

SIR Royalty Limited Partnership

Financial Statements
(Unaudited)

**For the three-month and nine-month periods ended
September 30, 2017 and September 30, 2016**

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SIR Royalty Limited Partnership

Statements of Financial Position

(Unaudited)

	September 30, 2017 \$	December 31, 2016 \$
Assets		
Current assets		
Cash	965,200	-
Prepaid expenses and other assets	-	15,094
Amounts due from related parties (note 6)	5,255,968	5,061,370
	<u>6,221,168</u>	<u>5,076,464</u>
Intangible assets (note 3)	97,585,372	97,569,544
	<u>103,806,540</u>	<u>102,646,008</u>
Liabilities		
Current liabilities		
Bank overdraft	-	82,250
Accounts payable and accrued liabilities	230,189	189,028
Amounts due to related parties (note 6)	5,990,969	4,805,176
	<u>6,221,158</u>	<u>5,076,454</u>
Partners' Interest (note 4)	97,585,382	97,569,554
	<u>103,806,540</u>	<u>102,646,008</u>

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

SIR Royalty Limited Partnership
Statements of Earnings and Comprehensive Income
(Unaudited)

	Three-month period ended September 30, 2017 \$	Three-month period ended September 30, 2016 \$	Nine-month period ended September 30, 2017 \$	Nine-month period ended September 30, 2016 \$
Revenues				
Royalty income (notes 1 and 6)	4,473,339	4,349,347	13,039,734	12,630,069
Administration fee (note 6)	6,000	6,000	18,000	18,000
	<u>4,479,339</u>	<u>4,355,347</u>	<u>13,057,734</u>	<u>12,648,069</u>
Expenses				
General and administrative	21,118	20,145	65,716	50,749
	<u>21,118</u>	<u>20,145</u>	<u>65,716</u>	<u>50,749</u>
Net earnings and comprehensive income for the period	<u>4,458,221</u>	<u>4,335,202</u>	<u>12,992,018</u>	<u>12,597,320</u>

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

SIR Royalty Limited Partnership

Statements of Partners' Interest

(Unaudited)

	Number of units	Balance - January 1, 2017 \$ (note 4)	Units issued \$ (note 4)	Units converted \$ (note 4)	Nine-month period ended September 30, 2017		Balance - September 30, 2017 \$
					Net earnings for the period \$	Distributions \$	
Ordinary LP units	5,356,667	7,633,570	-	-	4,534,028	(4,534,028)	7,633,570
Class A LP units	3,018,900	27,983,375	-	-	3,786,883	(3,786,883)	27,983,375
Ordinary GP units	100	11	-	-	45	(45)	11
Class A GP units	1,981,616	21,952,597	15,828	-	2,421,053	(2,421,053)	21,968,425
Class B GP units	95,594,669	1	-	-	9	(9)	1
Class C GP units	4,000,000	40,000,000	-	-	2,250,000	(2,250,000)	40,000,000
		97,569,554	15,828	-	12,992,018	(12,992,018)	97,585,382

	Number of units	Balance - January 1, 2016 \$ (note 4)	Units issued \$ (note 4)	Units converted \$ (note 4)	Nine-month period ended September 30, 2016		Balance - September 30, 2016 \$
					Net earnings for the period \$	Distributions \$	
Ordinary LP units	5,356,667	7,633,570	-	-	4,295,753	(4,295,753)	7,633,570
Class A LP units	3,018,900	19,995,178	-	7,988,197	2,864,537	(2,864,537)	27,983,375
Ordinary GP units	100	11	-	-	45	(45)	11
Class A GP units	2,061,097	25,789,074	4,181,720	(7,988,197)	3,186,976	(3,186,976)	21,952,597
Class B GP units	95,515,188	1	-	-	9	(9)	1
Class C GP units	4,000,000	40,000,000	-	-	2,250,000	(2,250,000)	40,000,000
		93,387,834	4,181,720	-	12,597,320	(12,597,320)	97,569,554

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

SIR Royalty Limited Partnership

Statements of Cash Flows

(Unaudited)

	Three-month period ended September 30, 2017 \$	Three-month period ended September 30, 2016 \$	Nine-month period ended September 30, 2017 \$	Nine-month period ended September 30, 2016 \$
Cash provided by (used in)				
Operating activities				
Net earnings for the period	4,458,221	4,335,202	12,992,018	12,597,320
Net change in non-cash working capital items (note 8)	(215,718)	(622,086)	(138,343)	(273,458)
	4,242,503	3,713,116	12,853,675	12,323,862
Financing activities				
Distributions paid	(3,761,331)	(4,048,385)	(11,806,225)	(12,212,000)
Change in cash during the period	481,172	(335,269)	1,047,450	111,862
Cash (bank overdraft) - Beginning of period	484,028	464,195	(82,250)	17,064
Cash - End of period	965,200	128,926	965,200	128,926

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

SIR Royalty Limited Partnership

Notes to the Financial Statements

September 30, 2017 and September 30, 2016

(Unaudited)

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 November 8, 2017.

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 interim condensed financial statements in accordance with International Financial Reporting Standards (IFRS), applicable to interim financial statements, including International Accounting Standard (IAS) 34, Interim Financial Reporting. The disclosures contained in these interim financial statements do not include all requirements of IFRS for annual financial statements and should be read in conjunction with the 2016 audited annual financial statements and notes thereto. The financial performance of the Partnership 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 Partnership's business.

The accounting policies applied in these interim financial statements are consistent with those followed in the 2016 annual financial statements.

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IFRS issued but not yet effective

IFRS 9, Financial Instruments - Classification and Measurement

In July 2014, the International Accounting Standards Board (IASB), issued the final version of IFRS 9, Financial Instruments, bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. The mandatory effective date of IFRS 9 would be annual periods beginning on or after January 1, 2018 with early adoption permitted. Management is evaluating the standard and has not yet determined the impact on its consolidated financial statements.

IFRS 7, Financial Instruments - Disclosure

IFRS 7, Financial Instruments: Disclosure has been amended to require additional disclosures on transition from IAS 39 to IFRS 9. This amendment is effective on adoption of IFRS 9. Management is evaluating this amendment and has not yet determined the impact on its 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, 2018 and early adoption is permitted. Management is evaluating this standard and has not yet determined the impact on the financial statements.

3 Intangible assets

	Nine-month period ended September 30, 2017 \$	Year ended December 31, 2016 \$
SIR Rights - Beginning of period	97,569,544	93,387,824
Adjustment to Royalty Pooled Restaurants	15,828	4,181,720
	<hr/>	<hr/>
SIR Rights - End of period	97,585,372	97,569,544

SIR Royalty Limited Partnership

Notes to the Financial Statements

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(Unaudited)

On January 1, 2017, one (January 1, 2016 - two) new SIR Restaurant was added to Royalty Pooled Restaurants in accordance with the Partnership Agreement. As consideration for the additional Royalty associated with the addition of one new SIR Restaurant on January 1, 2017 (January 1, 2016 - two), as well as the Second Incremental Adjustment for two new SIR Restaurants added to Royalty Pooled Restaurants on January 1, 2016 (January 1, 2015 - two), 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, 2016 - nil) SIR Restaurant during the prior year. The net effect of these adjustments to Royalty Pooled Restaurants was that SIR exchanged 79,481 Class A GP Units for 79,481 Class B GP Units (January 1, 2016 – SIR converted 322,676 Class B GP Units into 322,676 Class A GP Units) on January 1, 2017 at a value of \$15,828 (January 1, 2016 - \$4,181,720) (note 4).

4 Partners' interest

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

Class	Authorized	As at September 30, 2017		As at December 31, 2016	
		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	1,981,616	21,968,425	2,061,097	21,952,597
Class B GP Units (note 3)	Unlimited	95,594,669	1	95,515,188	1
Class C GP Units	Unlimited	4,000,000	40,000,000	4,000,000	40,000,000
			<u>97,585,382</u>		<u>97,569,554</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.

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.

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(Unaudited)

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, 2017, one (January 1, 2016 - two) new SIR Restaurant was added to Royalty Pooled Restaurants in accordance with the Partnership Agreement. As consideration for the additional Royalty associated with the addition of one new SIR Restaurant on January 1, 2017 (January 1, 2016 - two), as well as the Second Incremental Adjustment for two new SIR Restaurants added to Royalty Pooled Restaurants on January 1, 2016 (January 1, 2015 - two), 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, 2016 - nil) SIR Restaurant during the prior year. The net effect of these adjustments to Royalty Pooled Restaurants was that SIR exchanged 79,481 Class A GP Units for 79,481 Class B GP Units (January 1, 2016 – SIR converted 322,676 Class B GP Units into 322,676 Class A GP Units) on January 1, 2017 at a value of \$15,828 (January 1, 2016 - \$4,181,720) (note 3).

In addition, the revenues of the two new SIR Restaurants added to Royalty Pooled Restaurants on January 1, 2016 were less than 80% of the Initial Adjustment's estimated revenue (January 1, 2016 – revenues of two 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 \$492 in December 2016 and paid in January 2017 (a special conversion distribution of \$108,563 was declared on the Class B GP Units in December 2015 and paid in January 2016).

Effective January 1, 2017, SIR's residual interest in the Partnership is 19.1%.

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(Unaudited)

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.

5 Financial instruments

Classification

As at September 30, 2017 and December 31, 2016, 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
		September 30,	December 31,
		2017	2016
		\$	\$
	Classification		
Cash	Loans and receivables	965,200	-
Royalties and advances receivable from related parties	Loans and receivables	5,255,968	5,061,370
Bank overdraft	Financial liabilities at amortized cost	-	82,250
Accounts payable and accrued liabilities	Financial liabilities at amortized cost	230,189	189,028
Distributions payable to related parties	Financial liabilities at amortized cost	5,990,969	4,805,176

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.

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(Unaudited)

6 Related party balances and transactions

	As at September 30, 2017 \$	As at December 31, 2016 \$
SIR Corp.		
Royalties receivable	1,718,596	1,896,844
Advances receivable	444,849	405,258
	<u>2,163,445</u>	<u>2,302,102</u>
Advances receivable from the SIR Royalty Income Fund and its subsidiaries	<u>3,092,523</u>	<u>2,759,268</u>
Amounts due from related parties	<u>5,255,968</u>	<u>5,061,370</u>
Distributions payable to SIR Corp	1,705,032	1,343,548
Distributions payable to SIR Royalty Income Fund and its subsidiaries	<u>4,285,937</u>	<u>3,461,628</u>
Amounts due to related parties	<u>5,990,969</u>	<u>4,805,176</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 three-month and nine-month periods ended September 30, 2017, the Partnership earned royalty income of \$4,473,339 and \$13,039,734, respectively, from SIR (three-month and nine-month periods ended September 30, 2016 - \$4,349,347 and \$12,630,069, respectively). 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 two SIR Restaurants during the nine-month period ended September 30, 2017, a Make-Whole

SIR Royalty Limited Partnership

Notes to the Financial Statements

September 30, 2017 and September 30, 2016

(Unaudited)

Payment of \$229,362 (nine-month period ended September 30, 2016 – nil) has been recorded in Royalty income in the statement of earnings and comprehensive income for the nine-month period ended September 30, 2017.

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 three-month and nine-month periods ended September 30, 2017, the Partnership provided these services to the Fund and the Trust for consideration of \$6,000 and \$18,000, respectively (three-month and nine-month periods ended September 30, 2016 - \$6,000 and \$18,000, respectively), which was the amount of consideration agreed to by the related parties.

7 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) with a Schedule I Canadian chartered bank (the Lender). The Credit Agreement between SIR and the Lender provides for a three-year facility for a maximum principal amount of \$30,000,000 consisting of a \$20,000,000 revolving term credit facility (Credit Facility 1), and a \$10,000,000 revolving term loan (Credit Facility 2). SIR and the Lender have also entered into a purchase card agreement providing credit of up to an additional \$5,000,000.

Credit Facility 1 is for general corporate and operating purposes, bearing interest at the prime rate plus 2.25% and/or the bankers' acceptance rate plus 3.25%, principal repaid in one bullet repayment on July 6, 2018. A standby fee of 0.65% is charged on the undrawn balance of Credit Facility 1. 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 agreement. Credit Facility 2 bears interest at the prime rate plus 2.25% and/or the bankers' acceptance rate plus 3.25%. The initial advance on Credit Facility 2 is repayable in quarterly instalments of \$500,000, with the remaining outstanding principal balance due on July 6, 2018. Subsequent advances on Credit Facility 2 may be requested (subject to availability and lender approval), in minimum multiples of \$1,000,000, annually on the anniversary of the closing date of the Credit Agreement (July 6), to finance capital spending on new and renovated restaurants. Each subsequent advance is repayable in equal quarterly instalments based on a five year amortization, with the remaining outstanding principal balance due on July 6, 2018. During 2016, the Lender approved SIR's request for an advance of \$2,000,000 on Credit Facility 2. As of September 30, 2017, SIR has not yet drawn on this advance.

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

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pursuant to the terms of an Intercreditor Agreement which replaced the previous Amended and Restated Subordination and Postponement Agreement.

The Credit Agreement matures on July 6, 2018 and accordingly has been classified as a current liability in SIR's consolidated statement of financial position. SIR is currently in negotiations with its Lender to extend the maturity of the Credit Agreement, under substantially the same terms as its current agreement, for an additional two years. While SIR expects to be successful in negotiating an extension to the Credit Agreement under acceptable terms and conditions, there can be no assurances of this occurrence.

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.

8 Net change in non-cash working capital items

Net change in non-cash working capital items comprises:

	Three-month period ended September 30, 2017 \$	Three-month period ended September 30, 2016 \$	Nine-month period ended September 30, 2017 \$	Nine-month period ended September 30, 2016 \$
Prepaid expenses and other assets	5,030	4,373	15,094	13,119
Amounts due from related parties	(233,383)	(627,247)	(194,598)	(308,937)
Accounts payable and accrued liabilities	12,635	788	41,161	22,360
	<u>(215,718)</u>	<u>(622,086)</u>	<u>(138,343)</u>	<u>(273,458)</u>