SIR Royalty Income Fund

Consolidated Financial Statements
(Unaudited)
For the three-month and six-month periods ended June 30, 2014 and June 30, 2013

SIR Royalty Income Fund

Consolidated Statements of Financial Position

(Unaudited)

	June 30, 2014 $	December 31, 2013 $
Assets		
Current assets		
Cash	513,090	577,089
Prepaid expenses and other assets	21,383	27,333
Amounts due from related parties (note 8)	881,381	1,034,319
	1,415,854	1,638,741
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
	77,377,675	70,624,612
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	63,063	69,071
Income taxes payable	418,953	536,062
	482,016	605,133
Deferred income taxes	1,520,000	1,493,000
	2,002,016	2,098,133
Fund units (note 6)	81,147,287	74,171,337
Deficit	(5,771,628)	(5,644,858)
Total unitholders' equity	75,375,659	68,526,479
	77,377,675	70,624,612

Subsequent events (note 6)

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 June 30, 2014 $	Three-month period ended June 30, 2013 $	Six-month period ended June 30, 2014 $	Six-month period ended June 30, 2013 $
Investment income				
Equity income from SIR Royalty Limited Partnership (notes 4 and 8)	2,357,672	2,119,385	4,153,829	3,603,953
Interest income (note 3)	750,000	750,000	1,500,000	1,500,000
	3,107,672	2,869,385	5,653,829	5,103,953
General and administrative expenses	109,077	111,060	225,026	222,790
Net earnings before income taxes	2,998,595	2,758,325	5,428,803	4,881,163
Income tax expense (note 11)	802,900	746,900	1,456,000	1,408,800
Net earnings and comprehensive income for the period	2,195,695	2,011,425	3,972,803	3,472,363
Basic and diluted earnings per Fund unit (note 7)	$ 0.30	$ 0.30	$ 0.55	$ 0.54

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

SIR Royalty Income Fund

Consolidated Statements of Changes in Unitholders' Equity
(Unaudited)

	Six-month period ended June 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	-	-	3,972,803	3,972,803
Distributions declared and paid (note 6)	-	-	(4,099,573)	(4,099,573)
Issuance of Fund units (note 6)	500,000	6,975,950	-	6,975,950
Balance - End of period	7,275,567	81,147,287	(5,771,628)	75,375,659

	Six-month period ended June 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	-	-	3,472,363	3,472,363
Distributions declared and paid (note 6)	-	-	(3,467,408)	(3,467,408)
Issuance of Fund units (note 6)	895,000	11,008,500	-	11,008,500
Balance - End of period	6,775,567	74,171,337	(5,431,814)	68,739,523

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 June 30, 2014 $	Three-month period ended June 30, 2013 $	Six-month period ended June 30, 2014 $	Six-month period ended June 30, 2013 $
Cash provided by (used in)				
Operating activities				
Net earnings and comprehensive income for the period	2,195,695	2,011,425	3,972,803	3,472,363
Items not affecting cash				
Deferred income taxes (note 11)	13,500	15,000	27,000	118,000
Current income taxes (note 11)	789,400	731,900	1,429,000	1,290,800
Equity income from SIR Royalty Limited Partnership	(2,357,672)	(2,119,385)	(4,153,829)	(3,603,953)
Distributions received from SIR Royalty Limited Partnership	2,072,192	1,689,205	4,079,494	3,163,608
Income taxes paid	(528,662)	(493,897)	(1,546,109)	(1,028,303)
Net change in non-cash working capital items (note 9)	110,050	111,731	227,215	224,133
	2,294,503	1,945,979	4,035,574	3,636,648
Financing activities				
Distributions paid to unitholders	(2,073,536)	(1,836,178)	(4,099,573)	(3,761,436)
Change in cash during the period	220,967	109,801	(63,999)	(124,788)
Cash - Beginning of period	292,123	81,999	577,089	316,588
Cash - End of period	513,090	191,800	513,090	191,800

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

1 Nature of operations and seasonality

Nature of operations

SIR Royalty Income Fund (the Fund) is a trust established on August 23, 2004 under the laws of the Province of Ontario, Canada.

On October 1, 2004, the Fund filed a final prospectus for a public offering of units of the Fund. The net proceeds of the offering to the Fund of $51,166,670 were used by the Fund to acquire, directly, certain bank debt of SIR Corp. (the SIR Loan) and, indirectly, through SIR Holdings Trust (the Trust), all of the Ordinary LP Units of SIR Royalty Limited Partnership (the Partnership). The Partnership owns the Canadian trademarks (the SIR Rights) formerly owned or licensed by SIR Corp. (SIR) or its subsidiaries and used in connection with the operation of the majority of SIR's restaurants in Canada (the SIR Restaurants). The Partnership has granted SIR a 99-year licence to use the SIR Rights in most of Canada in consideration for a Royalty, payable by SIR to the Partnership, equal to 6% of the revenues of the restaurants included in the Royalty Pooled Restaurants (the Licence and Royalty Agreement). The Fund indirectly participates in the revenues generated under the Licence and Royalty Agreement through its Investment in the Partnership (note 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 August 8, 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.

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 consolidated financial statements.

IFRS issued but not yet effective

IFRS 9, Financial Instruments - Classification and Measurement

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

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 amendment and has not yet determined the impact on the consolidated financial statements.

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 $1,500,000 was earned during the six-month periods ended June 30, 2014 and June 30, 2013 (three-month periods ended June 30, 2014 and June 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 6.0% per annum and the three-month Canadian dollar bankers' acceptance rate plus 5.65% per annum. SIR can also elect to fix the interest rate. The amortization periods for the Term Loan, the Tranche A Development Loan and the Tranche B Development Loan are ten years, seven years and seven years, respectively. 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 is intended to be drawn by September 19, 2014, with the date open to extension until March 19, 2015.

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.

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.

During the six-month period ended June 30, 2014, SIR converted 500,000 (June 30, 2013 – 895,000) of its Class A GP Units in the Partnership into 500,000 (June 30, 2013 – 895,000) Fund units and sold these Fund units. In accordance with the exchange agreement, the Fund converted the 500,000 (June 30, 2013 – 895,000) Class A GP Units received into 500,000 (June 30, 2013 – 895,000) Class A LP Units. The 500,000 (June 30, 2013 – 895,000) Class A LP Units were issued by the Partnership to the Trust at a fair value of $6,975,950 (June 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 June 30, 2014, the Fund's interest in the residual earnings of the Partnership was 74.5% (June 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.

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

	Three-month period ended June 30, 2014 $	Three-month period ended June 30, 2013 $	Six-month period ended June 30, 2014 $	Six-month period ended June 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	2,357,672	2,119,385	4,153,829	3,603,953
Distributions declared	(2,357,672)	(2,119,385)	(4,153,829)	(3,603,953)
Balance - End of period	35,961,821	28,985,871	35,961,821	28,985,871

The summarized financial information of the Partnership is as follows:

	As at June 30, 2014 $	As at December 31, 2013 $
Cash	422,412	534,590
Other current assets	430,761	507,857
Intangible assets	88,933,733	77,497,638
Total assets	89,786,906	78,540,085
Current liabilities and total liabilities	853,163	1,042,437
Partners' Interest		
SIR Royalty Income Fund	24,146,486	19,171,810
SIR Corp.	64,787,257	58,325,838
Total partners' interest	88,933,743	77,497,648

	Three-month Period ended June 30, 2014 $	Three-month Period ended June 30, 2013 $	Six-month Period ended June 30, 2014 $	Six-month Period ended June 30, 2013 $
Revenues	4,157,371	3,781,506	7,659,468	7,072,899
Net earnings and comprehensive income of the Partnership	4,134,468	3,760,095	7,612,881	7,023,912

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

	As at June 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

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

	Three-month period ended June 30, 2014 $	Three-month period ended June 30, 2013 $	Six-month period ended June 30, 2014 $	Six-month period ended June 30, 2013 $
Net earnings and comprehensive income of the Partnership	4,134,468	3,760,095	7,612,881	7,023,912
Priority income allocated to SIR Corp. (Class C GP and Class B GP units)	(750,003)	(750,003)	(1,500,006)	(1,500,006)
Residual earnings	3,384,465	3,010,092	6,112,875	5,523,906
SIR Corp.'s share	(1,026,793)	(890,707)	(1,959,046)	(1,919,953)
Equity income	2,357,672	2,119,385	4,153,829	3,603,953

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 June 30, 2014 $		As at December 31, 2013 $	
	Carrying Amount	Maximum Exposure to Loss	Carrying Amount	Maximum Exposure to Loss
Distributions receivable	3,141,308	3,141,308	3,066,973	3,066,973
Advances payable	(2,494,698)	(2,494,698)	(2,269,697)	(2,269,697)
Amounts due from related parties	646,610	646,610	797,276	797,276
Investment in SIR Royalty Limited Partnership	35,961,821	35,961,821	28,985,871	28,985,871
Total	36,608,431	36,608,431	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.

5 Financial instruments

Classification

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

		Carrying and fair value	
	Classification	As at June 30, 2014 $	As at December 31, 2013 $
Cash	Loans and receivables	513,090	577,089
Distributions and interest receivable from related parties	Loans and receivables	3,391,308	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	63,063	69,071
Advances payable to related parties	Financial liabilities at amortized cost	2,509,927	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 June 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 June 30, 2014 is estimated to be approximately $93,855,000 (December 31, 2013 – $94,790,000) based on the fair value of the Fund units as of the close of business on June 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.

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

These transactions did not have a dilutive effect on the Fund. As at June 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 six-month periods ended June 30, 2014, the Fund declared distributions of $0.285 and $0.57 per unit, respectively (three-month and six-month periods ended June 30, 2013 – $0.271 and $0.535 per unit, respectively). Subsequent to June 30, 2014, the Fund declared distributions of $0.095 per unit for each of the months of July and August 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.

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 June 30, 2014	$	2,195,695	$	749,339	$	2,945,034
Net earnings per Fund unit for the three-month period ended June 30, 2014	$	0.30	$	-	$	0.30
Weighted average number of Fund units outstanding for the period		7,275,567		2,491,344		9,766,911
Net earnings for the six-month period ended June 30, 2014	$	3,972,803	$	1,430,331	$	5,403,134
Net earnings per Fund unit for the six-month period ended June 30, 2014	$	0.55	$	-	$	0.55
Weighted average number of Fund units outstanding for the period		7,165,070		2,601,841		9,766,911
Net earnings for the three-month period ended June 30, 2013	$	2,011,425	$	649,520	$	2,660,945
Net earnings per Fund unit for the three-month period ended June 30, 2013	$	0.30	$	-	$	0.30
Weighted average number of Fund units outstanding for the period		6,775,567		2,187,951		8,963,518
Net earnings for the six-month period ended June 30, 2013	$	3,472,363	$	1,356,476	$	4,828,839
Net earnings per Fund unit for the six-month period ended June 30, 2013	$	0.54	$	-	$	0.54
Weighted average number of Fund units outstanding for the period		6,402,650		2,560,868		8,963,518

8 Related party transactions and balances

During the three-month and six-month periods ended June 30, 2014, the Fund recorded equity income of $2,357,672 and $4,153,829, respectively (three-month and six-month periods ended June 30, 2013 – $2,119,385 and $3,603,953, respectively) and received distributions of $2,072,192 and $4,079,494, respectively (three-month and six-month periods ended June 30, 2013 – $1,689,205 and $3,163,608, 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 in to Class A GP Units based on the formula defined in the Partnership Agreement. The number of Class B GP Units that SIR converted into Class A GP Units was reduced by an adjustment for the permanent closure of nil (January 1, 2013 – two) SIR Restaurants during the prior year. The net effect of these adjustments to Royalty Pooled Restaurants was that SIR converted 803,393 (January 1, 2013 – 296,459) Class B GP Units into 803,393 (January 1, 2013 – 296,459) Class A GP Units on January 1, 2014 at an estimated fair value of $11,436,095 (January 1, 2013 – $4,325,854).

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

Class A GP Units and Class B GP Units are held by SIR.

The Partnership has entered into an arrangement with the Fund and the Trust whereby the Partnership will provide or arrange for the provision of services required in the administration of the Fund and the Trust. The Partnership has arranged for these services to be provided by SIR GP Inc. in its capacity as the Managing General Partner, or SIR as the General Partner. SIR, on behalf of SIR GP Inc., also provides services to the Partnership for its administration. For the six-month periods ended June 30, 2014 and June 30, 2013, the Partnership provided these services to the Fund and the Trust for consideration of $12,000 (three-month periods ended June 30, 2014 and June 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 June 30, 2014 $	As at December 31, 2013 $
SIR Royalty Limited Partnership		
Distribution receivable	3,141,308	3,066,973
Advances payable	(2,494,698)	(2,269,697)
Amounts receivable from SIR Royalty Limited Partnership - net	646,610	797,276
SIR Corp.		
Interest receivable	250,000	250,000
Advances payable	(15,229)	(12,957)
Amounts receivable from SIR Corp. - net	234,771	237,043
Amounts due from related parties - net	881,381	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.

9 Net change in non-cash working capital items

Net change in non-cash working capital items comprises:

	Three-month period ended June 30, 2014 $	Three-month period ended June 30, 2013 $	Six-month period ended June 30, 2014 $	Six-month period ended June 30, 2013 $
Prepaid expenses and other assets	14,291	14,140	5,950	7,617
Amounts due from related parties	98,749	102,412	227,273	228,347
Accounts payable and accrued liabilities	(2,990)	(4,821)	(6,008)	(11,831)
	110,050	111,731	227,215	224,133

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 six-month periods ended June 30, 2014 was 26.5% (three-month and six-month periods ended June 30, 2013 – 26.5%).

Income tax expense is as follows:

	Three-month period ended June 30, 2014 $	Three-month period ended June 30, 2013 $	Six-month period ended June 30, 2014 $	Six-month period ended June 30, 2013 $
Current	789,400	731,900	1,429,000	1,290,800
Deferred	13,500	15,000	27,000	118,000
	802,900	746,900	1,456,000	1,408,800

The Fund's income not distributed to its unitholders is taxable at a rate of 49.53% (June 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 six-month periods ended June 30, 2014 (three-month and six-month periods ended June 30, 2013 – 26.5%).