 9)	56,352,137	56,352,137	-
(Deficit) retained earnings	(5,389,770)	(5,350,141)	10,300,771
Total unitholders' equity	50,962,367	51,001,996	10,300,771
	54,480,729	52,429,493	52,383,477

Subsequent events (notes 9 and 11)

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 (Loss) and Comprehensive Income (Loss)

For the years ended December 31, 2011 and December 31, 2010

	2011 $	2010 $
Investment income		
Equity income from SIR Royalty Limited Partnership (notes 7 and 11)	5,034,386	4,798,875
Interest income (note 6)	3,000,000	3,000,000
	8,034,386	7,798,875
General and administrative expenses (note 11)	376,649	416,119
Earnings before change in amortized cost of Fund units and income taxes	7,657,737	7,382,756
Change in amortized cost of Fund units (note 9)	-	(22,417,652)
Earnings (loss) before income taxes	7,657,737	(15,034,896)
Income tax expense (note 15)	2,190,712	-
Net earnings (loss) and comprehensive income (loss) for the year	5,467,025	(15,034,896)
Basic and diluted earnings (loss) per Fund unit (note 10)	$1.02	

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, 2011 and December 31, 2010

	Year ended December 31, 2011			
	Number of Fund units	**Amount $**	**Retained earnings (deficit) $**	**Total $**
Balance - Beginning of year	5,356,667	56,352,137	(5,350,141)	51,001,996
Net earnings for the year	-	-	5,467,025	5,467,025
Distributions declared and paid (note 9)	-	-	(5,506,654)	(5,506,654)
Balance - End of year	5,356,667	56,352,137	(5,389,770)	50,962,367

	Year ended December 31, 2010			
	Number of Fund units	**Amount $**	**Retained earnings (deficit) $**	**Total $**
Balance - Beginning of year	-	-	10,300,771	10,300,771
Reclassification of Fund units (note 9)	5,356,667	56,352,137	-	56,352,137
Net loss for the year	-	-	(15,034,896)	(15,034,896)
Distributions declared and paid	-	-	(616,016)	(616,016)
Balance - End of year	5,356,667	56,352,137	(5,350,141)	51,001,996

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, 2011 and December 31, 2010

	2011 $	2010 $
Cash provided by (used in)		
Operating activities		
Net earnings (loss) for the year	5,467,025	(15,034,896)
Items not affecting cash		
Deferred income taxes (note 15)	46,712	-
Change in amortized cost of Fund units	-	22,417,652
Equity income from SIR Royalty Limited Partnership	(5,034,386)	(4,798,875)
Distributions received from SIR Royalty Limited Partnership	4,892,201	4,692,201
Net change in non-cash working capital items (note 13)	2,235,526	116,062
	7,607,078	7,392,144
Financing activities		
Distributions paid	(5,506,654)	(7,392,200)
Change in cash during the year	2,100,424	(56)
Cash - Beginning of year	40	96
Cash - End of year	2,100,464	40

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 directly acquire 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 7).

The address of the Fund's registered office is 5360 South Service Road, Suite 200, Burlington, Ontario. The consolidated financial statements were approved by the Board of Trustees on March 20, 2012.

Seasonality

The full-service restaurant sector of the Canadian food-service industry, in which SIR operates, experiences seasonal fluctuations in revenues. Favourable summer weather generally results in increased revenues during SIR's fourth quarter (ending the last Sunday in August) when patios can be open. Additionally, certain holidays and observances also affect dining patterns both favourably and unfavourably. Accordingly, equity income from the Partnership recognized by the Fund will vary in conjunction with the seasonality in revenues experienced by SIR.

2 Basis of presentation and adoption of International Financial Reporting Standards

The Fund prepared its consolidated financial statements in accordance with Canadian generally accepted accounting principles, as set out in the Handbook of The Canadian Institute of Chartered Accountants (CICA Handbook). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards (IFRS) and requires publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, these are the Fund's first annual consolidated financial statements prepared in accordance with IFRS, as issued by the International Accounting Standards Board. In these consolidated financial statements, the term Canadian GAAP refers to Canadian generally accepted accounting principles before the adoption of IFRS.

These consolidated financial statements have been prepared in accordance with IFRS. The Fund has consistently applied the same accounting policies in its opening IFRS consolidated balance sheet at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 4 discloses the impact of the transition to IFRS on the Fund's reported consolidated balance sheet, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Fund's consolidated financial statements for the year ended December 31, 2010, prepared under Canadian GAAP. The Fund has not elected to apply any IFRS elections to its transition to IFRS.

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 includes the accounts of the Fund and its subsidiaries, namely the Trust and SIR GP Inc. All intercompany accounts and transactions have been eliminated.

Subsidiaries are those entities the Fund controls by having the power to govern the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Fund controls another entity. 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.

Cash

Cash is defined as cash and short-term investments with original maturities of three months or less.

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 balance sheets 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) Financial assets and liabilities at fair value through profit or loss: A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short term. Derivative financial instruments are also included in this category unless they are designated as hedges. The financial instruments held by the Fund classified in this category are cash.

Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the consolidated statements of earnings (loss). Gains and losses arising from changes in fair value are presented in the consolidated statements of earnings (loss) in the period in which they arise. Financial assets and liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized or paid beyond 12 months of the consolidated balance sheet date, which is classified as non-current.

ii) 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 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.

iii) Financial liabilities at amortized cost: Financial liabilities at amortized cost comprise accounts payable and accrued liabilities and the Fund units until December 20, 2010. Accounts payable and accrued liabilities and the Fund units 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 and the Fund units 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.

On December 20, 2010, the Declaration of Trust was amended and subsequent to this date the Fund units are classified as equity (note 9).

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

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

The Partnership is a special purpose entity established to own the Canadian trademarks used in connection with the operations of the SIR Restaurants. In accordance with Standing Interpretations Committee (SIC) 12, Consolidation: Special Purpose Entities, SIR consolidated 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; however, the Fund does not have the power to govern the financial and operating policies of 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 (loss) and its share of other comprehensive income (loss) of associates is included in other comprehensive income (loss).

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 (loss).

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 (loss).

Earnings per Fund unit

Earnings per Fund unit is based on the weighted average number of Fund units outstanding during the period. Diluted earnings per Fund unit is 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

As a result of certain legislative changes to the tax treatment of income trusts in Canada, beginning on January 1, 2011, the Fund is required to pay income taxes on its taxable income at the prevailing corporate income tax rates.

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

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 balance sheet 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.

IFRS issued but not yet effective

IFRS 9, Financial Instruments - Classification and Measurement (IFRS 9), is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39, Financial Instruments - Recognition and Measurement. IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is measured using amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest; otherwise, it is measured at fair value through profit or loss. IFRS 9 is effective for years beginning on or after January 1, 2013. In December 2011, the effective date of IFRS 9 was deferred to years beginning on January 1, 2015. Management is evaluating the standard and has not yet determined the impact on its consolidated financial statements.

In May 2011, the International Accounting Standards Board issued the following standards, which have not yet been adopted by the Fund: IFRS 10, Consolidated Financial Statements; IFRS 11, Joint Arrangements; IFRS 12, Disclosure of Interests in Other Entities; IAS 27, Separate Financial Statements; IFRS 13, Fair Value Measurement; and amended IAS 28, Investments in Associates and Joint Ventures. Each of the new standards is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. Management has not yet begun the process of assessing the impact that the new and amended standards will have on its consolidated financial statements or whether to early adopt any of the new requirements.

The following is a brief summary of the new standards:

IFRS 10, Consolidated Financial Statements

IFRS 10 requires an entity to consolidate an investee when it is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC 12, Consolidation - Special Purpose Entities, and parts of IAS 27.

IFRS 11, Joint Arrangements

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC 13, Jointly Controlled Entities - Non-monetary Contributions By Venturers.

IFRS 12, Disclosure of Interests in Other Entities

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off-balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

IFRS 13, Fair Value Measurement

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

Amendments to other standards

In addition, there have been amendments to existing standards, including IAS 27 and IAS 28. IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 through 13.

IAS 1, Presentation of Financial Statements, has been amended to require entities to separate items presented in other comprehensive income into two groups, based on whether or not items may be recycled in the future. Entities that choose to present other comprehensive income items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012, with earlier application permitted.

IFRS 7, Financial Instruments - Disclosures, has been amended to include additional disclosure requirements in the reporting of transfer transactions and risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitization of financial assets. The amendment is applicable for annual periods beginning on or after July 1, 2011, with earlier application permitted.

IFRS 1, First-time Adoption of International Financial Reporting Standards, has been amended to incorporate two changes. The first replaces references to a fixed date of January 1, 2004 with the date of transition to IFRS. This eliminates the need for entities adopting IFRS for the first time to restate derecognition transactions that occurred before the date of transition to IFRS. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRS after a period when the entity was unable to comply with IFRS because its functional currency was subject to severe hyperinflation. The amendment is effective for annual periods beginning on or after July 1, 2011, with earlier application permitted.

IAS 12, Income Taxes, was amended to introduce an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendment, there is a rebuttable presumption that the carrying amount of the investment property will be recovered through sale when considering the expected manner or recovery or settlement. SIC 21, Income Taxes - Recovery of Revalued Non-depreciable Assets, will no longer apply to investment properties carried at fair value. The amendment also incorporates into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn. The amendment is effective for annual periods beginning on or after July 1, 2012, with earlier application permitted.

4 Transition to IFRS

The effect of the Fund's transition to IFRS, described in note 2, is summarized as follows:

i) transition elections;

ii) reconciliation of equity and comprehensive income (loss) as previously reported under Canadian GAAP to IFRS;

iii) adjustments to the consolidated statements of cash flows; and

iv) notes to reconciliation.

i) Transition elections

The Fund has not made any elections under IFRS 1.

ii) Reconciliation of equity and comprehensive income (loss), as previously reported under Canadian GAAP to IFRS

Reconciliation of equity as previously reported under Canadian GAAP to IFRS:

		As at December 31, 2010			As at January 1, 2010		
	(iv)	Canadian GAAP $	Effect of transition to IFRS $	IFRS $	Canadian GAAP $	Effect of transition to IFRS $	IFRS $
Current assets							
Cash		40	-	40	96	-	96
Prepaid expenses and other assets		31,704	-	31,704	24,307	-	24,307
Amounts due from related parties		1,231,078	-	1,231,078	1,192,403	-	1,192,403
		1,262,822	-	1,262,822	1,216,806	-	1,216,806
Loan receivable from SIR Corp.		40,000,000	-	40,000,000	40,000,000	-	40,000,000
Investment in SIR Royalty Limited Partnership		11,166,671	-	11,166,671	11,166,671	-	11,166,671
		52,429,493	-	52,429,493	52,383,477	-	52,383,477
Current liabilities							
Accounts payable and accrued liabilities		173,209	-	173,209	117,749	-	117,749
Fund units	b	-	-	-	-	40,710,669	40,710,669
		173,209	-	173,209	117,749	40,710,669	40,828,418
Deferred income taxes	a	676,000	578,288	1,254,288	676,000	578,288	1,254,288
		849,209	578,288	1,427,497	793,749	41,288,957	42,082,706
Fund units	b	51,166,670	5,185,467	56,352,137	51,166,670	(51,166,670)	-
Retained earnings (deficit)	a, b	413,614	(5,763,755)	(5,350,141)	423,058	9,877,713	10,300,771
Total unitholders' equity		51,580,284	(578,288)	51,001,996	51,589,728	(41,288,957)	10,300,771
		52,429,493	-	52,429,493	52,383,477	-	52,383,477

Reconciliation of comprehensive income (loss) as previously reported under Canadian GAAP to IFRS:

	(iv)	Canadian GAAP $	Effect of transition to IFRS $	IFRS $
		Year ended December 31, 2010		
Investment income				
Equity income from SIR Royalty Limited Partnership		4,798,875	-	4,798,875
Interest income		3,000,000	-	3,000,000
		7,798,875	-	7,798,875
Expenses				
General and administrative		416,119	-	416,119
Operating income		7,382,756	-	7,382,756
Change in amortized cost of Fund units	b	-	(22,417,652)	(22,417,652)
Net earnings (loss) and comprehensive income (loss) for the year		7,382,756	(22,417,652)	(15,034,896)

iii) Adjustments to the consolidated statements of cash flows

	(iv)	Canadian GAAP $	Effect of transition to IFRS $	IFRS $
		Year ended December 31, 2010		
Cash provided by (used in)				
Operating activities				
Net earnings (loss) for the year		7,382,756	(22,417,652)	(15,034,896)
Items not affecting cash				
Change in amortized cost of Fund units	b	-	22,417,652	22,417,652
Equity income from SIR Royalty Limited Partnership		-	(4,798,875)	(4,798,875)
Distributions received from SIR Royalty Limited Partnership		-	4,692,201	4,692,201
Net change in non-cash working capital items		9,388	106,674	116,062
		7,392,144	-	7,392,144
Financing activities				
Distributions paid to unitholders		(7,392,200)	-	(7,392,200)
Change in cash during the year		(56)	-	(56)
Cash - Beginning of year		96	-	96
Cash - End of year		40	-	40

iv) Notes to reconciliations

a) In accordance with IFRS, the deferred income tax liability relating to the investment in the Partnership is determined using the effective tax rate on undistributed profits of 46.41%. Under Canadian GAAP, a rate of 25% is used to estimate the deferred income tax liability. As a result, an adjustment of $578,288 is recorded to increase the deferred income tax liability and decrease retained earnings as at January 1, 2010 and December 31, 2010.

b) Under Canadian GAAP, the Fund's units were classified as equity and monthly distributions on these units flowed through unitholders' equity. IFRS describes a financial liability as a contractual obligation to deliver cash or another financial asset. The Fund has determined that, under IFRS, its units should be classified as a financial liability as the Fund's Declaration of Trust contained a clause creating a contractual obligation to deliver cash or another financial asset under certain circumstances. Upon adopting IFRS, the Fund units have been classified as a liability and accounted for at amortized cost, with changes in the carrying value of the Fund units (at the reporting date) recorded in the consolidated statements of earnings (loss) and comprehensive income (loss) as change in amortized cost of Fund units. Distributions are accounted for as a reduction of the financial liability until December 20, 2010.

   On December 20, 2010, the Declaration of Trust was amended to enable the Fund units to meet the definition of a puttable instrument under IFRS and therefore the Fund units were classified as equity in the consolidated financial statements from that point on. Subsequent to December 20, 2010, monthly distributions flow through unitholders' equity.

5 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 not previously reported under Canadian GAAP 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 special purpose entities

The determination of the entity having the power to govern the financial and operating policies of 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. Accordingly, the Fund's investment in the Partnership is 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, 2011 and December 31, 2010, no impairments have been recorded in the consolidated financial statements.

Income taxes

Effective January 1, 2011, the Fund became subject to income taxes at the prevailing corporate rates. Management uses judgment to estimate current and deferred income taxes. This involves determining taxable income, temporary differences between income for tax and accounting purposes and the effective tax rate to apply to taxable income.

6 Loan receivable from SIR Corp.

The SIR loan bears interest at 7.5% per annum, is due October 12, 2044 and is collateralized by a general security agreement covering substantially all of the assets of SIR and its subsidiaries in Canada. Interest income of $3,000,000 was earned during the year ended December 31, 2011 (2010 - $3,000,000).

Effective August 26, 2011, SIR's credit agreement, negotiated on November 13, 2009, was amended and restated (Amended Credit Agreement) to add an additional loan amount (Development Loan) to the existing $26,000,000 senior term debt facility (Term Loan). The Development Loan is for a maximum principal amount of $12,000,000 available to SIR by way of multiple advances, dispensed on or prior to May 18, 2012.

On November 25, 2011, SIR entered into a First Amendment to the Amended Credit Agreement (First Amendment) to extend and make coterminous the terms of the $12,000,000 Development Loan and the $26,000,000 Term Loan. Under the terms of the First Amendment, the Term Loan is extended from November 13, 2012 to November 14, 2016 and the Development Loan, which was negotiated August 26, 2011, is extended from August 26, 2016 to November 14, 2016. Additionally, under the terms of the Amendment, the variable interest rate of the Term Loan is reduced to the same rate as that of the Development Loan which is the greater of 6% per annum and the three-month Canadian dollar banker's acceptance rate plus 5.75% per annum, calculated monthly, not in advance.

The Amended 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 the Subordination and Postponement Agreement, absent a default or event of default under the New Amended 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 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.

7 Investment in SIR Royalty Limited Partnership

On October 12, 2004, the Fund, indirectly through the Trust and SIR GP Inc. acquired all of the Ordinary LP units and 99 Ordinary GP units. The holders of the Ordinary LP units are entitled to receive a pro rata share of distributions and the holders of the Ordinary GP units receive a fixed monthly distribution of $5. The continuity of the Investment in the Partnership is as follows:

	Year ended December 31, 2011 $	Year ended December 31, 2010 $
Balance - Beginning of year	11,166,671	11,166,671
Equity income	5,034,386	4,798,875
Distributions declared	(5,034,386)	(4,798,875)
Balance - End of year	11,166,671	11,166,671

The summarized financial information of the Partnership is as follows:

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Total assets	72,387,851	71,137,136	69,782,322
Total liabilities	1,122,448	1,291,645	1,173,452

	Year ended December 31, 2011 $	Year ended December 31, 2010 $
Revenues	12,587,948	12,006,701
Net earnings	12,509,013	11,891,286

8 Financial instruments

Classification

As at December 31, 2011, December 31, 2010 and January 1, 2010, the classifications of the financial instruments, as well as their carrying and fair values, are as follows:

		Carrying and fair value		
	Classification	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Cash	Loans and receivables	2,100,464	40	96
Distributions and interest receivable from related parties	Loans and receivables	3,131,723	2,989,538	2,882,864
Loan receivable from SIR Corp.	Held to maturity	see below	see below	see below
Accounts payable and accrued liabilities	Other financial liabilities	73,362	173,209	117,749
Advances payable to related parties	Other financial liabilities	1,949,844	1,758,460	1,690,461
Fund units	Other financial liabilities	n/a	n/a	40,710,669

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 and the investment in the Partnership are accounted for under the cost method. The carrying values of the SIR loan and the investment in the Partnership at December 31, 2011 are $40,000,000 and $11,166,671, respectively (December 31, 2010 and January 1, 2010 - $40,000,000 and $11,166,671, 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 is estimated to be approximately $50,728,000 (December 31, 2010 - $58,066,000, January 1, 2010 - $40,710,669) based on the fair value of the Fund units as of the close of business on December 31, 2011. The fair value of the Fund units is based on the fair value of the Fund units on January 1, 2010.

Objectives and policy relating to financial risk management

Financial risk management is carried out by the management and 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 a held-to-maturity financial asset. Accordingly, changes in interest rates would not impact the consolidated statements of earnings (loss) and comprehensive income (loss) 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, 2011, 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 6).

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.

9 Fund units

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

As at December 31, 2011, December 31, 2010 and January 1, 2010, there are 5,356,667 Fund units issued and outstanding. Each Fund unit is entitled to one vote at any meeting of unitholders.

During the year ended December 31, 2011, the Fund declared distributions of $1.028 per unit (2010 - $1.38 per unit). Subsequent to December 31, 2011, the Fund declared distributions of $0.083 per unit for each of the months of December 2011 and January and February 2012.

At the discretion of the Trustees, the Fund's distribution policy is to make distributions of its available cash to the fullest extent possible, taking into account trends in revenues, earnings and cash flows.

On December 20, 2010, the Declaration of Trust was amended to remove the requirement to pay distributions in certain circumstances. Prior to December 20, 2010, the Fund units were classified as a liability in the consolidated balance sheets. On December 20, 2010, upon amendment of the Declaration of Trust, the Fund units were classified to equity.

For the year ended December 31, 2010, the Fund units were accounted for as a financial liability at amortized cost. For the year ended December 31, 2010, the distributions declared by the Trustees of $6,776,184 have been recorded as a reduction of the financial liability. In addition, the change in the carrying value of the Fund units of $22,417,652 has been recorded in the consolidated statements of earnings (loss) and comprehensive income (loss). The carrying value of the Fund units at December 20, 2010 approximates its fair value. The fair value of the Fund units was determined using the quoted market price of Fund units at each reporting date prior to December 20, 2010.

On December 20, 2010, the fair value and carrying value of the Fund units was $56,352,137 and they were reclassified from liabilities to unitholders' equity in the consolidated balance sheets.

10 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 units of the Fund. 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 earnings	Adjustment for conversion of Class A GP units	Diluted earnings
Net earnings for the year ended December 31, 2011	$5,467,025	$3,170,479	$8,637,504
Net earnings per Fund unit for the year ended December 31, 2011	$1.02	-	$1.02
Weighted average number of Fund units outstanding for the year ended December 31, 2011	5,356,667	3,106,514	8,463,181

The Fund units were classified as a liability until December 20, 2010 and accordingly earnings per Fund unit are not presented for the comparable period.

11 Related party transactions and balances

During the year ended December 31, 2011, the Fund received equity income of $5,034,386 (2010 - $4,798,875) from the Partnership and received distributions of $4,892,201 (2010 - $4,692,201). The Fund, indirectly through the Trust, is entitled to receive a pro rata share of all residual distributions. The Fund's equity income is dependent on the revenues generated by SIR for the restaurants subject to the Licence and Royalty Agreement. Under the terms of the Licence and Royalty Agreement, SIR may be required to pay 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 payments 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 the actual revenues of the new SIR Restaurants exceed 80% of the initial estimated revenues, or there will be a reduction in the distributions to the Class A GP unitholders if revenues are less than 80% of the initial estimated revenues. In December 2011, an additional distribution of $33,667 (December 2010 - $nil) was declared and paid in cash in January 2012.

On January 1, 2012, one (2011 - one) new SIR Restaurant was added to and nil (2011 - nil) SIR Restaurants were removed from the Royalty Pooled Restaurants in accordance with the Partnership Agreement. As consideration for the additional Royalty associated with the addition of one (2010 - one) new restaurant on January 1, 2012, as well as the second incremental adjustment for the one (2010 - nil) new SIR Restaurant added to the Royalty Pooled Restaurants on January 1, 2011, 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 (2011 - nil) SIR Restaurants during the prior year. The net effect of these adjustments to the Royalty Pooled Restaurants was that SIR converted 203,878 (2011 - 137,190) Class B GP units into 203,878 (2011 - 137,190) Class A GP units on January 1, 2012 at an estimated fair value of $1,906,391 (2011 - $1,419,912).

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, 2011, the Partnership provided these services to the Fund and the Trust for consideration of $24,000 (2010 - $24,000), which was the amount of consideration agreed to by the related parties.

Amounts due from (to) related parties consist of:

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
SIR Royalty Limited Partnership			
Distribution receivable	2,881,723	2,739,538	2,632,864
Advances payable	(1,949,844)	(1,669,139)	(1,614,537)
Amounts due from SIR Royalty Limited Partnership - net	931,879	1,070,399	1,018,327
SIR Corp.			
Interest receivable	250,000	250,000	250,000
Advances payable	-	(89,321)	(75,924)
Amounts due from SIR Corp. - net	250,000	160,679	174,076
Amounts due from related parties - net	1,181,879	1,231,078	1,192,403

Amounts due from (to) related parties are non-interest bearing and due on demand.

12 Capital management

The Fund's capital consists of units of the Fund, as described in note 9. 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, 2011 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 6).

13 Net change in non-cash working capital items

Net change in non-cash working capital items comprises:

	2011 $	2010 $
Prepaid expenses and other assets	(11)	(7,397)
Amounts due from related parties	191,384	67,999
Accounts payable and accrued liabilities	(99,847)	55,460
Income taxes payable	2,144,000	-
	2,235,526	116,062

14 Economic dependence

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

15 Income taxes

Prior to January 1, 2011, the Fund was not taxable so long as it distributed its taxable income to its 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 is due 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, 2011 was 28.25%.

Income tax expense is as follows:

	Year ended December 31, 2011 $	Year ended December 31, 2010 $
Current	2,144,000	-
Deferred	46,712	-
	2,190,712	-

The Fund's income not distributed to its unitholders is taxable at a rate of 46.41%. Distributions to unitholders are taxable at the combined federal and provincial tax rate, which is 28.25% for the year ended December 31, 2011.

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, 2011 $
Earnings before income taxes	7,657,737
Income tax provision at 46.41%	3,553,956
Add (deduct):	
Distribution income not taxable	(214,998)
Partnership expenses deductible for tax purposes	46,712
Taxable interest income of Fund eliminated on consolidation	139,926
Non-deductible expenses	43,124
Differences in tax rates	(1,378,008)
	2,190,712

Deferred tax liabilities consist of the following:

	Investment in the Partnership $
Balance at January 1, 2010 and December 31, 2010	1,254,288
Charged to consolidated statements of earnings (loss)	46,712
Balance at December 31, 2011	1,301,000