

# **SIR Royalty Limited Partnership**

Financial Statements  
**December 31, 2018 and 2017**

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## *Independent auditor's report*

To the Partners of SIR Royalty Limited Partnership

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### *Our opinion*

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of SIR Royalty Limited Partnership (the Partnership) as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

#### **What we have audited**

The Partnership's financial statements comprise:

- the statements of financial position as at December 31, 2018 and 2017;
- the statements of earnings and comprehensive income for the years then ended;
- the statements of partners' interest for the years then ended;
- the statements of cash flows for the years then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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### *Basis for opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

#### **Independence**

We are independent of the Partnership in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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### *Responsibilities of management and those charged with governance for the financial statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



In preparing the financial statements, management is responsible for assessing the Partnership's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Partnership or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Partnership's financial reporting process.

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### *Auditor's responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Partnership's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Partnership's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Partnership to cease to continue as a going concern.



- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

*PricewaterhouseCoopers LLP*

Chartered Professional Accountants, Licensed Public Accountants

Oakville, Ontario  
March 12, 2019

# SIR Royalty Limited Partnership

## Statements of Financial Position

As at December 31, 2018 and 2017

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	December 31, 2018 \$	December 31, 2017 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash	243,849	267,087
Prepaid expenses and other assets	15,502	15,012
Amounts due from related parties (note 6)	5,484,038	5,028,295
	<u>5,743,389</u>	<u>5,310,394</u>
<b>Intangible assets</b> (note 3)	<u>100,432,371</u>	<u>97,585,372</u>
	<u>106,175,760</u>	<u>102,895,766</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	231,138	205,270
Amounts due to related parties (note 6)	5,512,241	5,105,114
	<u>5,743,379</u>	<u>5,310,384</u>
<b>Partners' Interest</b> (note 4)	<u>100,432,381</u>	<u>97,585,382</u>
	<u>106,175,760</u>	<u>102,895,766</u>

**Subsequent events** (notes 3 and 4)

**Approved by the Directors of SIR GP**

(Signed) Peter Luit  
Peter Luit, Director

(Signed) Peter Fowler  
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, 2018 and 2017

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	Year ended December 31, 2018 \$	Year ended December 31, 2017 \$
<b>Revenues</b>		
Royalty income (notes 1 and 6)	18,018,845	17,278,269
Administration fee (note 6)	24,000	24,000
	<hr/>	<hr/>
	18,042,845	17,302,269
<b>Expenses</b>		
General and administrative	80,340	82,329
	<hr/>	<hr/>
<b>Net earnings and comprehensive income for the year</b>	<hr/> <b>17,962,505</b>	<hr/> <b>17,219,940</b>

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, 2018 and 2017

	Number of units (note 4)	Balance - January 1, 2018 \$	Units issued \$ (note 4)	Net earnings for the year \$	Distributions declared \$	Balance - December 31, 2018 \$
Ordinary LP units	5,356,667	7,633,570	-	6,298,014	(6,298,014)	7,633,570
Class A LP units	3,018,900	27,983,375	-	5,191,705	(5,191,705)	27,983,375
Ordinary GP units	100	11	-	60	(60)	11
Class A GP units	2,016,426	21,968,425	2,846,999	3,381,743	(3,381,743)	24,815,424
Class B GP units	95,559,859	1	-	90,983	(90,983)	1
Class C GP units	4,000,000	40,000,000	-	3,000,000	(3,000,000)	40,000,000
		97,585,382	2,846,999	17,962,505	(17,962,505)	100,432,381

	Number of units (note 4)	Balance - January 1, 2017 \$	Units issued \$ (note 4)	Net earnings for the year \$	Distributions declared \$	Balance - December 31, 2017 \$
Ordinary LP units	5,356,667	7,633,570	-	6,016,992	(6,016,992)	7,633,570
Class A LP units	3,018,900	27,983,375	-	5,034,407	(5,034,407)	27,983,375
Ordinary GP units	100	11	-	60	(60)	11
Class A GP units	1,981,616	21,952,597	15,828	3,168,469	(3,168,469)	21,968,425
Class B GP units	95,594,669	1	-	12	(12)	1
Class C GP units	4,000,000	40,000,000	-	3,000,000	(3,000,000)	40,000,000
		97,569,554	15,828	17,219,940	(17,219,940)	97,585,382

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, 2018 and 2017

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	Year ended December 31, 2018 \$	Year ended December 31, 2017 \$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net earnings for the year	17,962,505	71,219,940
Net change in non-cash working capital items (note 9)	(430,365)	49,399
	<u>17,532,140</u>	<u>17,269,339</u>
<b>Financing activities</b>		
Distributions paid	(17,555,378)	(16,920,002)
	<u>(23,238)</u>	<u>349,337</u>
<b>Change in cash during the year</b>	<b>(23,238)</b>	<b>349,337</b>
<b>Cash (bank overdraft) - Beginning of year</b>	<u>267,087</u>	<u>(82,250)</u>
<b>Cash - End of year</b>	<u>243,849</u>	<u>267,087</u>

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



# **SIR Royalty Limited Partnership**

Notes to the Financial Statements

December 31, 2018 and 2017

(Unaudited)

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## **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 8, 2019.

### **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 as issued by the International Accounting Standards Board (IFRS).

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 the Financial Statements

December 31, 2018 and 2017

(Unaudited)

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### 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 a Make-Whole payment (if applicable) 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 statement 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.

Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. At initial recognition, the Partnership classifies its financial instruments in the following categories, depending on the purpose for which the instruments were acquired:

- i) Amortized cost: A financial asset shall be measured at amortized cost if both of the following conditions are met:
  - (a) The financial asset is held in order to collect contractual cash flows; and
  - (b) The contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- ii) Fair value through profit and loss (FVTPL): For financial assets classified as measured at FVTPL or designated at FVTPL, changes in fair value are recognized in the statement of earnings and comprehensive income as they arise.
- iii) Financial liabilities at amortized cost: Financial liabilities at amortized cost comprise bank overdraft, accounts payable and accrued liabilities and amounts due to related parties. Accounts payable and accrued liabilities and amounts due 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

# **SIR Royalty Limited Partnership**

## Notes to the Financial Statements

December 31, 2018 and 2017

(Unaudited)

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payable and accrued liabilities and amounts due 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.

### **Bank overdraft**

Bank overdraft arises when uncashed cheques issued exceed the cash balances and are an integral part of the Partnership's cash management policies. Accordingly, for the purpose of the statement of cash flows, bank overdraft is included in the movement of cash.

### **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 of disposal 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 the 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**

#### **IFRS 9, Financial Instruments**

In July 2014, the 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. IFRS 9 requires the Partnership to record a provision for the expected credit losses of its financial assets which management has determined is not material to the financial statements.

# SIR Royalty Limited Partnership

## Notes to the Financial Statements

December 31, 2018 and 2017

(Unaudited)

### 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. Management has determined that the adoption of this standard has no impact on the 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. Management has determined that the adoption of this standard has no impact on the financial statements.

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 a Make-Whole payment (if applicable) and is recognized on an accrual basis in accordance with IFRS 15 as this is a sales based royalty.

## 3 Intangible assets

	Year ended December 31, 2018 \$	Year ended December 31, 2017 \$
SIR Rights - Beginning of year	97,585,372	97,569,544
Adjustment to Royalty Pooled Restaurants	2,846,999	15,828
SIR Rights - End of year	<u>100,432,371</u>	<u>97,585,372</u>

In assessing the intangible assets for impairment at December 31, 2018 and 2017, the aggregate recoverable amount of the intangible assets was compared to its carrying amounts. The recoverable amount has been determined using the assistance of a third party valuator 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:

	As at December 31, 2018	As at December 31, 2017
Revenue growth rates	1.0%	2.0%
Terminal growth rate	2.0%	2.0%
Discount rate	11.9% to 13.0%	12.7% to 13.9%

# SIR Royalty Limited Partnership

## Notes to the Financial Statements

December 31, 2018 and 2017

(Unaudited)

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

On January 1, 2019, two (January 1, 2018 - three) 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, 2019 (January 1, 2018 - three), as well as the Second Incremental Adjustment for three new SIR Restaurant added to Royalty Pooled Restaurants on January 1, 2018 (January 1, 2017 - one), SIR converted its Class B GP Units into Class A GP Units based on the formula defined in the Partnership Agreement. In addition, there was a re-conversion of Class A GP Units into Class B GP Units for the permanent closure of one (January 1, 2018 – three) SIR Restaurants during 2018. The net effect of these adjustments to Royalty Pooled Restaurants was that SIR converted 197,824 Class B GP Units into 197,824 Class A GP Units (January 1, 2018 – SIR converted 34,810 Class B GP Units into 34,810 Class A GP Units) on January 1, 2019 at a value of \$3,986,264 (January 1, 2018 - \$2,846,999) (note 4).

The tax basis of the intangible assets as at December 31, 2018 was \$2,012,788 (2017 - \$2,164,289).

#### 4 Partners' interest

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

Class	Authorized	As at December 31, 2018		As at December 31, 2017	
		Issued	Amount \$	Issued	Amount \$
Class A LP Units	Unlimited	3,018,900	27,983,375	3,018,900	27,983,375
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	2,016,426	24,815,424	1,981,616	21,968,425
Class B GP Units (note 3)	Unlimited	95,559,859	1	95,594,669	1
Class C GP Units	Unlimited	4,000,000	40,000,000	4,000,000	40,000,000
			<u>100,432,381</u>		<u>97,585,382</u>

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.

# SIR Royalty Limited Partnership

## Notes to the Financial Statements

December 31, 2018 and 2017

(Unaudited)

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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. On January 1 of each year, SIR will reconvert the Class A GP Units received to Class B GP Units for the permanent closure of a SIR Restaurant.

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, 2019, two (January 1, 2018 - three) 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, 2019 (January 1, 2018 - three), as well as the Second Incremental Adjustment for three new SIR Restaurant added to Royalty Pooled Restaurants on January 1, 2018 (January 1, 2017 - one), SIR converted its Class B GP Units into Class A GP Units based on the formula defined in the Partnership Agreement. In addition, there was a re-conversion of Class A GP Units into Class B GP Units for the permanent closure of one (January 1, 2018 – three) SIR Restaurants during 2018. The net effect of these adjustments to Royalty Pooled Restaurants was that SIR converted 197,824 Class B GP Units into 197,824 Class A GP Units (January 1, 2018 – SIR converted 34,810 Class B GP Units into 34,810 Class A GP Units) on January 1, 2019 at a value of \$3,986,264 (January 1, 2018 - \$2,846,999).

In addition, the revenues of the three (January 1, 2017 – one) new SIR Restaurant added to Royalty Pooled Restaurants on January 1, 2018 exceeded 80% of the Initial Adjustment's estimated revenue (January 1, 2017 –

# **SIR Royalty Limited Partnership**

## Notes to the Financial Statements

December 31, 2018 and 2017

(Unaudited)

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revenue of the one new SIR Restaurant was less than 80% of the Initial Adjustment's estimated revenue) and, as a result, a special conversion distribution of \$90,971 was declared on the Class B GP Units in December 2018 and paid in January 2019 (the distributions of the Class A GP Units were reduced by a special conversion refund of \$52,078 in December 2017 and paid in January 2018). As a result of the permanent closure of one SIR Restaurant during the year, a Make-Whole Payment totalling \$11,986 (year ended December 31, 2017 – \$296,231) was paid by SIR to the Partnership.

Effective January 1, 2019, SIR's residual interest in the Partnership is 20.91%.

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.

# SIR Royalty Limited Partnership

## Notes to the Financial Statements

December 31, 2018 and 2017

(Unaudited)

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### 5 Financial instruments

#### Classification

As at December 31, 2018 and December 31, 2017, the classifications of the financial instruments, as well as their carrying and fair values, are as follows:

		<b>Carrying and fair value</b>	
		<b>As at</b>	<b>As at</b>
		<b>December 31,</b>	<b>December 31,</b>
		<b>2018</b>	<b>2017</b>
		<b>\$</b>	<b>\$</b>
	<b>Classification</b>		
Cash	Financial assets at amortized cost	243,849	267,087
Amounts due from related parties	Financial assets at amortized cost	5,484,038	5,028,295
Accounts payable and accrued liabilities	Financial liabilities at amortized cost	231,138	205,270
Amounts due to related parties	Financial liabilities at amortized cost	5,512,241	5,105,114

#### Carrying and fair value

Cash, amounts due from related parties, accounts payable and accrued liabilities and amounts due to related parties are short-term financial instruments whose fair value approximates the carrying amount given that they will mature in the short term.



# SIR Royalty Limited Partnership

## Notes to the Financial Statements

December 31, 2018 and 2017

(Unaudited)

### 6 Related party balances and transactions

	As at December 31, 2018 \$	As at December 31, 2017 \$
<b>SIR Corp.</b>		
Royalties receivable	2,134,420	2,024,209
Advances receivable	532,053	484,018
	<u>2,666,473</u>	<u>2,508,227</u>
Advances receivable from the SIR Royalty Income Fund and its subsidiaries	<u>2,817,565</u>	<u>2,520,068</u>
Amounts due from related parties	<u>5,484,038</u>	<u>5,028,295</u>
Distributions payable to SIR Corp	1,597,833	1,427,555
Distributions payable to SIR Royalty Income Fund and its subsidiaries	<u>3,914,408</u>	<u>3,677,559</u>
Amounts due to related parties	<u>5,512,241</u>	<u>5,105,114</u>

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.

During the year ended December 31, 2018, the Partnership earned royalty income of \$18,018,845 (year ended December 31, 2017 - \$17,278,269). 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). As a result of the permanent closure of one SIR Restaurant during the year ended December 31, 2018, a Make-Whole Payment totaling \$11,986 (year ended December 31, 2017 - \$296,231) has been recorded in Royalty income in the statement of earnings and comprehensive income for the year ended December 31, 2018.

# SIR Royalty Limited Partnership

## Notes to the Financial Statements

December 31, 2018 and 2017

(Unaudited)

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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, 2018, the Partnership provided these services to the Fund and the Trust for consideration of \$24,000 (year ended December 31, 2017 - \$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, 2018 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.

SIR has a credit agreement (Credit Agreement), as amended on December 8, 2017 and July 6, 2018, with a Schedule I Canadian chartered bank (the Lender). The Credit Agreement between SIR and the Lender provides for a maximum principal amount of \$50,000,000 consisting of a \$20,000,000 revolving term credit facility (Credit Facility 1), and a \$30,000,000 revolving term loan (Credit Facility 2). SIR and the Lender have also entered into a purchase card agreement providing credit of up to an additional \$5,000,000.

Credit Facility 1 is for general corporate and operating purposes, bearing interest at the prime rate plus 2.25% and/or the bankers' acceptance rate plus 3.25%, principal repaid in one bullet repayment on July 6, 2021. A standby fee of 0.65% is charged on the undrawn balance of Credit Facility 1. Provided SIR is in compliance with the Credit Agreement, the principal amount of Credit Facility 1 can be repaid and reborrowed at any time during the term of the Credit Agreement.

Credit Facility 2 bears interest at the prime rate plus 2.25% and/or the bankers' acceptance rate plus 3.25%. Under the Credit Agreement, subsequent advances on Credit Facility 2 may be requested (subject to availability and lender approval), in minimum multiples of \$1,000,000, to finance capital spending on new and renovated restaurants. Each advance under Credit Facility 2 is repayable in equal quarterly instalments based on a seven year amortization, with the remaining outstanding principal balance due on July 6, 2021.

# SIR Royalty Limited Partnership

## Notes to the Financial Statements

December 31, 2018 and 2017

(Unaudited)

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The Credit Agreement is secured by substantially all of the assets of SIR and most of its subsidiaries, which are also guarantors. The Partnership and the Fund have not guaranteed the Credit Agreement. The Credit Agreement qualifies as “permitted indebtedness” within the meaning of the agreements between the Fund, the Partnership and SIR, and as a result the Fund and the Partnership have, as contemplated in the existing agreements, subordinated and postponed their claims against SIR to the claims of the Lender. The terms of the subordination are as contemplated in the previous agreements between the Fund, the Partnership and SIR. This subordination includes a subordination of the Partnership’s rights under the License and Royalty Agreement between the Partnership and SIR whereby the Partnership licenses to SIR the right to use trademarks and related intellectual property in return for royalty payments based on revenues and is effected pursuant to the terms of an Intercreditor Agreement.

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

### 9 Net change in non-cash working capital items

Net change in non-cash working capital items comprises:

	Year ended December 31, 2018 \$	Year ended December 31, 2017 \$
Prepaid expenses and other assets	(490)	82
Amounts due from related parties	(455,743)	33,075
Accounts payable and accrued liabilities	25,868	16,242
	<hr/>	<hr/>
	(430,365)	49,399
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