SIR Royalty Limited Partnership

Financial Statements
December 31, 2011, December 31, 2010 and January 1, 2010

March 20, 2012

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 balance sheets as at December 31, 2011, December 31, 2010 and January 1, 2010 and the statements of earnings and comprehensive income, partners' interest and cash flows for the years ended December 31, 2011 and December 31, 2010, 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 audits 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.

PricewaterhouseCoopers LLP, Chartered Accountants
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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, 2011, December 31, 2010 and January 1, 2010 and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

SIR Royalty Limited Partnership
Balance Sheets

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Assets			
Current assets			
Cash	230,347	418,286	823,813
Prepaid expenses and other assets	17,249	15,216	11,360
Amounts due from related parties (note 6)	874,862	858,153	338,289
	1,122,458	1,291,655	1,173,462
Intangible assets (note 3)	71,265,393	69,845,481	68,608,860
	72,387,851	71,137,136	69,782,322
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	190,569	221,246	155,125
Amounts due to related parties (note 6)	931,879	1,070,399	1,018,327
	1,122,448	1,291,645	1,173,452
Partners' Interest (note 4)	71,265,403	69,845,491	68,608,870
	72,387,851	71,137,136	69,782,322

Subsequent event (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, 2011 and December 31, 2010

	2011 $	2010 $
Revenues		
Royalty income (notes 1 and 6)	12,551,210	11,978,796
Administration fee (note 6)	24,000	24,000
Other income	12,738	3,905
	12,587,948	12,006,701
Expenses		
General and administrative	78,935	115,415
Net earnings and comprehensive income for the year	12,509,013	11,891,286

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, 2011 and December 31, 2010

	Number of units (note 4)	Balance - January 1, 2011 $	Units issued $ (note 4)	Net earnings for the year $	Distributions $	Balance - December 31, 2011 $
Ordinary LP units	1,116,666	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

	Number of units (note 4)	Balance - January 1, 2010 $	Units issued $ (note 4)	Net earnings for the year $	Distributions $	Balance - December 31, 2010 $
Ordinary LP units	1,116,666	7,633,570	-	4,798,815	(4,798,815)	7,633,570
Ordinary GP units	100	11	-	60	(60)	11
Class A GP units	2,969,324	20,975,288	1,236,621	4,092,399	(4,092,399)	22,211,909
Class B GP units	97,625,861	1	-	12	(12)	1
Class C GP units	4,000,000	40,000,000	-	3,000,000	(3,000,000)	40,000,000
		68,608,870	1,236,621	11,891,286	(11,891,286)	69,845,491

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, 2011 and December 31, 2010

	2011 $	2010 $
Cash provided by (used in)		
Operating activities		
Net earnings for the year	12,509,013	11,891,286
Net change in non-cash working capital items (note 9)	(533,527)	(198,388)
	11,975,486	11,692,898
Financing activities		
Distributions paid	(12,163,425)	(12,098,425)
Change in cash	(187,939)	(405,527)
Cash - Beginning of year	418,286	823,813
Cash - End of year	230,347	418,286

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 Trustees on March 20, 2012.

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 and adoption of International Financial Reporting Standards

The Partnership prepared its financial statements in accordance with Canadian generally accepted accounting principles, as set out in the Handbook of The Canadian Institute of Chartered Accountants (CICA Handbook). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards (IFRS) and requires publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, these are the Partnership's first annual financial statements prepared in accordance with IFRS, as issued by the International Accounting Standards Board. In these financial statements, the term Canadian GAAP refers to Canadian generally accepted accounting principles before the adoption of IFRS.

These financial statements have been prepared in accordance with IFRS. The Partnership has consistently applied the same accounting policies in its opening IFRS balance sheet as at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. There was no impact on the Partnership's equity or statements of comprehensive income and cash flows as a result of adopting IFRS. The Partnership has not elected to apply any IFRS elections to its transition to IFRS.

The accounting policies applied in these financial statements are as follows:

Basis of measurement

The financial statements have been prepared under the historical cost conversion.

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

Revenue includes 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.

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 or 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, 2013. In December 2011, the effective date of IFRS 9 was deferred to years beginning on 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, with early adoption permitted. Management has not yet begun the process of assessing the impact that the new and amended standards will have on its financial statements or whether to early-adopt any of the new requirements.

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.

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, revenue 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.

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 also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

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.

Amendments to other standards

In addition, there have been amendments to existing standards, including IAS 27 and IAS 28. IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 through 13.

IAS 1, Presentation of Financial Statements, has been amended to require entities to separate items presented in other comprehensive income into two groups, based on whether or not items may be recycled in the future. Entities that choose to present other comprehensive income items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012, with earlier application permitted.

IFRS 7, Financial Instruments: Disclosures, has been amended to include additional disclosure requirements in the reporting of transfer transactions and risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitization of financial assets. The amendment is applicable for annual periods beginning on or after July 1, 2011, with earlier application permitted.

IFRS 1, First-time Adoption of International Financial Reporting Standards, has been amended for two changes. The first replaces references to a fixed date of January 1, 2004 with "the date of transition to IFRS". This eliminates the need for entities adopting IFRS for the first time to restate derecognition transactions that occurred before the date of transition to IFRS. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRS after a period when the entity was unable to comply with IFRS because its functional currency was subject to severe hyperinflation. The amendment is effective for annual periods beginning on or after July 1, 2011, with earlier application permitted.

IAS 12, Income Taxes, was amended to introduce an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendment, there is a rebuttable presumption that the carrying amount of the investment property will be recovered through sale when considering the expected manner or recovery or settlement. SIC 21, Income Taxes: Recovery of Revalued Non-Depreciable Assets, will no longer apply to investment properties carried at fair value. The amendment also incorporates into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn. The amendment is effective for annual periods beginning on or after July 1, 2012, with earlier application permitted.

3 Intangible assets

	2011 $	2010 $
SIR Rights - Beginning of year	69,845,481	68,608,860
Adjustment to Royalty Pooled Restaurants	1,419,912	1,236,621
SIR Rights - End of year	71,265,393	69,845,481

In assessing the intangible assets for impairment at December 31, 2011 and December 31, 2010, 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:

	2011	2010
Revenue growth rates	3% to 5%	3%
Terminal growth rate	3%	3%
Discount rate	13.5% to 15%	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, 2012, one (2011 - one) new SIR Restaurant was added to, and nil (2011 - nil) closed SIR Restaurants were removed from, the Royalty Pooled Restaurants in accordance with the Partnership Agreement. As consideration for the additional Royalty associated with the addition of one (2011 - one) new restaurant on January 1, 2012, as well as the second incremental adjustment for the one (2010 - nil) new SIR Restaurants added to the Royalty Pooled Restaurants on January 1, 2011, 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 nil (2011 - nil) SIR Restaurants during the prior year. The net effect of these adjustments to the Royalty Pooled Restaurants was that SIR converted 203,878 (2011 - 137,190) Class B GP units into 203,878 (2011 - 137,190) Class A GP units on January 1, 2012 at an estimated fair value of $1,906,391 (2011 - $1,419,912) (note 4).

The tax basis of the intangible assets as at December 31, 2011 is $3,345,164 (2010 - $3,596,951).

4 Partners' interest and subsequent event

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

		2011		2010	
Class of unit	Authorized	Issued	Amount $	Issued	Amount $
Class A LP units	Unlimited	-	-	-	-
Class C LP units	Unlimited	-	-	-	-
Ordinary LP units	Unlimited	1,116,666	7,633,570	1,116,666	7,633,570
Ordinary GP units	Unlimited	100	11	100	11
Class A GP units (note 3)	Unlimited	3,106,514	23,631,821	2,969,324	22,211,909
Class B GP units	Unlimited	97,488,671	1	97,625,861	1
Class C GP units	Unlimited	4,000,000	40,000,000	4,000,000	40,000,000
			71,265,403		69,845,491

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 holders of the Ordinary LP units have the right to receive distributions in priority to the Class A GP units described below.

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.

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, 2012, one (2011 - one) new SIR Restaurant was added to and nil (2011 - nil) closed SIR Restaurants were removed from the Royalty Pooled Restaurants in accordance with the Partnership Agreement. As consideration for the additional Royalty associated with the addition of one (2011 - one) new restaurant on January 1, 2012, as well as the second incremental adjustment for the one (2010 - nil) new SIR Restaurants added to the Royalty Pooled Restaurants on January 1, 2011, 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 nil (2011 - nil) SIR Restaurants during the prior year. The net effect of these adjustments to the Royalty Pooled Restaurants was that SIR converted 203,878 (2011 - 137,190) Class B GP units into 203,878 (2011 - 137,190) Class A GP units on January 1, 2012 at an estimated fair value of $1,906,391 (2011 - $1,419,912).

In December 2011, an additional distribution of $33,667 (December 2010 - $nil) was declared and paid in cash in January 2012 (January 2011).

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 a portion of the SIR loan as consideration for the acquisition of the Class C GP units.

Class A and Class C LP units

The Class A and Class C LP units have similar attributes to the Class A and Class C GP units, respectively.

5 Financial instruments

Classification

As at December 31, 2011, December 31, 2010 and January 1, 2010, the classifications of the financial instruments, as well as their carrying and fair values, are as follows:

		Carrying and fair value		
	Classification	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Cash	Loans and receivables	230,347	418,286	823,813
Royalties and advances receivable from related parties	Loans and receivables	3,753,042	3,252,225	2,991,572
Accounts payable and accrued liabilities	Other financial liabilities	190,569	221,246	155,125
Distributions payable to related parties	Other financial liabilities	3,810,059	3,464,471	3,671,610

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, 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, 2011, 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. 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

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
SIR Corp.			
Royalties receivable	1,536,869	1,395,784	1,345,982
Advances receivable	266,329	187,302	31,053
Distributions payable	(928,336)	(724,933)	(1,038,746)
Amounts receivable from SIR Corp.	874,862	858,153	338,289
SIR Royalty Income Fund and its subsidiaries			
Advances receivable	1,949,844	1,669,139	1,614,537
Distributions payable	(2,881,723)	(2,739,538)	(2,632,864)
Amounts payable to SIR Royalty Income Fund and its subsidiaries - net	(931,879)	(1,070,399)	(1,018,327)
Amounts due to related parties - net	(57,017)	(212,246)	(680,038)

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, 2011, the Partnership earned Royalty income of $12,551,210 from SIR (2010 - $11,978,796). 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, 2011, the Partnership provided these services to the Fund and the Trust for consideration of $24,000 (2010 - $24,000), which was the amount of consideration agreed to by the related parties.

7 Capital management

The Partnership's issued capital consists of 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, 2011 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.

Effective August 26, 2011, SIR's credit agreement, negotiated on November 13, 2009, was amended and restated (Amended Credit Agreement) to add an additional loan amount (Development Loan) to the existing $26,000,000 senior term debt facility (Term Loan). The Development Loan is for a maximum principal amount of $12,000,000 available to SIR by way of multiple advances, dispensed on or prior to May 18, 2012.

On November 25, 2011, SIR entered into a First Amendment to the Amended Credit Agreement (First Amendment) to extend and make coterminous the terms of the $12,000,000 Development Loan and the $26,000,000 Term Loan. Under the terms of the First Amendment, the term of the Term Loan is extended from November 13, 2012 to November 14, 2016 and the term of the Development Loan which was negotiated August 26, 2011, is extended from August 26, 2016 to November 14, 2016. Additionally, under the terms of the Amendment, the variable interest rate of the Term Loan is reduced to the same rate as that of the Development Loan which is the greater of 6% per annum and the three-month Canadian dollar banker's acceptance rate plus 5.75% per annum, calculated monthly, not in advance.

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 the Subordination and Postponement Agreement, absent a default or event of default under the New Credit Agreement as amended, 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:

	2011 $	2010 $
Prepaid expenses and other assets	(2,033)	(3,856)
Amounts due from related parties	(220,112)	(206,051)
Accounts payable and accrued liabilities	(30,677)	66,121
Amounts due to related parties	(280,705)	(54,602)
	(533,527)	(198,388)