SIR Royalty Limited Partnership

Financial Statements
(Unaudited)
March 31, 2013 and March 31, 2012

SIR Royalty Limited Partnership

Statements of Financial Position
(Unaudited)

	March 31, 2013 $	December 31, 2012 $
Assets		
Current assets		
Cash and cash equivalents	1,240,227	254,859
Prepaid expenses and other assets	11,974	16,961
Amounts due from related parties (note 5)	-	751,845
	1,252,201	1,023,665
Intangible assets (note 3)	77,497,638	73,171,784
	78,749,839	74,195,449
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	333,366	165,925
Amounts due to related parties (note 5)	918,825	857,730
	1,252,191	1,023,655
Partners' Interest (note 4)	77,497,648	73,171,794
	78,749,839	74,195,449

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 March 31, 2013 $	Three-month period ended March 31, 2012 $
Revenues		
Royalty income (notes 1 and 5)	3,281,914	3,186,852
Administration fee (note 5)	6,000	6,000
Other income	3,479	4,494
	3,291,393	3,197,346
Expenses		
General and administrative	27,576	11,682
Net earnings and comprehensive income for the period	3,263,817	3,185,664

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

SIR Royalty Limited Partnership

Statements of Partners' Interest
(Unaudited)

Three-month period ended March 31, 2013

	Number of units (note 4)	**Balance January 1, 2013 $**	**Units issued during the period** (notes 3 and 4) **$**	**Units converted during the period** (notes 3 and 4) **$**	**Net earnings for the period $**	**Distributions $**	**Balance March 31, 2013 $**
Ordinary LP Units	5,356,667	7,633,570	-	-	1,236,309	(1,236,309)	7,633,570
Class A LP Units	1,418,900	4,041,889	-	7,496,340	248,244	(248,244)	11,538,229
Ordinary GP Units	100	11	-	-	15	(15)	11
Class A GP Units	2,187,951	21,496,323	4,325,854	(7,496,340)	1,029,246	(1,029,246)	18,325,837
Class B GP Units	96,988,334	1	-	-	3	(3)	1
Class C GP Units	4,000,000	40,000,000	-	-	750,000	(750,000)	40,000,000
		73,171,794	4,325,854	-	3,263,817	(3,263,817)	77,497,648

Three-month period ended March 31, 2012

	Number of units (note 4)	**Balance January 1, 2012 $**	**Issued during the period** (notes 3 and 4) **$**	**Units converted during the period** (notes 3 and 4) **$**	**Net earnings for the period $**	**Distributions $**	**Balance March 31, 2012 $**
Ordinary LP Units	5,356,667	7,633,570	-	-	1,251,551	(1,251,551)	7,633,570
Ordinary GP Units	100	11	-	-	15	(15)	11
Class A GP Units	3,310,392	23,631,821	1,906,391	-	1,184,095	(1,184,095)	25,538,212
Class B GP Units	97,284,793	1	-	-	3	(3)	1
Class C GP Units	4,000,000	40,000,000	-	-	750,000	(750,000)	40,000,000
		71,265,403	1,906,391	-	3,185,664	(3,185,664)	73,171,794

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

SIR Royalty Limited Partnership

Statements of Cash Flows
(Unaudited)

	Three-month period ended March 31, 2013 $	Three-month period ended March 31, 2012 $
Cash provided by (used in)		
Operating activities		
Net earnings for the period	3,263,817	3,185,664
Net change in non-cash working capital items (note 7)	899,978	667,379
	4,163,795	3,853,043
Financing activities		
Distributions paid	(3,178,427)	(3,000,361)
Change in cash and cash equivalents	985,368	852,682
Cash and cash equivalents - Beginning of period	254,859	230,347
Cash and cash equivalents - End of period	1,240,227	1,083,029

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 May 9, 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 Basis of presentation and summary of significant accounting policies

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 unaudited interim financial statements do not include all requirements of IFRS for annual financial statements and should be read in conjunction with the 2012 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 unaudited interim financial statements are consistent with those followed in the 2012 audited annual financial statements except for the adoption of the following new pronouncements.

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

IFRS issued but not yet effective

IFRS 9 Financial instruments - classification and measurement

IFRS 9, Financial Instruments, 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.

3 Intangible assets

	Three-month period ended March 31, 2013 $	Year ended December 31, 2012 $
SIR Rights - Beginning of period	73,171,784	71,265,393
Adjustment to Royalty Pooled Restaurants	4,325,854	1,906,391
SIR Rights - End of period	77,497,638	73,171,784

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).

4 Partners' interest

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

		March 31, 2013		December 31, 2012	
Class	**Authorized**	**Issued**	**Amount $**	**Issued**	**Amount $**
Class A LP Units	Unlimited	1,418,900	11,538,229	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	2,187,951	18,325,837	2,786,492	21,496,323
Class B GP Units	Unlimited	96,988,334	1	97,284,793	1
Class C GP Units	Unlimited	4,000,000	40,000,000	4,000,000	40,000,000
			77,497,648		73,171,794

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 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 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 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).

In December 2012, an additional distribution of $22,707 (December 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 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.

Conversion of Class A GP Units

In November 2012, SIR converted 523,900 of its Class A GP Units in the Partnership 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.

On March 14, 2013, SIR converted 895,000 of Class A GP Units in the Partnership into 895,000 Fund units and sold these Fund units for gross proceeds of $11,008,500. In accordance with the exchange agreement, the Fund converted the 895,000 Class A GP Units received into 895,000 Class A LP Units. These newly issued Class A LP Units have been recognized in the statements of partners' interest at the carrying value of $7,496,340.

As the Fund's interest in the Partnership has increased in both of these transactions, these transactions are not dilutive to Fund unitholders.

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% as at March 31, 2013.

5 Related party balances and transactions

	March 31, 2013 $	December 31, 2012 $
SIR Corp.		
Royalties receivable	792,189	1,649,912
Advances receivable	298,159	293,921
Distributions payable	(1,267,214)	(1,191,988)
Amounts due from (to) SIR Corp.	(176,866)	751,845
SIR Royalty Income Fund and its subsidiaries		
Advances receivable	2,236,075	2,110,140
Distributions payable	(2,978,034)	(2,967,870)
Amounts payable to SIR Royalty Income Fund and its subsidiaries - net	(741,959)	(857,730)
Amounts due to related parties - net	(918,825)	(105,885)

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 period ended March 31, 2013, the Partnership earned Royalty income of $3,281,914 from SIR (three-month period ended March 31, 2012 - $3,186,852). 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 three-month period ended March 31, 2013, the Partnership provided these services to the Fund and the Trust for consideration of $6,000 (three-month period ended March 31, 2012 - $6,000), which was the amount of consideration agreed to by the related parties.

6 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 Development Loan are ten years and seven years, respectively.

The Partnership and the Fund did not guarantee the Amended Credit Agreement.

7 Net change in non-cash working capital items

Net change in non-cash working capital items comprises:

	Three-month period ended March 31, 2013 $	Three-month period ended March 31, 2012 $
Prepaid expenses and other assets	4,987	5,105
Amounts due from related parties	853,485	751,212
Accounts payable and accrued liabilities	167,441	135,002
Amounts due to related parties	(125,935)	(223,940)
	899,978	667,379

8 Financial instruments

Classification

As at March 31, 2013 and December 31, 2012, the classifications of the financial instruments, as well as their carrying and fair values, are as follows:

		Carrying and fair value	
	Classification	March 31, 2013 $	December 31, 2012 $
Cash	Loans and receivables	1,240,227	254,859
Royalties and advances receivable from related parties	Loans and receivables	3,326,423	4,053,973
Accounts payable and accrued liabilities	Other financial liabilities	333,366	165,925
Distributions payable to related parties	Other financial liabilities	4,245,248	4,159,858

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.