SIR Royalty Limited Partnership

Condensed Interim Financial Statements
(Unaudited)
For the three-month and six-month periods ended June 30, 2019 and June 30, 2018

SIR Royalty Limited Partnership

Condensed Interim Statements of Financial Position

(Unaudited)

	June 30, 2019 $	December 31, 2018 $
Assets		
Current assets		
Cash	43,273	243,849
Prepaid expenses and other assets	5,167	15,502
Amounts due from related parties (note 6)	5,448,886	5,484,038
	5,497,326	5,743,389
Intangible assets (note 3)	104,418,635	100,432,371
	109,915,961	106,175,760
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	222,385	231,138
Amounts due to related parties (note 6)	5,274,931	5,512,241
	5,497,316	5,743,379
Partners' Interest (note 4)	104,418,645	100,432,381
	109,915,961	106,175,760

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

SIR Royalty Limited Partnership

Condensed Interim Statements of Earnings and Comprehensive Income

(Unaudited)

	Three-month period ended June 30, 2019 $	Three-month period ended June 30, 2018 $	Six-month period ended June 30, 2019 $	Six-month period ended June 30, 2018 $
Revenues				
Royalty income (notes 1 and 6)	4,662,468	4,745,589	8,886,075	8,874,057
Administration fee (note 6)	6,000	6,000	12,000	12,000
	4,668,468	4,751,589	8,898,075	8,886,057
Expenses				
General and administrative	21,942	20,082	45,045	41,478
Net earnings and comprehensive income for the period	4,646,526	4,731,507	8,853,030	8,844,579

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

SIR Royalty Limited Partnership

Condensed Interim Statements of Partners' Interest

(Unaudited)

For the six-month periods ended June 30, 2019 and 2018

	Number of units (note 4)	Balance - January 1, 2019 $	Units issued $ (note 4)	Net earnings for the period $	Distributions declared $	Balance – June 30, 2019 $
Ordinary LP units	5,356,667	7,633,570	-	3,030,778	(3,030,778)	7,633,570
Class A LP units	3,018,900	27,983,375	-	2,523,774	(2,523,774)	27,983,375
Ordinary GP units	100	11	-	30	(30)	11
Class A GP units	2,214,250	24,815,424	3,986,264	1,798,442	(1,798,442)	28,801,688
Class B GP units	95,362,035	1	-	6	(6)	1
Class C GP units	4,000,000	40,000,000	-	1,500,000	(1,500,000)	40,000,000
		100,432,381	3,986,264	8,853,030	(8,853,030)	104,418,645

	Number of units (note 4)	Balance - January 1, 2018 $	Units issued $ (note 4)	Net earnings for the period $	Distributions declared $	Balance – June 30, 2018 $
Ordinary LP units	5,356,667	7,633,570	-	3,104,431	(3,104,431)	7,633,570
Class A LP units	3,018,900	27,983,375	-	2,569,362	(2,569,362)	27,983,375
Ordinary GP units	100	11	-	30	(30)	11
Class A GP units	2,016,426	21,968,425	2,846,999	1,670,750	(1,670,750)	24,815,424
Class B GP units	95,559,859	1	-	6	(6)	1
Class C GP units	4,000,000	40,000,000	-	1,500,000	(1,500,000)	40,000,000
		97,585,382	2,846,999	8,844,579	(8,844,579)	100,432,381

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

SIR Royalty Limited Partnership

Condensed Interim Statements of Cash Flows

(Unaudited)

	Six-month period ended June 30, 2019 $	Six-month period ended June 30, 2018 $
Cash provided by (used in)		
Operating activities		
Net earnings for the period	8,853,030	8,844,579
Net change in non-cash working capital items (note 8)	36,734	(62,799)
	8,889,764	8,781,780
Financing activities		
Distributions paid	(9,090,340)	(8,269,609)
Change in cash during the period	(200,576)	512,171
Cash - Beginning of period	243,849	267,087
Cash - End of period	43,273	779,258

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

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 condensed interim financial statements were approved by the Board of Directors of SIR GP Inc. on August 9, 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 condensed interim 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 condensed interim financial statements do not include all requirements of IFRS for annual financial statements and should be read in conjunction with the 2018 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 condensed interim financial statements are consistent with those followed in the 2018 audited annual financial statements.

3 Intangible assets

	Six-month period ended June 30, 2019 $	Year ended December 31, 2018 $
SIR Rights - Beginning of year	100,432,371	97,585,372
Adjustment to Royalty Pooled Restaurants	3,986,264	2,846,999
SIR Rights - End of year	104,418,635	100,432,371

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 Restaurants 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).

4 Partners' interest

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

		As at June 30, 2019		As at December 31, 2018	
Class	Authorized	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	2,214,250	28,801,688	2,016,426	24,815,424
Class B GP Units (note 3)	Unlimited	95,362,035	1	95,559,859	1
Class C GP Units	Unlimited	4,000,000	40,000,000	4,000,000	40,000,000
			104,418,645		100,432,381

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. 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 Restaurants 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 – 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).

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.

5 Financial instruments

Classification

As at June 30, 2019 and December 31, 2018, the classifications of the financial instruments, as well as their carrying and fair values, are as follows:

		Carrying and fair value	
	Classification	**As at June 30, 2019 $**	**As at December 31, 2018 $**
Cash	Financial assets at amortized cost	43,273	243,849
Amounts due from related parties	Financial assets at amortized cost	5,448,886	5,484,038
Accounts payable and accrued liabilities	Financial liabilities at amortized cost	222,385	231,138
Amounts due to related parties	Financial liabilities at amortized cost	5,274,931	5,512,241

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.

6 Related party balances and transactions

	As at June 30, 2019 $	As at December 31, 2018 $
SIR Corp.		
Royalties receivable	1,655,795	2,134,420
Advances receivable	544,219	532,053
	2,200,014	2,666,473
Advances receivable from the SIR Royalty Income Fund and its subsidiaries	3,248,872	2,817,565
Amounts due from related parties	5,448,886	5,484,038
Distributions payable to SIR Corp	1,487,153	1,597,833
Distributions payable to SIR Royalty Income Fund and its subsidiaries	3,787,778	3,914,408
Amounts due to related parties	5,274,931	5,512,241

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 six-month periods ended June 30, 2019, the Partnership earned royalty income of $4,662,468 and $8,886,075, respectively, from SIR (three-month and six-month periods ended June 30, 2018 - $4,745,589 and $8,874,057, 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 one SIR Restaurant during the six-month period ended June 30, 2019, a Make-Whole Payment of $202,618 (six-month period ended June 30, 2018 - $nil) has been recorded in Royalty income in the condensed interim statement of earnings and comprehensive income for the six-month period ended June 30, 2019.

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 six-month periods ended June 30, 2019, the Partnership provided these services to the Fund and the Trust for consideration of $6,000 and $12,000, respectively (three-month and six-month periods ended June 30, 2018 - $6,000 and $12,000, 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), 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.

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 in which they are compliant.

8 Net change in non-cash working capital items

Net change in non-cash working capital items comprises:

	Six-month period ended June 30, 2019 $	Six-month period ended June 30, 2018 $
Prepaid expenses and other assets	10,335	10,008
Amounts due from related parties	35,152	(96,828)
Accounts payable and accrued liabilities	(8,753)	24,021
	36,734	(62,799)