

SIR Royalty Limited Partnership

Financial Statements
December 31, 2014 and 2013

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March 13, 2015

Independent Auditor's Report

To the Partners of SIR Royalty Limited Partnership

We have audited the accompanying financial statements of SIR Royalty Limited Partnership, which comprise the statement of financial position as at December 31, 2014 and December 31, 2013 and the statements of earnings and comprehensive income, Partners' interest and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of 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 financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of SIR Royalty Limited Partnership as at December 31, 2014 and December 31, 2013 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants
Toronto, Ontario

SIR Royalty Limited Partnership

Statements of Financial Position

As at December 31, 2014 and 2013

	2014 \$	2013 \$
Assets		
Current assets		
Cash	143,363	534,590
Prepaid expenses and other assets	16,117	14,926
Amounts due from related party (note 6)	734,724	492,931
	<hr/>	<hr/>
	894,204	1,042,447
Intangible assets (note 3)	88,933,733	77,497,638
	<hr/>	<hr/>
	89,827,937	78,540,085
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	182,122	245,161
Amounts due to related parties (note 6)	712,072	797,276
	<hr/>	<hr/>
	894,194	1,042,437
Partners' Interest (note 4)	88,933,743	77,497,648
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	89,827,937	78,540,085
Subsequent events (notes 3 and 4)		

Approved by the Managing General Partner

(Signed) "Peter Luit" _____ Director

(Signed) "Peter Fowler" _____ Director

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

SIR Royalty Limited Partnership
Statements of Earnings and Comprehensive Income
For the years ended December 31, 2014 and 2013

	2014 \$	2013 \$
Revenues		
Royalty income (notes 1 and 6)	15,472,634	14,080,056
Administration fee (note 6)	24,000	24,000
Other income	13,266	19,354
	<hr/>	<hr/>
	15,509,900	14,123,410
Expenses		
General and administrative	81,180	99,462
	<hr/>	<hr/>
Net earnings and comprehensive income for the year	<hr/> 15,428,720	<hr/> 14,023,948

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

SIR Royalty Limited Partnership

Statements of Partners' Interest

For the years ended December 31, 2014 and 2013

	Number of units (note 4)	Balance - January 1, 2014 \$	Units issued \$ (note 4)	Units converted \$ (note 4)	Net earnings for the year \$	Distributions \$	Balance - December 31, 2014 \$
Ordinary LP units	5,356,667	7,633,570	-	-	5,569,621	(5,569,621)	7,633,570
Class A LP units	2,268,900	11,538,229	-	8,456,949	3,021,554	(3,021,554)	19,995,178
Ordinary GP units	100	11	-	-	60	(60)	11
Class A GP units	2,141,344	18,325,837	11,436,095	(8,456,949)	3,837,473	(3,837,473)	21,304,983
Class B GP units	96,184,941	1	-	-	12	(12)	1
Class C GP units	4,000,000	40,000,000	-	-	3,000,000	(3,000,000)	40,000,000
		77,497,648	11,436,095	-	15,428,720	(15,428,720)	88,933,743
	Number of units (note 4)	Balance - January 1, 2013 \$	Units issued \$	Units converted \$ (note 4)	Net earnings for the year \$	Distributions \$	Balance - December 31, 2013 \$
Ordinary LP units	5,356,667	7,633,570	-	-	5,390,312	(5,390,312)	7,633,570
Class A LP units	1,418,900	4,041,889	-	7,496,340	1,924,811	(1,924,811)	11,538,229
Ordinary GP units	100	11	-	-	60	(60)	11
Class A GP units	2,187,951	21,496,323	4,325,854	(7,496,340)	3,539,934	(3,539,934)	18,325,837
Class B GP units	96,988,334	1	-	-	168,831	(168,831)	1
Class C GP units	4,000,000	40,000,000	-	-	3,000,000	(3,000,000)	40,000,000
		73,171,794	4,325,854	-	14,023,948	(14,023,948)	77,497,648

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

SIR Royalty Limited Partnership

Statements of Cash Flows

For the years ended December 31, 2014 and 2013

	2014 \$	2013 \$
Cash provided by (used in)		
Operating activities		
Net earnings for the year	15,428,720	14,023,948
Net change in non-cash working capital items (note 9)	(258,461)	(175,544)
	<u>15,170,259</u>	<u>13,848,404</u>
Financing activities		
Distributions paid	(15,561,486)	(13,568,673)
Change in cash	(391,227)	279,731
Cash and cash equivalents - Beginning of year	<u>534,590</u>	<u>254,859</u>
Cash and cash equivalents - End of year	<u>143,363</u>	<u>534,590</u>

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

SIR Royalty Limited Partnership

Notes to Financial Statements

December 31, 2014 and 2013

1 Nature of operations and seasonality

Nature of operations

SIR Royalty Limited Partnership (the Partnership) is a limited partnership formed under the laws of the Province of Ontario, Canada.

On October 1, 2004, SIR Royalty Income Fund (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 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 address of the Partnership's registered office is 5360 South Service Road, Suite 200, Burlington, Ontario. The financial statements were approved by the Board of Directors of SIR GP Inc. on March 13, 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, royalty income recognized by the Partnership will vary in conjunction with the seasonality in revenues experienced by SIR.

2 Basis of presentation and summary of significant accounting policies

Basis of presentation

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

The accounting policies applied in these financial statements are as follows:

Basis of measurement

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

SIR Royalty Limited Partnership

Notes to Financial Statements

December 31, 2014 and 2013

Use of estimates

The preparation of these 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 financial statements. Actual results could differ materially from those estimates in the near term.

Revenue recognition

Revenues include Royalty income equal to 6% of revenue of SIR's restaurants in Canada that are subject to the Licence and Royalty Agreement and is recognized on an accrual basis.

Financial instruments

Financial assets and liabilities are recognized when the Partnership 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 Partnership has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount is reported in the statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the Partnership classifies its financial instruments in the following categories, depending on the purpose for which the instruments were acquired:

- i) **Loans and receivables:** Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Partnership's loans and receivables comprise cash, other assets and royalties and advances receivable from related parties, which are included in current assets due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.
- ii) **Financial liabilities at amortized cost:** Financial liabilities at amortized cost comprise accounts payable and accrued liabilities and distributions payable to related parties. Accounts payable and accrued liabilities and distributions payable to related parties 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 distributions payable to related parties 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.

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Notes to Financial Statements

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Distributions

Distributions to unitholders are intended to be made monthly in arrears and are recorded when declared by SIR GP Inc. Distributions to unitholders are recorded as a financing activity in the statements of cash flows.

Intangible assets

The SIR Rights are intangible assets with indefinite lives. In accordance with the requirements of International Accounting Standard (IAS) 38, Intangible Assets, the SIR Rights are an indefinite life intangible asset and are not amortized. The Partnership reviews the SIR Rights for impairment annually or whenever events or circumstances indicate that the carrying amount may not be recoverable. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the asset, as determined by management). Impairment is recognized when the recoverable amount of the intangible assets is lower than carrying value.

The Partnership evaluates impairment losses for potential reversals when events or circumstances warrant such consideration.

Income taxes

The Partnership is not required to pay tax on its earnings as its taxable income is allocated to the partners based on the provisions of the Partnership Agreement. The partners will be liable for income taxes, if any; accordingly, no provision for income taxes has been recorded in these financial statements.

Adoption of new accounting standards and amendments

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

IAS 36, Impairment of assets

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

IFRS issued but not yet effective

IFRS 7, Financial Instruments - Disclosure

IFRS 7, Financial Instruments: Disclosure has been amended to require additional 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 has evaluated the amendment and concluded that this amendment will not have a material impact on the financial statements.

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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 financial statements.

IFRS 15, Revenue from Contracts with Customers

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

3 Intangible assets

	Year ended December 31, 2014 \$	Year ended December 31, 2013 \$
SIR Rights - Beginning of period	77,497,638	73,171,784
Adjustment to Royalty Pooled Restaurants	11,436,095	4,325,854
SIR Rights - End of period	<u>88,933,733</u>	<u>77,497,638</u>

In assessing the intangible assets for impairment as at December 31, 2014 and 2013, the Partnership compared the aggregate recoverable amount of the intangible assets to its carrying amounts. The recoverable amount has been determined based on fair value less costs to sell using a four-year discounted cash flow considering a terminal value. The key assumptions included the following:

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	As at December 31, 2014	As at December 31, 2013
Revenue growth rates	2% to 4%	2.3% to 2.5%
Terminal growth rate	2%	2%
Discount rate	14.0% to 15.0%	14.0% to 15.5%

Reasonably possible changes in key assumptions would not cause the recoverable amount to fall below the carrying value.

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 Restaurant added to Royalty Pooled Restaurants on January 1, 2014 (January 1, 2013 - four), 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, 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) (note 4).

The tax basis of the intangible assets as at December 31, 2014 was \$2,690,707 (2013 - \$2,893,233).

4 Partners' interest and subsequent event

The authorized and issued capital of the Partnership consists of the following:

Class	Authorized	As at December 31, 2014		As at December 31, 2013	
		Issued	Amount \$	Issued	Amount \$
Class A LP Units	Unlimited	2,268,900	19,995,178	1,418,900	11,538,229
Class C LP Units	Unlimited	-	-	-	-
Ordinary LP Units	Unlimited	5,356,667	7,633,570	5,356,667	7,633,570
Ordinary GP Units	Unlimited	100	11	100	11
Class A GP Units (note 3)	Unlimited	2,141,344	21,304,983	2,187,951	18,325,837
Class B GP Units	Unlimited	96,184,941	1	96,988,334	1
Class C GP Units	Unlimited	4,000,000	40,000,000	4,000,000	40,000,000
			<u>88,933,743</u>		<u>77,497,648</u>

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Generally, the Partnership units have no voting rights, except in certain specified conditions.

Ordinary LP Units and Ordinary GP Units

The holders of the Ordinary LP Units are entitled to receive a pro rata share of all residual distributions.

The Ordinary GP Units have the right to receive distributions of \$5 per month in aggregate.

SIR GP Inc., a direct subsidiary of the Fund, holds 99 Ordinary GP Units and is the Managing General Partner. SIR holds the remaining Ordinary GP Unit and is the General Partner. The Fund and SIR have an 80% and 20% interest in the common shares of SIR GP Inc., respectively.

SIR Holdings Trust, a direct subsidiary of the Fund, holds all of the issued Ordinary LP Units.

Class A GP Units, Class A LP Units and Class B GP Units

The holders of the Class A GP Units are entitled to receive a pro rata share of all residual distributions and the Class A GP Units are exchangeable into units of the Fund. The holders of the Class A LP Units are entitled to receive a pro rata share of all residual distributions.

Class B GP Units are convertible into Class A GP Units based on a conversion formula defined in the Partnership Agreement for each new restaurant opened in the previous fiscal year. On dissolution of the Partnership, the Class B GP Units are entitled to receive \$10 in aggregate.

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 would 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.

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Notes to Financial Statements

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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 Restaurant added to Royalty Pooled Restaurants on January 1, 2014 (January 1, 2013 - four), 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, 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).

Class A GP Units and Class B GP Units are held by SIR. Class A LP Units are held by SIR Holdings Trust, a direct subsidiary of the Fund.

Class C GP Units

The holders of Class C GP Units are entitled to receive a cumulative preferential monthly cash distribution equal to \$0.063 per Class C GP Unit held, payable on the dates that distributions are paid on the units of the Fund.

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.

Class C LP Units

The Class C LP Units have similar attributes to the Class C GP Units.

Conversion of Class A GP Units

During the year ended December 31, 2014, SIR converted 850,000 (2013 - 895,000) of its Class A GP Units in the Partnership into 850,000 (2013 - 895,000) Fund units and sold these Fund units. In accordance with the exchange agreement, the Fund converted the 850,000 (2013 - 895,000) Class A GP units received into 850,000 (2013 - 895,000) Class A LP Units. These newly issued Class A LP Units have been recognized in the statements of partners' interest at the carrying value of \$8,456,949 (2013 - \$7,496,340).

As the Fund's interest in the Partnership has increased, these transactions were not dilutive to the Fund.

SIR Royalty Limited Partnership

Notes to Financial Statements

December 31, 2014 and 2013

As a result of the conversion of the Class A GP Units into Fund units during the year ended December 31, 2014, SIR's interest in the Partnership decreased to 21.9% as at December 31, 2014.

After the net effect of the adjustments to Royalty Pooled Restaurants on January 1, 2015, SIR's interest in the Partnership increased to 24.6%.

5 Financial instruments

Classification

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

		Carrying and fair value	
		As at	As at
		December 31,	December 31,
		2014	2013
		\$	\$
	Classification		
Cash	Loans and receivables	143,363	534,590
Royalties and advances receivable from related parties	Loans and receivables	4,505,019	4,310,788
Accounts payable and accrued liabilities	Financial liabilities at amortized cost	182,122	245,161
Distributions payable to related parties	Financial liabilities at amortized cost	4,482,367	4,615,133

Carrying and fair value

Cash, royalties and advances receivable from related parties, accounts payable and accrued liabilities and distributions 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.

Objectives and policy relating to financial risk management

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

SIR Royalty Limited Partnership

Notes to Financial Statements

December 31, 2014 and 2013

Credit risk

The Partnership is exposed to credit risk in its cash and royalties and advances receivable from related parties. The maximum exposure to credit risk is the full carrying value of the financial instruments. The Partnership minimizes the credit risk of cash by depositing funds with reputable financial institutions and minimizes the credit risk of its royalties and advances 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, 2014, the royalties and advances receivable from related parties are not past due.

SIR has certain restrictions relating to its bank financing, which could affect payments to the Fund and the Partnership if a default or an event of default were to occur. Such payments could be suspended under the terms of the Amended and Restated Subordination and Postponement Agreement (note 8).

Liquidity risk

Liquidity risk is the risk that the Partnership will not be able to meet its financial obligations as they fall due and meet expected distributions to the Fund and SIR. The Partnership currently settles these obligations out of cash. The ability to do this relies on the Partnership collecting the Royalty from SIR. Both SIR and the Partnership prepare budgets and forecasts to evaluate their ability to meet future cash obligations.

6 Related party balances and transactions

	As at December 31, 2014 \$	As at December 31, 2013 \$
SIR Corp.		
Royalties receivable	1,655,247	1,701,108
Advances receivable	372,770	339,983
Distributions payable	(1,293,293)	(1,548,160)
	<hr/>	<hr/>
Amounts receivable from SIR Corp. - net	734,724	492,931
	<hr/>	<hr/>
SIR Royalty Income Fund and its subsidiaries		
Advances receivable	2,477,002	2,269,697
Distributions payable	(3,189,074)	(3,066,973)
	<hr/>	<hr/>
Amounts payable to SIR Royalty Income Fund and its subsidiaries - net	(712,072)	(797,276)
	<hr/>	<hr/>
Amounts due to related parties - net	22,652	(304,345)
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Advances receivable from 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 Limited Partnership

Notes to Financial Statements

December 31, 2014 and 2013

During the year ended December 31, 2014, the Partnership earned royalty income of \$15,472,634 from SIR (year ended December 31, 2013 - \$14,080,056). The Partnership's royalty income is determined based on 6% of the revenues from certain SIR Restaurants subject to the Licence and Royalty Agreement between the Partnership and SIR. SIR makes 13 Royalty payments based on SIR's 13 four- or five-week period fiscal year and, as such; royalty payments can fluctuate depending on how the four- or five-week periods coincide with the Partnership's calendar fiscal year. 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 the conversion formula defined in the Partnership Agreement (note 4).

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, 2014, the Partnership provided these services to the Fund and the Trust for consideration of \$24,000 (2013 - \$24,000), which was the amount of consideration agreed to by the related parties.

7 Capital management

The Partnership's issued capital consists of Class A LP Units, Ordinary LP Units, Ordinary GP Units, Class A GP Units, Class B GP Units and Class C GP Units. The objectives in managing the capital are to safeguard the Partnership's ability to continue as a going concern and to administer the affairs of the Fund, subject to the terms of the Partnership Agreement and the Licence and Royalty Agreement. There are no restrictions in these agreements with respect to the issuance of additional units or debt. The Partnership has no third party debt or bank lines of credit. The Partnership had no capital expenditures during the year ended December 31, 2014 and, by its nature, is not expected to have significant capital expenditures in the future.

SIR has a credit agreement, which requires the Partnership and the Fund to subordinate and postpone their claims against SIR to the claims of the bank if a default or event of default were to occur (note 8).

8 Economic dependence

The Partnership earns substantially all of its revenues from SIR; accordingly, the Partnership is economically dependent on SIR.

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Notes to Financial Statements

December 31, 2014 and 2013

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, 2014 and also provided for additional contemplated financing (Tranche C Development Loan). All loans under the Credit Agreement, except the Tranche C Development Loan, are due on November 13, 2016. The Term Loan and the Tranche A Development Loan have a variable interest rate equal to the greater of 6.0% per annum and the three-month Canadian dollar bankers' acceptance rate plus 5.75% per annum. The Tranche B Development Loan has a variable rate equal to the greater of 5.9% per annum and the three-month Canadian dollar bankers' acceptance rate plus 5.65% per annum. Interest on the Tranche C Development Loan will be calculated as the greater of 5.55% per annum and the three-month Canadian dollar bankers' acceptance rate plus 5.3% per annum. SIR can also elect to fix the interest rate. The amortization periods for the Term Loan, the Tranche A Development Loan, the Tranche B Development Loan and the Tranche C Development Loan are seven years.

The lender has made available the Tranche A Development Loan and Tranche B Development Loan to SIR only for the purpose of financing: (a) costs incurred in connection with the acquisition of furniture, fixtures, equipment and leasehold improvements relating to new locations; and (b) renovations and capital expenditure costs relating to existing locations. The Tranche A Development Loan and Tranche B Development Loan have been fully drawn and no further advances are permitted.

The Tranche C Development Loan is not to exceed \$6,000,000 and was available to SIR by ways of multiple advances until September 19, 2014, but could be extended to March 19, 2015 at the sole discretion of the lender upon request by SIR. No draws were made on Tranche C and the draw down date has not been extended.

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 Royalty Limited Partnership

Notes to Financial Statements

December 31, 2014 and 2013

9 Net change in non-cash working capital items

Net change in non-cash working capital items comprises:

	Year ended December 31, 2014 \$	Year ended December 31, 2013 \$
Prepaid expenses and other assets	(1,191)	2,035
Amounts due from related parties	13,074	(97,258)
Accounts payable and accrued liabilities	(63,039)	79,236
Amounts due to related parties	(207,305)	(159,557)
	<hr/>	<hr/>
	(258,461)	(175,544)
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