SIR Royalty Limited Partnership

Financial Statements
December 31, 2012 and 2011

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March 28, 2013

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 statements of financial position as at December 31, 2012 and 2011 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, 2012 and 2011 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

Toronto, Ontario

SIR Royalty Limited Partnership

Statements of Financial Position

As at December 31, 2012 and 2011

	2012 $	2011 $
Assets		
Current assets		
Cash	254,859	230,347
Prepaid expenses and other assets	16,961	17,249
Amounts due from related parties (note 6)	751,845	874,862
	1,023,665	1,122,458
Intangible assets (note 3)	73,171,784	71,265,393
	74,195,449	72,387,851
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	165,925	190,569
Amounts due to related parties (note 6)	857,730	931,879
	1,023,655	1,122,448
Partners' Interest (note 4)	73,171,794	71,265,403
	74,195,449	72,387,851

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, 2012 and 2011

	2012 $	2011 $
Revenues		
Royalty income (notes 1 and 6)	13,287,553	12,551,210
Administration fee (note 6)	24,000	24,000
Other income	15,500	12,738
	13,327,053	12,587,948
Expenses		
General and administrative	78,132	78,935
Net earnings and comprehensive income for the year	13,248,921	12,509,013

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, 2012 and 2011

	Number of units (note 4)	Balance - January 1, 2012 $	Units issued $ (note 4)	Units converted $ (note 4)	Net earnings for the year $	Distributions $	Balance - December 31, 2012 $
Ordinary LP units	5,356,667	7,633,570	-	-	5,314,541	(5,314,541)	7,633,570
Class A LP units	523,900	-	-	4,041,889	101,965	(101,965)	4,041,889
Ordinary GP units	100	11	-		60	(60)	11
Class A GP units	2,786,492	23,631,821	1,906,391	(4,041,889)	4,809,636	(4,809,636)	21,496,323
Class B GP units	97,284,793	1	-	-	22,719	(22,719)	1
Class C GP units	4,000,000	40,000,000	-	-	3,000,000	(3,000,000)	40,000,000
		71,265,403	1,906,391	-	13,248,921	(13,248,921)	73,171,794

	Number of units (note 4)	Balance - January 1, 2011 $	Units issued $ (note 4)	Units converted $ (note 4)	Net earnings for the year $	Distributions $	Balance - December 31, 2011 $
Ordinary LP units	5,356,667	7,633,570	-	-	5,034,326	(5,034,326)	7,633,570
Ordinary GP units	100	11	-	-	60	(60)	11
Class A GP units	3,106,514	22,211,909	1,419,912	-	4,440,948	(4,440,948)	23,631,821
Class B GP units	97,488,671	1	-	-	33,679	(33,679)	1
Class C GP units	4,000,000	40,000,000	-	-	3,000,000	(3,000,000)	40,000,000
		69,845,491	1,419,912	-	12,509,013	(12,509,013)	71,265,403

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, 2012 and 2011

	2012 $	2011 $
Cash provided by (used in)		
Operating activities		
Net earnings and comprehensive income for the year	13,248,921	12,509,013
Net change in non-cash working capital items (note 9)	(325,287)	(533,527)
	12,923,634	11,975,486
Financing activities		
Distributions paid	(12,899,122)	(12,163,425)
Change in cash	24,512	(187,939)
Cash - Beginning of year	230,347	418,286
Cash - End of year	254,859	230,347

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.

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 28, 2013.

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 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.

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.

Cash

Cash is defined as cash and short-term investments with original maturities of three months or less.

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 amounts due 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 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 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.

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.

IFRS issued but not yet effective

IFRS 9, Financial Instruments: Classification and Measurement (IFRS 9), is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is measured using amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest; otherwise, it is at fair value through profit or loss. IFRS 9 is effective for years beginning on or after January 1, 2015. Management is evaluating the standard and has not yet determined the impact on its financial statements.

In May 2011, the International Accounting Standards Board issued the following standards, which have not yet been adopted by the Partnership: IFRS 10, Consolidated Financial Statements; IFRS 11, Joint Arrangements; IFRS 12, Disclosure of Interests in Other Entities; IAS 27, Separate Financial Statements; IFRS 13, Fair Value Measurement; and amended IAS 28, Investments in Associates and Joint Ventures. Each of the new standards is effective for annual periods beginning on or after January 1, 2013.

The following is a brief summary of the new standards:

IFRS 10, Consolidated Financial Statements

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces Standing Interpretations Committee (SIC) 12, Consolidation: Special Purpose Entities, and parts of IAS 27. Management has determined that the adoption of this standard has no impact on the financial statements.

IFRS 11, Joint Arrangements

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenues and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity-account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC 13, Jointly Controlled Entities: Non-monetary Contributions by Venturers. Management has determined that the adoption of this standard has no impact on the financial statements.

IFRS 12, Disclosure of Interests in Other Entities

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off-balance sheet vehicles. The standard carries forward existing disclosures and introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. Management has determined that the adoption of this standard has no impact on the financial statements.

IFRS 13, Fair Value Measurement

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and, in many cases, does not reflect a clear measurement basis or consistent disclosures. Management has determined that the adoption of this standard has no impact on the financial statements.

Amendments to other standards

IAS 1, Presentation of Financial Statements, has been amended to change the disclosure of items presented in other comprehensive income, including a requirement to separate items presented in other comprehensive income into two groups based on whether or not items may be recycled to profit or loss in the future. The standard is effective for years beginning on or after July 1, 2012. Management has determined that the adoption of this standard has no impact on its financial statements.

3 Intangible assets

	2012 $	2011 $
SIR Rights - Beginning of year	71,265,393	69,845,481
Adjustment to Royalty Pooled Restaurants	1,906,391	1,419,912
SIR Rights - End of year	73,171,784	71,265,393

In assessing the intangible assets for impairment as at December 31, 2012 and 2011, 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 observable market inputs and outputs and a terminal value. The key assumptions included the following:

	2012	2011
Revenue growth rates	2.5% to 3.0%	3% to 5%
Terminal growth rate	3%	3%
Discount rate	14.0% to 15.5%	13.5% to 15%

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

On January 1, 2013, four (January 1, 2012 - one) new SIR Restaurants were added to Royalty Pooled Restaurants in accordance with the Partnership Agreement. As consideration for the additional Royalty associated with the addition of four new SIR Restaurants on January 1, 2013 (January 1, 2012 - one), as well as the Second Incremental Adjustment for one new SIR Restaurant added to Royalty Pooled Restaurants on January 1, 2012 (January 1, 2011 - one), SIR converted its Class B GP Units in to Class A GP Units based on the formula defined in the Partnership Agreement. The number of Class B GP Units that SIR converted into Class A GP Units was reduced by an adjustment for the permanent closure of two (January 1, 2012 - nil) SIR Restaurants during the prior year. The net effect of these adjustments to Royalty Pooled Restaurants was that SIR converted 296,459 (January 1, 2012 - 203,878) Class B GP Units into 296,459 (January 1, 2012 - 203,878) Class A GP Units on January 1, 2013 at an estimated fair value of $4,325,854 (January 1, 2012 - $1,906,391) (note 4).

The tax basis of the intangible assets as at December 31, 2012 was $3,111,003 (2011 - $3,345,164).

4 Partners' interest and subsequent event

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

		2012		2011	
Class of unit	Authorized	Issued	Amount $	Issued	Amount $
Class A LP units	Unlimited	523,900	4,041,889	-	-
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	2,786,492	21,496,323	3,106,514	23,631,821
Class B GP units	Unlimited	97,284,793	1	97,488,671	1
Class C GP units	Unlimited	4,000,000	40,000,000	4,000,000	40,000,000
			73,171,794		71,265,403

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 units 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 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. In November 2012, SIR converted 523,900 Class A GP Units into 523,900 Fund units and sold these Fund units. In accordance with the exchange agreement between the Fund, the Partnership, SIR Holdings Trust (the Trust) and SIR, the Fund exchanged the Class A GP Units received from SIR to Class A LP Units. Accordingly, the Partnership issued 523,900 Class A LP Units and cancelled 523,900 Class A GP Units. This conversion of the Class A GP Units to Class A LP Units has been recognized in the statements of partners' interest at the carrying value of $4,041,889.

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.

On January 1, 2013, four (January 1, 2012 - one) new SIR Restaurants were added to Royalty Pooled Restaurants in accordance with the Partnership Agreement. As consideration for the additional Royalty associated with the addition of four new SIR Restaurants on January 1, 2013 (January 1, 2012 - one), as well as the Second Incremental Adjustment for one new SIR Restaurant added to Royalty Pooled Restaurants on January 1, 2012 (January 1, 2011 - one), SIR converted its Class B GP Units into 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 two (January 1, 2012 - nil) SIR Restaurants during the prior year. The net effect of these adjustments to Royalty Pooled Restaurants was that SIR converted 296,459 (January 1, 2012 - 203,878) Class B GP Units into 296,459 (January 1, 2012 - 203,878) Class A GP Units on January 1, 2013 at an estimated fair value of $4,325,854 (January 1, 2012 - $1,906,391).

In December 2012, an additional distribution of $22,707 (2011 - $33,667) was declared and paid in cash in January 2013 (January 2012).

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

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 the SIR loan as consideration for the acquisition of the Class C GP Units.

Class A LP Units

In November 2012, SIR converted 523,900 Class A GP Units into 523,900 Fund units and sold these Fund units. In accordance with the exchange agreement, the Fund converted the 523,900 Class A GP Units received into 523,900 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 $4,041,889. As the Fund's interest in the Partnership has increased, this transaction is not dilutive to Fund unitholders. The holders of the Class A LP Units are entitled to receive a pro rata share of all residual distributions of the Partnership.

Subsequent to December 31, 2012, the Fund filed a short-form prospectus to qualify the sale of 895,000 Fund units by SIR. On March 14, 2013, SIR converted 895,000 of its Class A GP Units in the Partnership into 895,000 Fund units and sold these Fund units for gross proceeds of $11,008,500. As a result of the conversion of the Class A GP Units into Fund units, SIR's interest in the Partnership decreased to 24.4%. The 895,000 Class A GP Units received by the Fund in exchange for the Fund units issued were converted to 895,000 Class A LP Units. Accordingly, this transaction does not have a dilutive effect on the Fund unitholders.

Class C LP Units

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

5 Financial instruments

Classification

As at December 31, 2012 and 2011, the classifications of the financial instruments, as well as their carrying and fair values, are as follows:

		Carrying and fair value	
	Classification	2012 $	2011 $
Cash	Loans and receivables	254,859	230,347
Royalties and advances receivable from related parties	Loans and receivables	4,053,973	3,753,042
Accounts payable and accrued liabilities	Financial liabilities at amortized cost	165,925	190,569
Distributions payable to related parties	Financial liabilities at amortized cost	4,159,858	3,810,059

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:

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, 2012, 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 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

	2012 $	2011 $
SIR Corp.		
Royalties receivable	1,649,912	1,536,869
Advances receivable	293,921	266,329
Distributions payable	(1,191,988)	(928,336)
Amounts receivable from SIR Corp.	751,845	874,862
SIR Royalty Income Fund and its subsidiaries		
Advances receivable	2,110,140	1,949,844
Distributions payable	(2,967,870)	(2,881,723)
Amounts payable to SIR Royalty Income Fund and its subsidiaries - net	(857,730)	(931,879)
Amounts due to related parties - net	(105,885)	(57,017)

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, 2012, the Partnership earned Royalty income of $13,287,553 from SIR (2011 - $12,551,210). 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, timing of these 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, 2012, the Partnership provided these services to the Fund and the Trust for consideration of $24,000 (2011 - $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, 2012 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 facility (the Amended Credit Agreement) that consists of a term loan (the Term Loan) and a development loan (the Development Loan). Both the Term Loan and the Development Loan are due on November 14, 2016 and 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, which on February 10, 2013 totalled 6.94%. SIR can also elect to fix the interest rate. The amortization period for the Term Loan and the Development Loan are ten years and seven years, respectively.

The lender has made available the 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 Development Loan has been fully drawn and no further advances are permitted.

The Amended 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 a Subordination and Postponement Agreement, absent a default or event of default under the Amended 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 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).

9 Net change in non-cash working capital items

Net change in non-cash working capital items comprises:

	2012 $	2011 $
Prepaid expenses and other assets	288	(2,033)
Amounts due from related parties	(140,635)	(220,112)
Accounts payable and accrued liabilities	(24,644)	(30,677)
Amounts due to related parties	(160,296)	(280,705)
	(325,287)	(533,527)