BOSTON PIZZA
ROYALTIES INCOME FUND

ANNUAL REPORT 2019

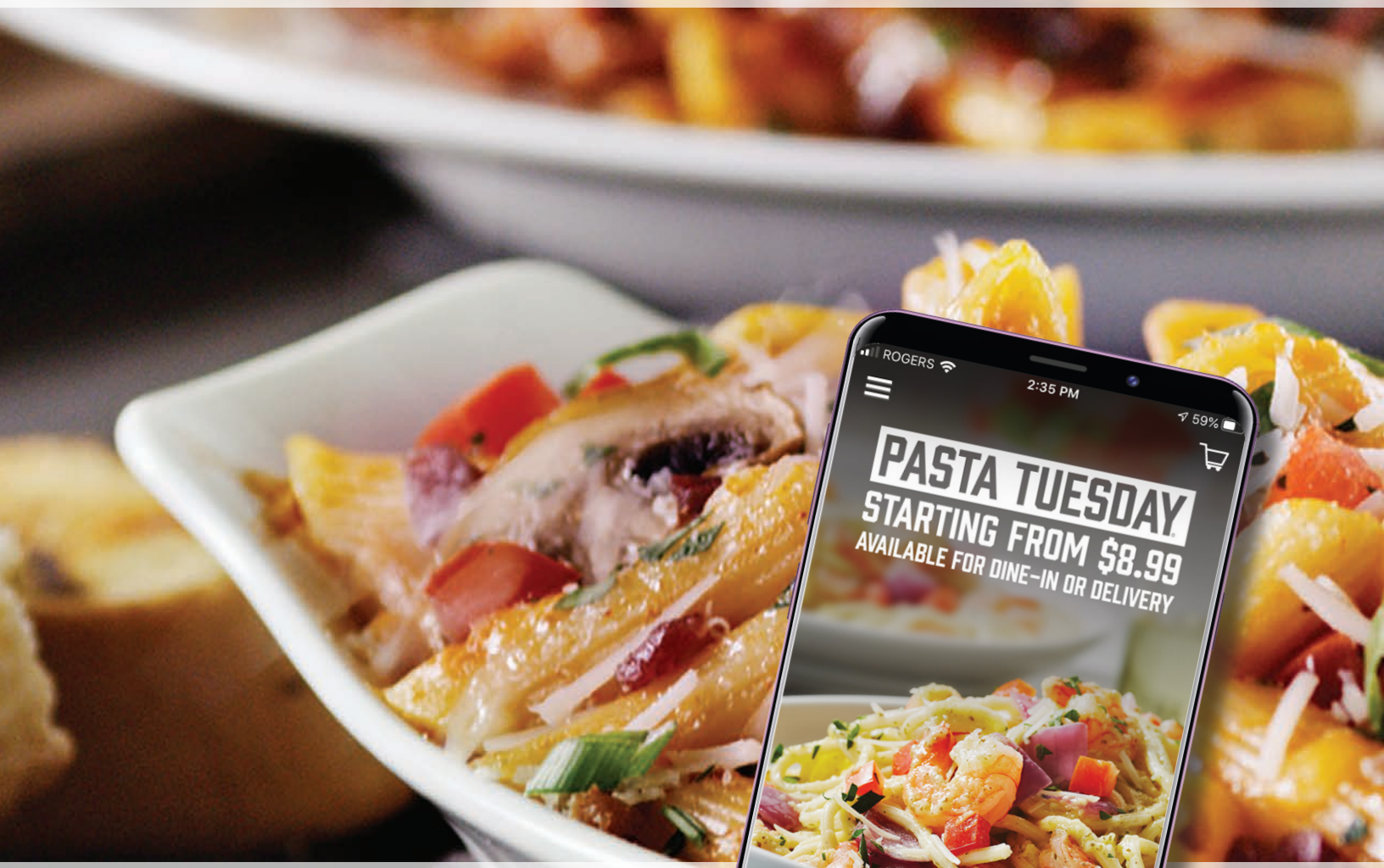
BOSTON PIZZA
ROYALTIES INCOME FUND

PROFILE

Founded in Alberta in 1964, Boston Pizza has grown to become Canada's #1 casual dining brand by continually improving its menu offerings, guest experience and restaurant design. Boston Pizza's success has allowed the concept to grow and prosper in new markets across Canada and serve more than 50 million guests annually.

As at January 1, 2020 there were 395 Boston Pizza locations in Canada, stretching from Victoria to St. John's, with all but five of the restaurants owned and operated by independent franchisees.

In every Boston Pizza location, guests enjoy a comfortable atmosphere, professional service and an appealing and diverse menu. Whether it's a business lunch, a family dinner or watching the game with friends, Boston Pizza provides its guests the opportunity to enjoy great food in a relaxed and inviting setting. It is this combination of key ingredients that has enabled Boston Pizza to serve more guests in more locations than any other full-service restaurant brand in Canada.



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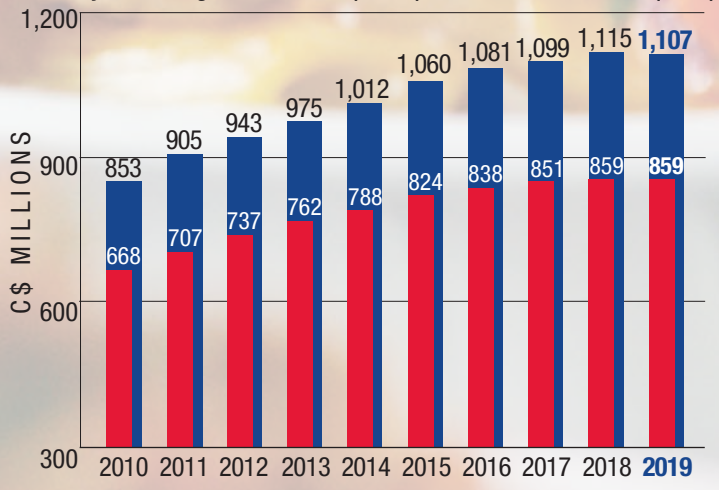
Boston Pizza is taking advantage of the growing consumer preference for take-out and delivery meal occasions by enhancing its online ordering capabilities via bostonpizza.com and the MyBP app, and by partnering with third-party delivery service providers.

2019 HIGHLIGHTS

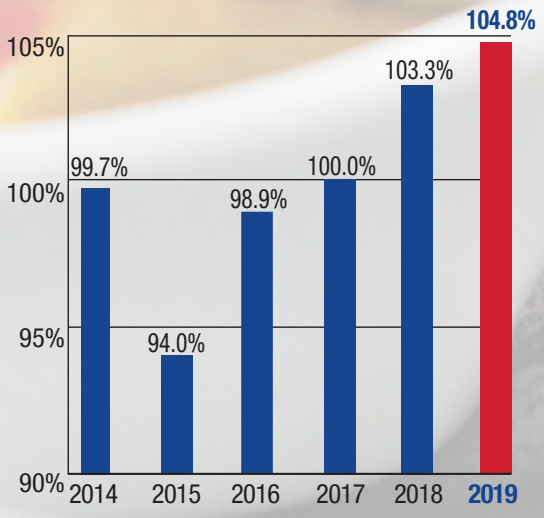
- Annual system-wide gross sales of over $1.1 billion.
- Franchise Sales from Royalty Pool restaurants of $853.7 million for the year.
- Distributable Cash per Unit of $1.317 for the year.
- Same restaurant sales ("SRS") on a Franchise Sales basis of negative 1.5% for the year.
- Payout Ratio of 104.8% for the year.
- Boston Pizza opened five new full-service restaurants and closed five full-service and one quick express restaurants for a net decrease of one restaurant in 2019.
- Boston Pizza Royalties Income Fund's cash balance at the end of the year was $1.8 million.

SYSTEM-WIDE GROSS SALES & FRANCHISE SALES

System-wide gross sales totals (in blue) and Franchise sales totals (in red)



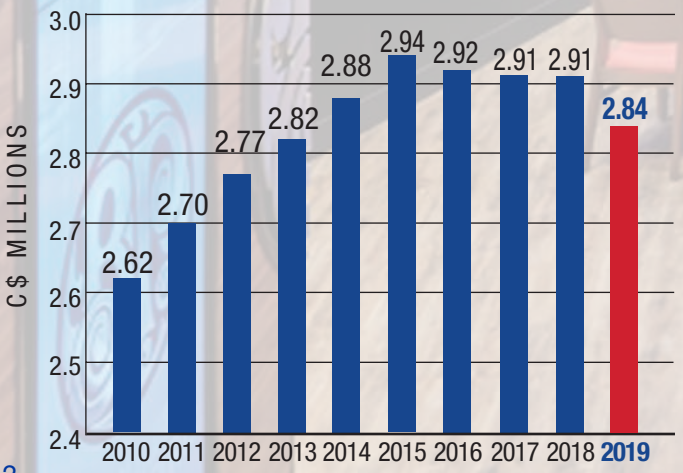
HISTORICAL PAYOUT RATIO



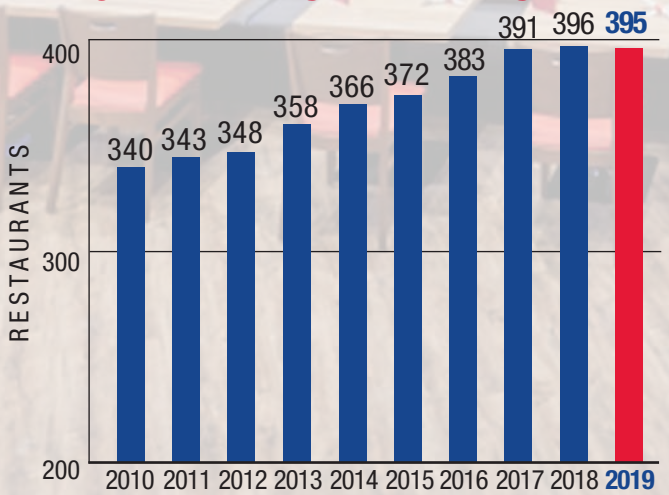
INVESTMENT HIGHLIGHTS

- Canada's #1 casual dining brand with an established network of 395 restaurants operating in 10 provinces and two territories.
- Three distinct dining experiences (Restaurant, Sports Bar and Take-out & Delivery) and multiple day parts provide diverse sales growth opportunities.
- Franchise business and the Royalty Fund model provide a stable and capital free recurring revenue stream for the Fund (investors are not directly exposed to profitability and expenses of underlying business).
- Track record of growth since 2002 IPO and commitment to stable and sustainable distributions over the longer-term (e.g. annual Payout Ratio has averaged 100% of Distributable Cash since IPO).
- Successful franchisee network with a significant portion owning multiple locations which demonstrates strength of unit economics.
- Commitment to driving SRS demonstrated by new operating initiatives including menu innovation, off-premise opportunities and restaurant renovations.
- Proven management team with extensive industry experience.

AVERAGE ANNUAL GROSS SALES PER LOCATION



NUMBER OF LOCATIONS OVER THE PAST TEN YEARS



STABILITY A SUCCESSFUL INCOME FUND

The Fund is a limited purpose open-ended trust established in July 2002, and the Units of the Fund trade on the Toronto Stock Exchange under the symbol BPF.UN. The Fund was originally created to acquire, indirectly through Boston Pizza Royalties Limited Partnership, the Canadian trademarks owned by Boston Pizza International Inc. used in connection with the operation of Boston Pizza Restaurants in Canada and the business of Boston Pizza International Inc., its affiliated entities and franchisees. In 2015 the Fund, indirectly through Boston Pizza Holdings Limited Partnership, made an investment in Boston Pizza Canada Limited Partnership (which is a limited partnership operated and controlled by Boston Pizza International Inc. and is the exclusive franchisor of Boston Pizza Restaurants in Canada). Through its indirect ownership of the trademarks described above and its indirect investment in Boston Pizza Canada Limited Partnership, the Fund is effectively entitled to receive 5.5% of Franchise Sales of Boston Pizza Restaurants in the Royalty Pool less the pro rata portion payable to Boston Pizza International Inc. in respect of its retained interest in the Fund. Any new Boston Pizza Restaurants opened during a calendar year are added to the Royalty Pool on January 1st of the following year. Since 2002, the Royalty Pool has expanded from 154 to 395 Boston Pizza Restaurants as at January 1, 2020.

A Top-Line Fund — The structure of the Fund provides Unitholders with top-line royalties from Boston Pizza Restaurants. All operating costs for Boston Pizza Restaurants and capital investments for new locations are funded by franchisees. The Fund has no capital expenditures and only administrative expenses, taxes and interest on debt and, therefore, can maintain a high payout ratio to Unitholders.

Demonstrated Consistency — The Fund has provided cash distributions to Unitholders in each month since the IPO in July 2002 and including the January 2020 distribution paid in February 2020, the Fund had paid out 211 consecutive monthly distributions totaling $339.1 million or $22.12 per Unit.

Demonstrated Growth — Since the Fund's initial public offering in 2002, there have been 18 increases to the monthly distribution rate.

Boston Pizza is committed to improving the guest experience with a broad and continually evolving menu suitable for any occasion.

AN EXPERIENCED FRANCHISOR

The "**Four Pillars**" strategy is the basis for all decision making that has underpinned the development and success of Boston Pizza.

1. BUILDING THE BOSTON PIZZA BRAND

Having a strong and recognizable brand that consumers trust and want to do business with creates value for all stakeholders

2. CONTINUALLY IMPROVING THE GUEST EXPERIENCE

Boston Pizza has over 55 years of focus and effort toward improving the experience of our restaurant guests. A vibrant, colourful design in a casual and comfortable dining atmosphere, combined with a menu that features old favourites and new taste sensations, keeps guests coming back for more.

3. A COMMITMENT TO FRANCHISEE PROFITABILITY

The best way to ensure the success of the Boston Pizza Royalties Income Fund, Boston Pizza International Inc., and the Boston Pizza brand is to ensure the success of Boston Pizza franchisees.

4. ON-GOING ENGAGEMENT IN LOCAL COMMUNITIES

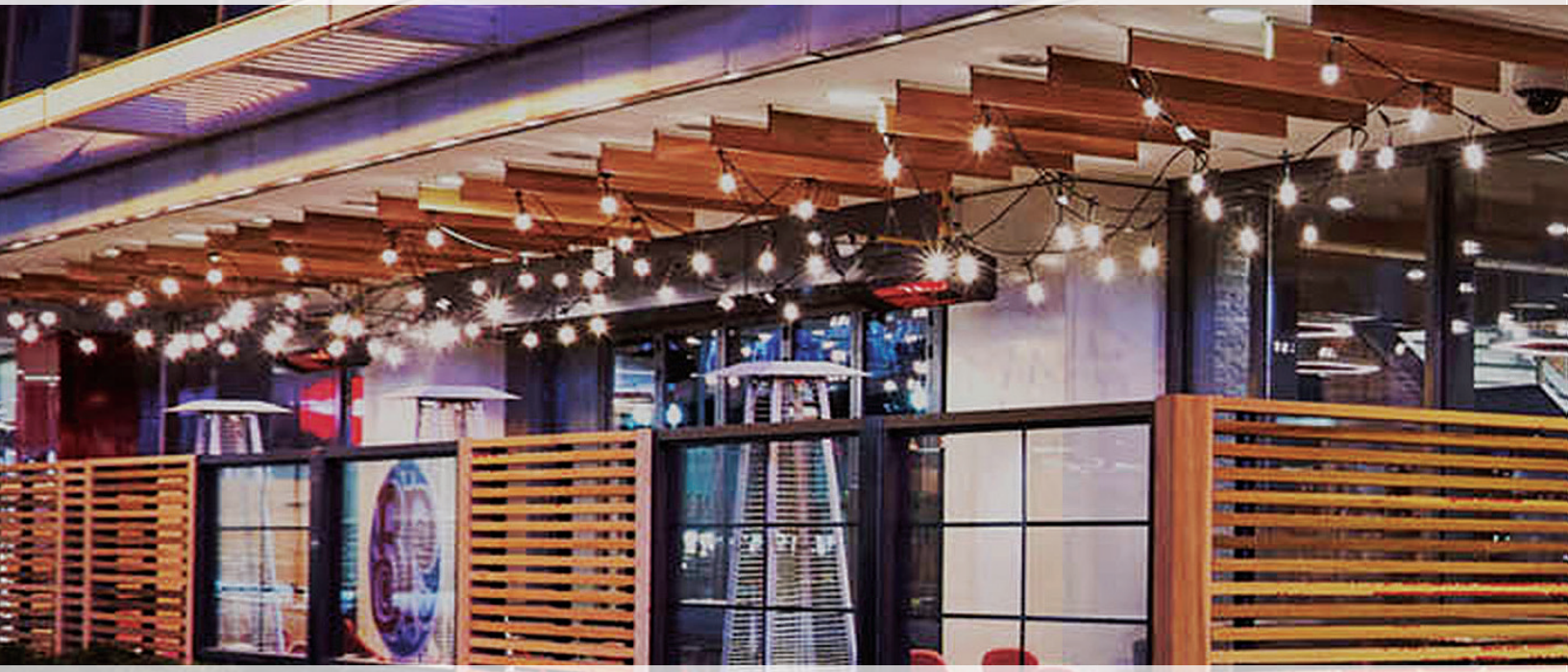
Boston Pizza franchisees, staff and management have always made community involvement a key priority through engaging sports teams and civic groups, volunteering time and donating funds to support a variety of local and national causes.

A PROVEN RESTAURANT CONCEPT

Broad Customer Appeal — Full-service restaurant and sports bar under one roof appeals to both families and young adults.

Multiple Day Parts — Boston Pizza restaurants offer lunch, dinner, late nights and take-out and delivery.

Attractive Locations — Real estate selection is critical and restaurant designs are updated regularly.



395 LOCATIONS ACROSS CANADA

as of December 31, 2019

Boston Pizza operates in 10 provinces and 2 territories, serving more customers in more locations than any other casual dining restaurant brand in Canada.

GROWTH

1964
First Boston Pizza opens in Edmonton, AB.

1968
Jim Treliving leaves his job as an R.C.M.P. officer and opens his first Boston Pizza restaurant in Penticton, B.C.

1973
George Melville, an accountant with Peat Marwick Mitchell & Co. in Penticton, B.C., becomes business partners with Jim Treliving and the two begin opening Boston Pizza franchises across B.C.

1983
Jim and George, partners in 16 Boston Pizza Restaurants, think that buying the chain of 44 Boston Pizza locations is a "great idea" and do it. They sell all their franchises except one and become the new owners of the franchisor, Boston Pizza International Inc.

1986
Boston Pizza debuts on the world stage as the official pizza supplier for Expo '86 in Vancouver, B.C. generating more than $8 million in sales.

1990
BOSTON PIZZA FOUNDATION

The Boston Pizza Foundation is established to raise funds to make a difference in the lives of those in need across Canada and around the world. The Foundation celebrates 30 years in March 2020.

1993
Boston Pizza receives 25-Year Award from The International Franchise Association.

IFA
INTERNATIONAL FRANCHISE ASSOCIATION

1994
Named one of Canada's 50 Best Managed Companies by the Financial Post, a recognition for which Boston Pizza has been awarded every subsequent year.

2001
Boston Pizza has been named as a Platinum Club Member of "Canada's 50 Best Managed Companies' since 2001. The company was first awarded with recognition in 1994.

CANADA'S BEST MANAGED COMPANIES Platinum member

2002
Boston Pizza Royalties Income Fund is created and begins trading on the TSX under the symbol BPF. UN following the initial public offering on July 17, 2002.

2004
Boston Pizza celebrates its 40th anniversary and begins expansion into Quebec with the opening of a corporate office in Laval.

2006
Boston Pizza opens its first locations in Newfoundland and P.E.I., making Boston Pizza truly coast-to-coast.

2012
Boston Pizza Royalties Income Fund celebrates its 10-year anniversary on the Toronto Stock Exchange.

2014
Boston Pizza International Inc. achieves record sales of $1.0 billion and celebrates the brand's 50th anniversary on August 12, 2014.

2015
Boston Pizza Royalties Income Fund increases its interest in the Franchise Sales of Boston Pizza restaurants in Canada, from 4.0% to 5.5%.

2017
As part of an orderly succession plan of ownership, Jim and George reorganized their jointly-owned assets resulting in Jim acquiring 100% of Boston Pizza International Inc. to become the sole owner of the company.

COMMUNITY

Since Boston Pizza first opened its doors in Edmonton, Alberta in 1964, a spirit of giving back to the communities in which we operate has been a philosophy and value we hold dear. In 1990, the Boston Pizza Foundation was established to formalize the first 25 years of charitable activity. The public Foundation focuses on raising funds to make a difference in the lives of Canadians.

The Boston Pizza Foundation organizes and hosts programs and promotions that range from charity golf tournaments to national fundraising campaigns, such as its Valentine's Day Heart-Shaped Pizza promotion and BP Kids Cards promotion.

Valentine's Day at Boston Pizza brings a tradition of heart-shaped pizzas that date back to 1980. For 40 years, Boston Pizza has brought the tradition to you and your family, friends or that special someone. 100% of funds raised through this promotion are donated back to community charities across Canada.

The Boston Pizza Kids Card promotion runs annually. For a $5 donation to the Boston Pizza Foundation, guests receive five free kids meals. All proceeds go toward Boston Pizza Foundation in support of our national charity partners. In 2019 we were proud to partner with five amazing not-for-profit organizations, Big Brothers Big Sisters, JDRF, Kids Help Phone, Live Different and Rick Hansen Foundation, all of whom provide education and mentoring opportunities for children and youth right across Canada.

Boston Pizza believes that strong role models inspire kids to be great, this is why we created Boston Pizza Foundation Future Prospects. Through our Future Prospects program we donate millions to educating and mentoring youth all across Canada to better navigate life's challenges and to guide, inspire, and empower them to unlock their full potential.

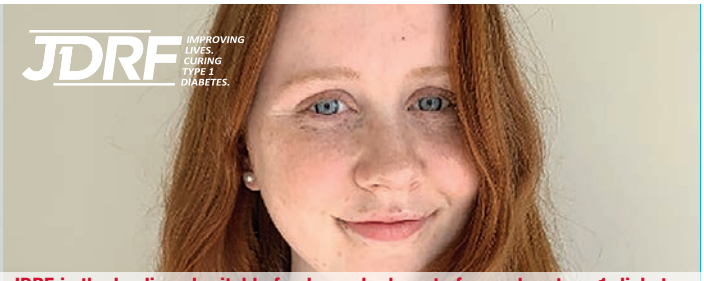
Jim Treliving, Boston Pizza's Chairman and Owner, recognizes the value of mentorship, from both an individual and a community level, "If you ask any successful individual in business, sports, the arts or the public sector, they'll tell you that they couldn't have got to where they are today without the support and guidance of a role model or mentor. We are very proud to support the cause of role modeling and mentoring, not only giving back to the community, but investing in the future of Canadian kids and inspiring a new generation of leaders."

For over 30 years, our franchisees, our restaurant and corporate staff and our guests have helped us do just that! To date, Boston Pizza Foundation has raised and donated over $30 million to charities in communities from coast to coast and around the world.

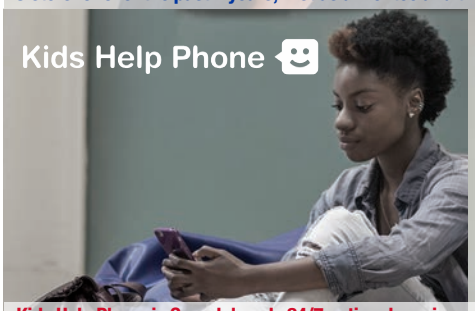
We believe that every child has the ability to make a difference in the world, and at Boston Pizza we value how important positive role models and mentors are in supporting and inspiring youth to reach their full potential!

We thank everyone who generously gave to our Foundation in 2019.

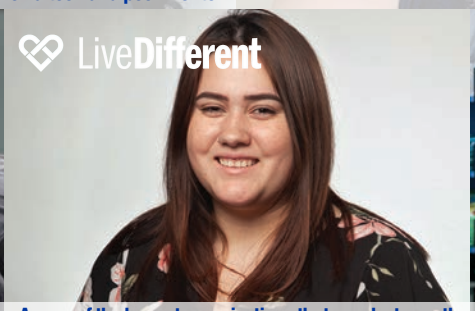
Big Brothers Big Sisters provides mentors to over 41,000 children in over 1,100 communities. Our donations are enabling Big Brothers Big Sisters to develop and implement mentoring programs in communities not previously reached. This support brings Big Brothers Big Sisters closer to their vision that all young people realize their full potential. Markicia is currently a member of the BBBS National Youth Mentoring Advisory Council (NYMAC) and has been a part of Big Brother Big Sisters for over the past 4 years, first as a mentee and then a teen and peer mentor.



JDRF is the leading charitable funder and advocate focused on type 1 diabetes (T1D) research. The goal of JDRF is to improve the lives of all people affected by T1D by accelerating progress on the most promising opportunities for curing, treating and preventing this disease. Above: Evelyn, JDRF Youth Ambassador.



Kids Help Phone is Canada's only 24/7 national service offering professional counselling, information and referrals and volunteer-led text-based support for young people. Kids Help Phone's services are free, confidential, anonymous and available in both English and French.



As one of the largest organizations that speaks to youth in Canada face to face, Live Different exists to engage and empower youth into a lifestyle of compassion and service. Speaking to over 100,000 students each year, their road teams bring an important message that your life has purpose, you belong, and you can make a difference. Brittany Gillespie, a Road Team Leader, is on her 6th consecutive tour with the Indigenous Team.

The Rick Hansen Foundation School Program engages youth across Canada, empowering them to learn more about disability and take action to improve accessibility and inclusion in their schools and communities.

BOSTON PIZZA ROYALTIES INCOME FUND

FINANCIAL HIGHLIGHTS

The tables below set out selected information from the annual consolidated financial statements of Boston Pizza Royalties Income Fund (the "**Fund**"), which includes the accounts of the Fund, its wholly-owned subsidiaries Boston Pizza Holdings Trust (the "**Trust**"), Boston Pizza Holdings GP Inc. ("**Holdings GP**") and Boston Pizza Holdings Limited Partnership ("**Holdings LP**"), its 80% owned subsidiary Boston Pizza GP Inc. ("**Royalties GP**"), and Boston Pizza Royalties Limited Partnership ("**Royalties LP**"), together with other information and should be read in conjunction with the annual consolidated financial statements of the Fund for the years ended December 31, 2019 and December 31, 2018. The financial information in the tables included in this Management Discussion and Analysis ("**MD&A**") are reported in accordance with International Financial Reporting Standards ("**IFRS**") except as otherwise noted and are stated in Canadian dollars.

For the years ended December 31	2019	2018	2017
(in thousands of dollars – except restaurants, SRS, Payout Ratio and per Unit items)			
System-Wide Gross Sales	1,106,687	1,115,200	1,099,107
Number of restaurants in Royalty Pool	396	391	383
Franchise Sales reported by restaurants in the Royalty Pool	853,728	855,108	844,496
Royalty income	34,149	34,204	33,780
Distribution Income	11,246	11,407	10,904
Interest income	40	33	1,217
Total revenue	45,435	45,644	45,901
Administrative expenses	(1,248)	(1,255)	(1,209)
Interest expense on debt	(2,830)	(2,676)	(2,437)
Interest expense on Class B Unit liability and Class C GP Unit liabilities	(4,133)	(3,722)	(5,818)
Profit before fair value adjustments and income taxes	37,224	37,991	36,437
Fair value adjustment on investment in BP Canada LP	(9,002)	(37,099)	(4,441)
Fair value adjustment on Class B Unit liability	4,120	14,814	3,122
Fair value adjustment on interest rate swaps	(824)	(412)	1,275
Current and deferred income tax expense	(9,015)	(6,625)	(9,400)
Net and comprehensive income	22,503	8,669	26,993
Basic earnings per Unit	1.03	0.40	1.30
Diluted earnings (loss) per Unit	0.88	(0.12)	1.16
Distributable Cash / Distributions / Payout Ratio			
Cash flows from operating activities	35,621	35,678	36,823
Class C GP Unit distributions to BPI	-	-	(1,200)
BPI Class B Unit entitlement	(4,133)	(3,722)	(4,618)
Interest paid on long-term debt	(2,821)	(2,710)	(2,440)
SIFT Tax on Units	33	(6)	(9)
Distributable Cash	28,700	29,240	28,556
Distributions paid	30,067	30,191	28,547
Payout Ratio	104.8%	103.3%	100.0%
Distributable Cash per Unit	1.317	1.336	1.379
Distributions paid per Unit	1.380	1.380	1.380
Other			
Same Restaurant Sales	(2.2%)	0.1%	(0.3%)
Number of restaurants opened	5	10	11
Number of restaurants closed	6	5	3
As at December 31	2019	2018	2017
Total assets	396,426	403,686	434,939
Total liabilities	131,323	131,019	139,201

Notes:

1) Capitalized terms used in the "Financial Highlights" and "Summary of Quarterly Results" tables are defined elsewhere in this MD&A.
2) Distribution Income is income received by the Fund from the Fund's indirect investment in Boston Pizza Canada Limited Partnership completed in May 2015. See the "Overview – Purpose of the Fund / Sources of Revenue" section of this MD&A for more details.

3) Profit before fair value adjustments and income taxes is considered an additional IFRS measure. For additional information regarding this financial metric, see the "Description of Non-IFRS and Additional IFRS Measures" section of this MD&A.
4) Same Restaurant Sales (previously named this "same store sales growth" – see the "Overview – Top-Line Fund / Increases in Franchise Sales" section of this MD&A for more details), Distributable Cash and Payout Ratio are non-IFRS measures and as such, do not have standardized meanings under IFRS and therefore may not be comparable to similar measures presented by other issuers. For additional information regarding these financial metrics, including full details on how these financial metrics are calculated, see the "Description of Non-IFRS and Additional IFRS Measures" section of this MD&A.

SUMMARY OF QUARTERLY RESULTS

	Q4 2019	Q3 2019	Q2 2019	Q1 2019
(in thousands of dollars – except restaurants, SRS, Payout Ratio and per Unit items)				
System-Wide Gross Sales	276,509	283,570	281,310	265,298
Number of restaurants in Royalty Pool	396	396	396	396
Franchise Sales reported by restaurants in the Royalty Pool	211,173	219,226	216,882	206,447
Royalty income	8,447	8,769	8,675	8,258
Distribution Income	2,785	2,886	2,856	2,719
Interest income	9	9	10	12
Total revenue	11,241	11,664	11,541	10,989
Administrative expenses	(280)	(345)	(307)	(316)
Interest expense on debt	(713)	(712)	(709)	(696)
Interest expense on Class B Unit liability	(1,383)	(1,010)	(1,030)	(710)
Profit before fair value adjustments and income taxes	8,865	9,597	9,495	9,267
Fair value adjustment on investment in BP Canada LP	(20,677)	(873)	4,201	8,347
Fair value adjustment on Class B Unit liability	9,107	385	(1,851)	(3,521)
Fair value adjustment on interest rate swaps	324	97	(363)	(882)
Current and deferred income tax expense	(2,247)	(2,343)	(2,313)	(2,112)
Net and comprehensive income (loss)	(4,628)	6,863	9,169	11,099
Basic earnings (loss) per Unit	(0.21)	0.31	0.42	0.51
Diluted earnings (loss) per Unit	(0.53)	0.27	0.42	0.51
Distributable Cash / Distributions / Payout Ratio				
Cash flows from operating activities	8,721	9,497	9,039	8,364
BPI Class B Unit entitlement	(1,031)	(1,025)	(1,029)	(1,048)
Interest paid on long-term debt	(702)	(710)	(723)	(686)
SIFT Tax on Units	(27)	52	37	(29)
Distributable Cash	6,961	7,814	7,324	6,601
Distributions paid	7,517	7,516	7,517	7,517
Payout Ratio	108.0%	96.2%	102.6%	113.9%
Distributable Cash per Unit	0.319	0.359	0.336	0.303
Distributions paid per Unit	0.345	0.345	0.345	0.345
Other				
Same Restaurant Sales	(2.1%)	(4.2%)	(1.2%)	(1.3%)
Number of restaurants opened	0	2	3	0
Number of restaurants closed	2	0	3	1

SUMMARY OF QUARTERLY RESULTS (continued)

	Q4 2018	Q3 2018	Q2 2018	Q1 2018
(in thousands of dollars – except restaurants, SRS, Payout Ratio and per Unit items)				
System-Wide Gross Sales	278,486	290,331	280,848	265,535
Number of restaurants in Royalty Pool	391	391	391	391
Franchise Sales reported by restaurants in the Royalty Pool	211,350	224,368	215,353	204,037
Royalty income	8,454	8,974	8,615	8,161
Distribution Income	2,823	2,991	2,871	2,722
Interest income	9	8	7	9
Total revenue	11,286	11,973	11,493	10,892
Administrative expenses	(299)	(303)	(327)	(326)
Interest expense on debt	(693)	(672)	(662)	(649)
Interest expense on Class B Unit liability	(1,239)	(908)	(934)	(641)
Profit before fair value adjustments and income taxes	9,055	10,090	9,570	9,276
Fair value adjustment on investment in BP Canada LP	(11,675)	(13,476)	(1,800)	(10,148)
Fair value adjustment on Class B Unit liability	4,661	5,380	719	4,054
Fair value adjustment on interest rate swaps	(732)	298	17	5
Current and deferred income tax expense	(2,270)	(1,361)	(2,219)	(775)
Net and comprehensive income (loss)	(961)	931	6,287	2,412
Basic earnings (loss) per Unit	(0.04)	0.04	0.29	0.11
Diluted earnings (loss) per Unit	(0.21)	(0.17)	0.23	(0.07)
Distributable Cash / Distributions / Payout Ratio				
Cash flows from operating activities	8,882	9,548	8,958	8,290
BPI Class B Unit entitlement	(926)	(915)	(931)	(950)
Interest paid on long-term debt	(683)	(687)	(669)	(671)
SIFT Tax on Units	(7)	25	(29)	5
Distributable Cash	7,266	7,971	7,329	6,674
Distributions paid	7,539	7,551	7,550	7,551
Payout Ratio	103.8%	94.7%	103.0%	113.1%
Distributable Cash per Unit	0.332	0.364	0.335	0.305
Distributions paid per Unit	0.345	0.345	0.345	0.345
Other				
Same Restaurant Sales	(0.2%)	0.0%	0.3%	0.2%
Number of restaurants opened	7	2	1	0
Number of restaurants closed	0	4	0	1

OVERVIEW

This MD&A covers the three month period from October 1, 2019 to December 31, 2019 (the "**Period**") and the twelve month period from January 1, 2019 to December 31, 2019 (the "**Year**"), and is dated February 12, 2020. It provides additional analysis of the operations, financial position and financial performance of the Fund and should be read in conjunction with the Fund's applicable annual consolidated financial statements and accompanying notes. The annual consolidated financial statements of the Fund are in Canadian dollars and have been prepared in accordance with IFRS except as otherwise noted.

Purpose of the Fund / Sources of Revenue

The Fund is a limited purpose open-ended trust established in July 2002, and the units of the Fund (the "**Units**") trade on the Toronto Stock Exchange (the "**TSX**") under the symbol BPF.UN. The Fund was originally created to acquire, indirectly through Royalties LP, the Canadian trademarks owned by Boston Pizza International Inc. ("**BPI**", and where applicable also includes its wholly-owned subsidiaries) (collectively the "**BP Rights**"[1]) used in connection with the operation of Boston Pizza restaurants in Canada ("**Boston Pizza Restaurants**") and the business of BPI, its affiliated entities and franchisees (herein referred to as "**Boston Pizza**"). In May 2015, the Fund, indirectly through Holdings LP, completed an investment in Boston Pizza Canada Limited Partnership ("**BP Canada LP**") to effectively increase the Fund's interest in Franchise Sales (as defined below) of Boston Pizza Restaurants in the Royalty Pool (as defined below) by 1.5%, from 4.0% to 5.5% less the pro rata portion payable to BPI in respect of its retained interest in the Fund (the "**2015 Transaction**"). BP Canada LP is a limited partnership controlled and operated by BPI and is the exclusive franchisor of Boston Pizza Restaurants in Canada.

The Fund has the following principal sources of revenue:

Royalty Income

Royalties LP licenses the BP Rights to BPI in return for BPI paying Royalties LP a royalty equal to 4.0% (the "**Royalty**") of Franchise Sales of those Boston Pizza Restaurants included in the Royalty Pool, as defined in the license and royalty agreement dated July 17, 2002, as amended on May 9, 2005 between Royalties LP and BPI (the "**Royalty Pool**"). As of December 31, 2019, there were 396 Boston Pizza Restaurants in the Royalty Pool.

"**Franchise Sales**" means the gross revenue: (i) of the corporate Boston Pizza Restaurants in Canada owned by BPI that are in the Royalty Pool; and (ii) reported to BP Canada LP by franchised Boston Pizza Restaurants in Canada that are in the Royalty Pool, without audit or other form of independent assurance, and in the case of both (i) and (ii), after deducting revenue from the sale of liquor, beer, wine and revenue from BP Canada LP approved national promotions and discounts and excluding applicable sales and similar taxes. Nevertheless, BP Canada LP periodically conducts audits of the Franchise Sales reported to it by its franchisees, and the Franchise Sales reported herein include results from sales audits of earlier periods. "**System-Wide Gross Sales**" means the gross revenue: (i) of the corporate Boston Pizza Restaurants in Canada owned by BPI; and (ii) reported to BP Canada LP by franchised Boston Pizza Restaurants in Canada, without audit or other form of independent assurance, and in the case of both (i) and (ii), including revenue from the sale of liquor, beer, wine and revenue from BP Canada LP approved national promotions and discounts but excluding applicable sales and similar taxes.

Distribution Income

Holdings LP holds Class 1 limited partnership units ("**Class 1 LP Units**") and Class 2 limited partnership units ("**Class 2 LP Units**") of BP Canada LP, and BPI holds, indirectly through Boston Pizza Canada Holdings Partnership ("**BPCHP**"), a general partnership owned and controlled by BPI, Class 2 general partnership units

1) BP Rights are the trademarks that as at July 17, 2002 were registered or the subject of pending applications for registration under the *Trade-marks Act* (Canada) and other trademarks and trade names which are confusingly similar to any of the registered or pending trademarks. The BP Rights purchased do not include the rights outside of Canada to any trademarks or trade names used by BPI or any affiliated entities in its business, and in particular do not include the rights outside of Canada to the trademarks registered or pending registration under the *Trade-marks Act* (Canada).

("**Class 2 GP Units**") of BP Canada LP, which are exchangeable into Units. The Class 1 LP Units and Class 2 LP Units entitle Holdings LP to receive distributions from BP Canada LP equal, in aggregate, to 1.5% of Franchise Sales, less the pro rata portion payable to BPI in respect of its retained interest in the Fund ("**Distribution Income**"). Specifically, the Class 1 LP Units entitle Holdings LP to receive a priority distribution equal to the amount of interest that Holdings LP pays on amounts drawn on Facility D (as defined below) plus 0.05% of that amount, with the balance of 1.5% of Franchise Sales being distributed pro rata to Holdings LP and BPI on the Class 2 LP Units and Class 2 GP Units, respectively.

Top-Line Fund / Increases in Franchise Sales

The Fund effectively has the right to receive from BPI and BP Canada LP an amount equal to 5.5% of Franchise Sales (4.0% of which is payable via the Royalty and 1.5% of which is payable as Distribution Income on the Class 1 LP Units and Class 2 LP Units), less the pro rata portion payable to BPI in respect of its retained interest in the Fund. A key attribute of the Fund's structure is that it is a "top-line" fund. Both Royalty and Distribution Income of the Fund are based on Franchise Sales of Boston Pizza Restaurants in the Royalty Pool and are not determined by the profitability of BPI, BP Canada LP or Boston Pizza Restaurants in the Royalty Pool. The Fund's cash expenses are administrative expenses, interest expenses on debt, amounts paid by Royalties LP to BPI on the Class B general partner units ("**Class B Units**") of Royalties LP, and current income tax. Therefore, the Fund is not subject to the variability of earnings or expenses associated with an operating business. Given this structure, the success of the Fund depends primarily on the ability of BPI and BP Canada LP to maintain and increase Franchise Sales of Boston Pizza Restaurants in the Royalty Pool.

Increases in Franchise Sales are derived from both new Boston Pizza Restaurants added to the Royalty Pool and same restaurant sales ("**SRS**"). In reporting periods prior to the second quarter of 2019, the Fund and BPI have referred to SRS as same store sales growth. Starting in the second quarter of 2019, the Fund and BPI renamed same store sales growth as same restaurant sales to better reflect the business operated by BPI, BP Canada LP and its franchisees. SRS, a key driver of distribution growth for unitholders of the Fund ("**Unitholders**"), is the change in gross revenues of Boston Pizza Restaurants as compared to the gross revenues for the same period in the previous year (where restaurants were open for a minimum of 24 months). The two principal factors that affect SRS are changes in guest traffic and changes in average guest cheque. These factors are dependent upon existing Boston Pizza Restaurants maintaining operational excellence, general market conditions, weather, pricing, and marketing programs undertaken by BPI and BP Canada LP. One of BPI's and BP Canada LP's competitive strengths in increasing Franchise Sales of existing restaurants is that the standard franchise agreement for Boston Pizza Restaurants requires that each Boston Pizza Restaurant undergoes a complete restaurant renovation every seven years and completes equipment upgrades as required by BP Canada LP. Restaurants typically close for two to three weeks to complete the renovation and experience an incremental sales increase in the year following the re-opening.

Franchise Sales are also affected by the permanent closures of Boston Pizza Restaurants. A Boston Pizza Restaurant is closed when it ceases to be viable or when the franchise agreement applicable to that Boston Pizza Restaurant has expired or been terminated.

Addition of New Restaurants to Royalty Pool

On January 1 of each year, an adjustment is made to add to the Royalty Pool new Boston Pizza Restaurants that opened and to remove any Boston Pizza Restaurants that permanently closed since January 1 of the previous year (the "**Net New Restaurants**"). In return for adding net additional Royalty and Distribution Income from the Net New Restaurants, BPI receives the right to indirectly acquire additional Units (in respect of the Royalty, "**Class B Additional Entitlements**" and in respect of Distribution Income, "**Class 2 Additional Entitlements**", and collectively, "**Additional Entitlements**"). The calculation of Additional Entitlements is designed to be accretive to Unitholders as the expected increase in net Franchise Sales from the Net New Restaurants added to the Royalty Pool is valued at a 7.5% discount. The Additional Entitlements are calculated at 92.5% of the estimated Royalty and Distribution Income expected to be generated by the Net New Restaurants, multiplied by one minus the effective tax rate estimated to be paid by the Fund, divided by the yield of the Fund, divided by the weighted average Unit price over a specified period. BPI receives 80% of the Additional Entitlements initially,

with the balance received when the actual full year performance of the Net New Restaurants and the actual effective tax rate paid by the Fund are known with certainty (such balance of Units in respect of the increased Royalty, the "**Class B Holdback**", and in respect of the increased Distribution Income, the "**Class 2 Holdback**", and collectively, the "**Holdback**"). BPI receives 100% of the distributions on the Additional Entitlements throughout the year. After the Net New Restaurants have been part of the Royalty Pool for a full year, an audit of the Franchise Sales of these restaurants is performed, and the actual effective tax rate paid by the Fund is determined. At such time, an adjustment is made to reconcile distributions paid to BPI and the Additional Entitlements received by BPI.

New Restaurant Openings, Closures and Renovations

During the Period, no new Boston Pizza Restaurants opened (Year – 5) and two Boston Pizza Restaurants closed (Year – 6). Subsequent to December 31, 2019, one Boston Pizza Restaurant opened and one Boston Pizza Restaurant closed. As well, during the Period, 10 Boston Pizza Restaurants were renovated (Year – 36). Restaurants typically close for two to three weeks to complete the renovation and experience an incremental sales increase in the year following the re-opening. Subsequent to December 31, 2019, one additional restaurant was renovated. The total number of Boston Pizza Restaurants in operation as of February 12, 2020 is 395.

Seasonality

Boston Pizza Restaurants experience seasonal fluctuations in Franchise Sales, which are inherent in the full service restaurant industry in Canada. Seasonal factors, such as tourism and better weather allow Boston Pizza Restaurants to open their patios and generally increase Franchise Sales in the second and third quarters each year compared to the first and fourth quarters. Seasonality's effect on Franchise Sales impacts the Fund's Distributable Cash and Payout Ratio (as defined below).

OPERATING RESULTS

Same Restaurant Sales and Franchise Sales

SRS, a key driver of distribution growth for Unitholders, is the change in gross sales of Boston Pizza Restaurants as compared to the gross sales for the same period in the previous year, where restaurants were open for a minimum of 24 months. SRS is a non-IFRS financial measure. For additional information, refer to the section "Description of Non-IFRS and Additional IFRS Measures" in this MD&A. The two principal factors that affect SRS are changes in guest traffic and changes in average guest cheque.

Period

SRS was negative 2.1% for the Period compared to negative 0.2% reported in the fourth quarter of 2018. Franchise Sales, the basis upon which the Royalty and Distribution Income are paid by BPI and BP Canada LP respectively, indirectly to the Fund, excludes revenue from sales of liquor, beer, wine and approved national promotions and discounts. On a Franchise Sales basis, SRS was negative 1.8% for the Period compared to positive 0.1% for the fourth quarter of 2018. SRS for the Period was principally due to declines in restaurant guest traffic, partially offset by increased take-out and delivery sales and menu price increases. Management of BPI believes that such declines in guest traffic are the result of increased competition in the full-service restaurant sector, shifts in consumer spending habits in response to increased menu pricing tied to rising minimum wages, waning consumer confidence in the retail sector, increasing levels of household debt and high proportions of Boston Pizza restaurants being located in regions of Canada that are facing economic challenges.

Franchise Sales of Boston Pizza Restaurants in the Royalty Pool were $211.2 million for the Period compared to $211.4 million for the fourth quarter of 2018. The $0.2 million decrease in Franchise Sales for the Period was primarily due to negative SRS on a Franchise Sales basis, partially offset by additional Franchise Sales from five Net New Restaurants added to the Royalty Pool on January 1, 2019.

Year

SRS was negative 2.2% for the Year compared to positive 0.1% reported in 2018. On a Franchise Sales basis, SRS was negative 1.5% for the Year compared to negative 0.3% in 2018. SRS for the Year was principally due to declines in restaurant guest traffic, partially offset by increased take-out and delivery sales and menu price increases. Management of BPI believes that such declines in guest traffic are the result of increased competition in the full-service restaurant sector, shifts in consumer spending habits in response to increased menu pricing tied to rising minimum wages, waning consumer confidence in the retail sector, increasing levels of household debt and high proportions of Boston Pizza restaurants being located in regions of Canada that are facing economic challenges.

Franchise Sales of Boston Pizza Restaurants in the Royalty Pool were $853.7 million for the Year compared to $855.1 million in 2018. The $1.4 million decrease in Franchise Sales for the Year was primarily due to negative SRS on a Franchise Sales basis, partially offset by additional Franchise Sales from five Net New Restaurants added to the Royalty Pool on January 1, 2019.

Royalty Income

Period

Royalty income earned by the Fund was $8.4 million for the Period compared to $8.5 million for the fourth quarter of 2018. Royalty income in respect of the Period was based on the Royalty Pool of 396 Boston Pizza Restaurants reporting Franchise Sales of $211.2 million for the Period. In the fourth quarter of 2018, Royalty income was based on the Royalty Pool of 391 Boston Pizza Restaurants reporting Franchise Sales of $211.4 million. The $0.1 million decrease in Royalty income for the Period was primarily due to negative SRS on a Franchise Sales basis, partially offset by additional Franchise Sales from five Net New Restaurants added to the Royalty Pool on January 1, 2019.

Year

Royalty income earned by the Fund was $34.1 million for the Year compared to $34.2 million in 2018. Royalty income for the Year was based on the Royalty Pool of 396 Boston Pizza Restaurants reporting Franchise Sales of $853.7 million. In 2018, Royalty income was based on the Royalty Pool of 391 Boston Pizza Restaurants reporting Franchise Sales of $855.1 million. The $0.1 million decrease in Royalty income for the Year was primarily due to negative SRS on a Franchise Sales basis, partially offset by additional Franchise Sales from five Net New Restaurants added to the Royalty Pool on January 1, 2019.

Distribution Income

Period

Distribution Income earned by the Fund was $2.8 million for the Period, relatively unchanged from the fourth quarter of 2018. Distribution Income in respect of the Period was based on the Royalty Pool of 396 Boston Pizza Restaurants reporting Franchise Sales of $211.2 million for the Period. In the fourth quarter of 2018, Distribution Income was based on the Royalty Pool of 391 Boston Pizza Restaurants reporting Franchise Sales of $211.4 million. Distribution Income for the Period was relatively unchanged from the fourth quarter of 2018 primarily due to negative SRS on a Franchise Sales basis and BPI's retained interest in the Fund related to the Class 2 GP Units being higher for the Period compared to the fourth quarter of 2018 as a result of the five Net New Restaurants added to the Royalty Pool on January 1, 2019 and the adjustment of the Holdback that occurred in the first quarter of 2019 in respect of the eight Net New Restaurants added to the Royalty Pool on January 1, 2018, partially offset by the additional Franchise Sales from five Net New Restaurants added to the Royalty Pool on January 1, 2019.

Year

Distribution Income earned by the Fund was $11.2 million for the Year, compared to $11.4 million in 2018. Distribution Income for the Year was based on the Royalty Pool of 396 Boston Pizza Restaurants reporting Franchise Sales of $853.7 million. In 2018, Distribution Income was based on the Royalty Pool of 391 Boston Pizza Restaurants reporting Franchise Sales of $855.1 million. The $0.2 million decrease in Distribution Income for the Year was primarily due to negative SRS on a Franchise Sales basis and BPI's retained interest in the Fund related to the Class 2 GP Units being higher for the Year compared to 2018 as a result of the five Net New Restaurants added to the Royalty Pool on January 1, 2019 and the adjustment of the Holdback that occurred in the first quarter of 2019 in respect of the eight Net New Restaurants added to the Royalty Pool on January 1, 2018, partially offset by the additional Franchise Sales from five Net New Restaurants added to the Royalty Pool on January 1, 2019.

Interest Income

Period

Interest income earned by the Fund was nominal for the Period and nominal for the fourth quarter of 2018.

Year

Interest income earned by the Fund was nominal for the Year, relatively unchanged from 2018.

Administrative Expenses

Period

Administrative expenses incurred by the Fund were $0.3 million for the Period, unchanged from the fourth quarter of 2018. Administrative expenses are comprised of professional fees, trustee fees and expenses, the reimbursement charge payable to BPI and other general and administrative expenses.

Year

Administrative expenses incurred by the Fund were $1.2 million for the Year, relatively unchanged from 2018.

Interest and Financing Expenses

Period

Interest and financing expenses incurred by the Fund totalled $2.1 million for the Period, comprised of interest on long-term debt of $0.7 million and interest on Class B Units of $1.4 million. Interest and financing expenses incurred by the Fund totaled $1.9 million for the fourth quarter of 2018, comprised of interest on long-term debt of $0.7 million and interest on Class B Units of $1.2 million. The Class B Units are classified under IFRS as financial liabilities and therefore, amounts paid by Royalties LP to BPI in respect of the Class B Units are classified as interest expense and not distributions. The increase in interest and financing expenses for the Period was due to an increase in interest expense on Class B Units resulting from an increase in the number of Units into which the Class B Units held by BPI during the Period were exchangeable compared to the same period in 2018. The number of Units into which the Class B Units were exchangeable increased as a result of the five Net New Restaurants added to the Royalty Pool on January 1, 2019 and the adjustment of the Holdback that occurred in the first quarter of 2019 in respect of the eight Net New Restaurants added to the Royalty Pool on January 1, 2018.

Year

Interest and financing expenses incurred by the Fund totalled $7.0 million for the Year, comprised of interest on long-term debt of $2.8 million and interest on Class B Units of $4.1 million. Interest and financing expenses incurred by the Fund totaled $6.4 million in 2018, comprised of interest on long-term debt of $2.7 million and interest on Class B Units of $3.7 million. The increase in interest and financing expenses for the Year was primarily due to an increase in interest expense on Class B Units resulting from an increase in the number of Units into which the Class B Units held by BPI for the Year were exchangeable compared to 2018. The number of Units into which the Class B Units were exchangeable increased as a result of the five Net New Restaurants added to the Royalty Pool on January 1, 2019 and the adjustment of the Holdback that occurred in the first quarter of 2019 in respect of the eight Net New Restaurants added to the Royalty Pool on January 1, 2018. The increase in interest on long-term debt for the Year was primarily due to higher debt levels related to the Fund's normal course issuer bid that was active from November 26, 2018 to December 14, 2018, which resulted in the purchase and cancellation of 98,300 Units at an average price of $15.86 per Unit (the "**2018 NCIB**").

Profit before Fair Value Adjustments and Income Taxes

Period

The Fund's profit before fair value adjustments and income taxes was $8.9 million for the Period compared to $9.1 million for the fourth quarter of 2018. The $0.2 million decrease in profit before fair value adjustments and income taxes for the Period was primarily due to higher interest expense on Class B Units of $0.2 million.

Year

The Fund's profit before fair value adjustments and income taxes was $37.2 million for the Year, compared to $38.0 million in 2018. The $0.8 million decrease in profit before fair value adjustments and income taxes for the Year was primarily due to higher interest expense on Class B Units of $0.4 million, higher interest expense on debt of $0.1 million, and lower Royalty and Distribution Income of $0.2 million.

Fair Value Adjustments

The Fund classifies the investment in Class 1 LP Units and Class 2 LP Units as financial assets at fair value through profit or loss, the Class B Unit liability as a financial liability at fair value through profit or loss, and interest rate swaps as derivative instruments. As such, fair value adjustments are recorded in the Fund's statements of comprehensive income in accordance with IFRS. For additional information regarding interest rate swaps, refer to the "Liquidity & Capital Resources - Interest Rate Swaps" section of this MD&A. For additional information regarding financial liabilities and assets at fair value, refer to the "Critical Accounting Estimates" section of this MD&A.

Period

The Fund indirectly acquired the Class 1 LP Units on May 6, 2015 for $33.3 million. The Class 1 LP Units are entitled to distributions determined with respect to the interest cost payable on Facility D (as defined below). The Fund estimates the fair value of the Class 1 LP Units using a market-corroborated input, being the interest rate applicable on Facility D. Consequently, the Fund estimated the fair value of Class 1 LP Units as at December 31, 2019 to be $33.3 million (September 30, 2019 – $33.3 million), resulting in no fair value adjustment for the Period.

The Fund estimates the fair value of the Class 2 LP Units by multiplying the number of Class 2 LP Units indirectly held by the Fund at the end of the Period by the closing price of the Units on the last business day of the Period. As at December 31, 2019, the Fund indirectly held 5,455,762 Class 2 LP Units (September 30, 2019 – 5,455,762) and the Fund's closing price was $13.46 per Unit (September 30, 2019 – $17.25 per Unit). Consequently, the Fund estimated the fair value of the Class 2 LP Units as at December 31, 2019 to be $73.4 million (September 30,

2019 – $94.1 million), resulting in a fair value loss of $20.7 million for the Period. In general, the fair value of the Class 2 LP Units will increase as the market price of Units increases and vice versa.

The Fund estimates the fair value of the Class B Unit liability by multiplying the number of Units that BPI would be entitled to receive if it exchanged all of the Class B Units (including the Class B Holdback) held by BPI at the end of the Period by the closing price of the Units on the last business day of the Period. As at December 31, 2019, the Fund's closing price was $13.46 per Unit (September 30, 2019 – $17.25 per Unit) and the number of Units BPI would be entitled to receive if it exchanged all of the Class B Units (including the Class B Holdback) held by BPI was 2,402,966 (September 30, 2019 – 2,402,966). Consequently, the Class B Unit liability (on a fully-diluted basis) was valued at $32.3 million (September 30, 2019 – $41.5 million). The difference between the Class B Unit liability at the end of the Period and September 30, 2019 was a fair value gain of $9.1 million. In general, the Fund's Class B Unit liability will increase as the market price of Units increases and vice versa. In addition, the Fund's Class B Unit liability increases as the number of Units BPI would be entitled to receive if it exchanged all of its Class B Units (including the Class B Holdback) increases and vice versa.

The Fund recorded a $0.3 million fair value gain in the Period as a result of the increase in the fair value of the Swaps (as defined below) from September 30, 2019 to December 31, 2019 due to changes in interest rates during the Period. For the same period in 2018, the Fund recorded a $0.7 million fair value loss as a result of the decrease in the fair value of the Swaps from September 30, 2018 to December 31, 2018 due to changes in interest rates.

Year

The Fund indirectly acquired the Class 1 LP Units on May 6, 2015 for $33.3 million. As discussed above, the Fund estimated the fair value of Class 1 LP Units as at December 31, 2019 to be $33.3 million (December 31, 2018 – $33.3 million), resulting in no fair value adjustment for the Year.

As at December 31, 2018, the Fund indirectly held 5,455,762 Class 2 LP Units and the Fund's closing price was $15.11 per Unit. Consequently, the Fund estimated the fair value of the Class 2 LP Units as at December 31, 2018 to be $82.4 million. As discussed above, the Fund estimated the fair value of the Class 2 LP Units as at December 31, 2019 to be $73.4 million, resulting in a fair value loss of $9.0 million for the Year. In general, the fair value of the Class 2 LP Units will increase as the market price of Units increases and vice versa.

As at December 31, 2018, the number of Units BPI would be entitled to receive if it exchanged all of the Class B Units (including the Class B Holdback) held by BPI was 2,178,166 and the Fund's closing price was $15.11 per Unit. The Class B Unit liability (on a fully-diluted basis) as at December 31, 2018 was valued at $32.9 million. As discussed above, the Class B Unit liability at the end of the Period was valued at $32.3 million. The difference between the Class B Unit liability at the end of the Period and December 31, 2018 is a decrease of $0.6 million, comprised of a fair value gain of $4.1 million partially offset by $3.6 million of Class B Additional Entitlements received by BPI on January 1, 2019.

The Fund recorded a $0.8 million fair value loss for the Year as a result of the decrease in the fair value of the Swaps from December 31, 2018 to December 31, 2019 due to changes in interest rates for the Year. In 2018, the Fund recorded a $0.4 million fair value loss as a result of the decrease in the fair value of the Swaps from December 31, 2017 to December 31, 2018.

Income Taxes

The Fund is subject to specified investment flow-through tax ("**SIFT Tax**"), which is the Fund's only current income tax expense.

Period

The Fund's income tax expense for the Period was $2.2 million, comprised of $2.1 million in current income tax expense and $0.1 million in non-cash deferred income tax expense. The Fund's income tax expense for the

fourth quarter of 2018 was $2.3 million, comprised of $2.1 million in current income tax expense and $0.1 million in non-cash deferred income taxes. The change in non-cash deferred income tax expense is nominal and is due to changes in the temporary differences between the accounting and tax base of: (i) the BP Rights owned by Royalties LP generated since the inception of the Fund; (ii) the Fund's indirect investment in BP Canada LP; and (iii) the deferred tax benefit associated with the Fund's costs of issuing securities as part of the 2015 Transaction.

Year

The Fund's income tax expense for the Year was $9.0 million, comprised of $8.6 million in current income tax expense and $0.4 million in non-cash deferred income tax expense. The Fund's income tax expense in 2018 was $6.6 million, comprised of $8.7 million in current income tax expense and $2.1 million of non-cash deferred income tax recovery. The $0.1 million decrease in current income tax expense compared to the same period in 2018 is directly attributable to lower profit before fair value adjustments and income taxes. The $2.5 million increase in non-cash deferred income tax expense compared to the same period in 2018 was due to changes in the temporary differences between the accounting and tax base of: (i) the BP Rights owned by Royalties LP generated since the inception of the Fund; (ii) the Fund's indirect investment in BP Canada LP; and (iii) the deferred tax benefit associated with the Fund's costs of issuing securities as part of the 2015 Transaction.

Net and Comprehensive Income / Basic and Diluted Earnings

Period

The Fund's net and comprehensive loss was $4.6 million for the Period compared to net and comprehensive loss of $1.0 million for fourth quarter of 2018. The Fund's basic loss per Unit was $0.21 for the Period compared to basic loss per Unit of $0.04 for the fourth quarter of 2018. The Fund's diluted loss per Unit was $0.53 for the Period compared to diluted loss per Unit of $0.21 for the fourth quarter of 2018.

The $3.6 million decrease in the Fund's net and comprehensive income for the Period compared to the fourth quarter of 2018 was primarily due to a $3.5 million change in fair value adjustments.

Year

The Fund's net and comprehensive income was $22.5 million for the Year compared to net and comprehensive income of $8.7 million in 2018. The Fund's basic earnings per Unit was $1.03 for the Year compared to basic earnings per Unit of $0.40 in 2018. The Fund's diluted earnings per Unit was $0.88 for the Year compared to diluted loss per Unit of $0.12 for the same period in 2018.

The $13.8 million increase in the Fund's net and comprehensive income for the Year compared to the same period in 2018 was primarily due to a $17.0 million change in fair value adjustments, partially offset by higher non-cash deferred income taxes of $2.5 million.

Distributions

Period

During the Period, the Fund declared distributions on the Units in the aggregate amount of $10.0 million or $0.460 per Unit compared to $10.0 million or $0.460 per Unit in the fourth quarter of 2018. During the Period, the Fund paid distributions on the Units in the aggregate amount of $7.5 million or $0.345 per Unit, compared to $7.5 million or $0.345 per Unit in the same period in 2018. The aggregate amount of distributions declared and paid during the Period was relatively unchanged as a result of there being comparable Units outstanding during the Period compared to the same period in 2018.

Year

During the Year, the Fund declared distributions on the Units in the aggregate amount of $30.1 million or $1.380 per Unit compared to $30.2 million or $1.380 per Unit in 2018. During the Year, the Fund paid distributions on the Units in the aggregate amount of $30.1 million or $1.380 per Unit, compared to $30.2 million or $1.380 per Unit in the same period in 2018. The decrease in the aggregate amount of distributions declared and paid during the Year was a result of there being fewer Units outstanding compared to the same period in 2018 due to the Fund's 2018 NCIB.

The Fund pays distributions on the Units in respect of any particular calendar month not later than the last business day of the immediately subsequent month. Consequently, distributions payable by the Fund on the Units in respect of the Period were the October 2019 distribution (which was paid on November 29, 2019), the November 2019 distribution (which was paid on December 31, 2019), and the December 2019 distribution (which was paid on January 31, 2020). Similarly, the distributions payable by the Fund on the Units in respect of any other period are paid in the immediately subsequent month of such period.

On February 12, 2020, the trustees of the Fund declared a distribution for the period of January 1, 2020 to January 31, 2020 of $0.102 per Unit, which will be payable on February 28, 2020 to Unitholders of record on February 21, 2020. The monthly distribution rate of $0.102 per Unit represents a reduction of 1.3 cents or 11.3% from the previous monthly distribution rate of $0.115 per Unit and represents an annual distribution rate of $1.224 per Unit compared to the previous annual distribution rate of $1.38 per Unit.

Including the January 2020 distribution, which will be paid on February 28, 2020, the Fund will have paid out 211 consecutive monthly distributions totaling $339.1 million or $22.12 per Unit. The Fund periodically reviews distribution levels based on its policy of stable and sustainable distribution flow to Unitholders.

Distributions related to the Year were as follows:

PERIOD	PAYMENT DATE	AMOUNT/UNIT
December 1 – 31, 2018	January 31, 2019	11.5¢
January 1 – 31, 2019	February 28, 2019	11.5¢
February 1 – 28, 2019	March 29, 2019	11.5¢
March 1 – 31, 2019	April 30, 2019	11.5¢
April 1 – 30, 2019	May 31, 2019	11.5¢
May 1 – 31, 2019	June 28, 2019	11.5¢
June 1 – 30, 2019	July 31, 2019	11.5¢
July 1 – 31, 2019	August 30, 2019	11.5¢
August 1 – 31, 2019	September 30, 2019	11.5¢
September 1 – 30, 2019	October 31, 2019	11.5¢
October 1 – 31, 2019	November 29, 2019	11.5¢
November 1 – 30, 2019	December 31, 2019	11.5¢
December 1 – 31, 2019	January 31, 2020*	11.5¢

* *Paid subsequent to the Period and the Year.*

Distributions for the Period and the Year were funded entirely by cash flows from operations. No debt was incurred at any point during the Period or the Year to fund distributions.

Distributable Cash / Payout Ratio

Distributable Cash

Period

The Fund generated Distributable Cash of $7.0 million for the Period, compared to $7.3 million for the fourth quarter of 2018. The decrease in Distributable Cash of $0.3 million or 4.2% was primarily due to an increase in BPI's Class B Unit entitlement of $0.1 million combined with slightly higher working capital.

The Fund generated Distributable Cash per Unit of $0.319 for the Period compared to $0.332 per Unit for the fourth quarter of 2018. The decrease in Distributable Cash per Unit of $0.013 or 3.9% was primarily attributable the decrease in Distributable Cash outlined above, partially offset by there being fewer Units outstanding compared to the same period in 2018 due to the Fund's 2018 NCIB.

Year

The Fund generated Distributable Cash of $28.7 million for the Year compared to $29.2 million in 2018. The decrease in Distributable Cash of $0.5 million or 1.8% was primarily attributable to an increase in BPI's Class B Unit entitlement of $0.4 million and lower Royalty and Distribution Income of $0.2 million.

The Fund generated Distributable Cash per Unit of $1.317 for the Year compared to $1.336 per Unit in 2018. The decrease in Distributable Cash per Unit of $0.019 or 1.4% was primarily attributable to the decrease in Distributable Cash outlined above, partially offset by there being fewer Units outstanding compared to the same period in 2018 due to the Fund's 2018 NCIB.

The Fund's Distributable Cash and Distributable Cash per Unit since January 1, 2017, generated in each financial quarter, are as follows:

Distributable Cash

(*in millions of dollars*)	Q1	Q2	Q3	Q4	Annual
2019	$ 6.6	$ 7.3	$ 7.8	**$ 7.0**	**$ 28.7**
2018	$ 6.7	$ 7.3	$ 8.0	$ 7.3	$ 29.2
2017	$ 6.3	$ 7.1	$ 7.9	$ 7.2	$ 28.6

Distributable Cash per Unit

	Q1	Q2	Q3	Q4	Annual
2019	$ 0.303	$ 0.336	$ 0.359	**$ 0.319**	**$ 1.317**
2018	$ 0.305	$ 0.335	$ 0.364	$ 0.332	$ 1.336
2017	$ 0.312	$ 0.348	$ 0.389	$ 0.331	$ 1.379

Payout Ratio

Period

The Fund's Payout Ratio for the Period was 108.0% compared to 103.8% in the fourth quarter of 2018. The increase in the Fund's Payout Ratio for the Period compared to the same period in 2018 was due to the combined effects of Distributable Cash decreasing by $0.3 million or 4.2%, and distributions paid decreasing by a nominal amount or 0.3%.

Year

The Fund's Payout Ratio for the Year was 104.8% compared to 103.3% in 2018. The increase in the Fund's Payout Ratio for the Year compared to the same period in 2018 was due to the combined effects of Distributable Cash decreasing by $0.5 million or 1.8%, and distributions paid decreasing by $0.1 million or 0.4%. If the Fund had distributed $1.224 per Unit in respect of the Year (being the annualized distribution rate of the distribution declared for the period of January 1, 2020 to January 31, 2020) instead of the $1.38 per unit that it did, the Fund's Payout Ratio for the Year would have been 93.4% rather than 104.8%.

The Fund's quarterly and annual Payout Ratios with respect to each financial quarter since January 1, 2017 are as follows:

	Q1	Q2	Q3	Q4	Annual
2019	113.9%	102.6%	96.2%	**108.0%**	**104.8%**
2018	113.1%	103.0%	94.7%	103.8%	103.3%
2017	110.6%	99.1%	88.4%	104.2%	100.0%

Because the Fund strives to provide Unitholders with consistent monthly distributions, the Fund will generally experience seasonal fluctuations in its Payout Ratio. The Fund's Payout Ratio is typically higher in the first and fourth quarters compared to the second and third quarters since Boston Pizza Restaurants generally experience higher Franchise Sales levels during the summer months when restaurants open their patios and benefit from increased tourist traffic. Higher Franchise Sales generally result in increases in Distributable Cash. Distributable Cash and Payout Ratio are non-IFRS financial measures. For additional information regarding these financial metrics, refer to the section "Description of Non-IFRS and Additional IFRS Measures" in this MD&A.

New Restaurants Added to the Royalty Pool

Boston Pizza Restaurants Added to Royalty Pool on January 1, 2019

On January 1, 2019, 10 new Boston Pizza Restaurants that opened across Canada between January 1, 2018 and December 31, 2018 were added to the Royalty Pool and the five restaurants that permanently closed during 2018 were removed from the Royalty Pool. The estimated 2019 annual Franchise Sales for the 10 new Boston Pizza Restaurants that opened less the Franchise Sales from the five permanent closures was $11.8 million. The estimated Royalty and Distribution Income expected to be generated in 2019 by these five Net New Restaurants was 5.5% of that amount, or approximately $0.7 million. The pre-tax amount for the purposes of calculating the Additional Entitlements, therefore, was approximately $0.7 million, or 92.5% of $0.7 million. The estimated effective tax rate that the Fund would pay in the calendar year 2019 was 27.0%. Accordingly, the after-tax additional Royalty and Distribution Income for the purposes of calculating the Additional Entitlements was approximately $0.5 million ($0.7 million x (1 – 0.27)). In return for adding net additional Royalty and Distribution Income from the five Net New Restaurants added to the Royalty Pool, BPI received 255,019 Additional Entitlements (representing 80% of the estimated total Additional Entitlements), comprised of 185,469 Class B Additional Entitlements and 69,550 Class 2 Additional Entitlements, and the Holdback was 63,755 Additional Entitlements (representing 20% of the estimated total Additional Entitlements), comprised of 46,367 Class B Holdback and 17,388 Class 2 Holdback. The 255,019 Additional Entitlements represented 1.0% of Units on a fully diluted basis on January 1, 2019. The full 318,774 Additional Entitlements (being 255,019 Additional Entitlements received by BPI plus the 63,755 Holdback) represented 1.3% of the Units on a fully diluted basis on January 1, 2019. BPI received an increase in monthly distributions based on 100% of the Additional Entitlements, subject to a reconciliation of the distributions paid to BPI in respect of these Additional Entitlements that occurred after the actual performance of the 10 new Boston Pizza Restaurants added to the Royalty Pool on January 1, 2019 and the actual effective tax rate paid by the Fund for 2019 were known. After both the actual performance of the 10 new Boston Pizza Restaurants added to the Royalty Pool on January 1, 2019 and the actual effective tax rate paid by the Fund for 2019 were known, the number of Additional Entitlements was adjusted in early 2020 to reflect the actual Franchise Sales generated by these Boston Pizza Restaurants in 2019 and the actual effective tax rate paid by the Fund in 2019. See the "Operating Results – Subsequent Events" section of this MD&A for details of these adjustments.

Audit of Boston Pizza Restaurants Added to Royalty Pool on January 1, 2018

In February 2019, an audit of the Franchise Sales of the 11 new Boston Pizza Restaurants that were added to the Royalty Pool on January 1, 2018 was performed and the actual effective tax rate paid by the Fund for the 2018 Fiscal Year was determined. The purpose of this was to compare the actual Franchise Sales from these 11 new Boston Pizza Restaurants to the estimated amount of Franchise Sales expected to be generated by these 11 new Boston Pizza Restaurants during the 2018 Fiscal Year and to compare the actual effective tax rate paid

by the Fund for the 2018 Fiscal Year to the estimated effective tax rate the Fund expected to pay for the 2018 Fiscal Year. The original Franchise Sales expected to be generated from these 11 new Boston Pizza Restaurants less the Franchise Sales from the three permanent closures that occurred in 2017 was $13.5 million, and the actual Franchise Sales generated from these eight Net New Restaurants was $0.8 million less. The original effective tax rate the Fund expected to pay for 2018 was 25.0% and the actual effective tax rate paid by the Fund for 2018 was 22.4%. As a result, Royalties LP decreased interest paid to BPI by a nominal amount in early 2019 to reconcile the difference paid on the full number of Class B Additional Entitlements and the effective tax rate. In addition, BP Canada LP increased the distribution paid to Holdings LP on its Class 2 LP Units by a nominal amount, and correspondingly decreased the distribution paid to BPI on its Class 2 GP Units by the same amount, to reconcile the difference paid on the full number of Class 2 Additional Entitlements and the effective tax rate. BPI received only 80% of the estimated Additional Entitlements at the Adjustment Date in 2018. Following the audit, BPI received 64,836 Additional Entitlements, comprised of 47,153 Class B Additional Entitlements and 17,683 Class 2 Additional Entitlements.

Subsequent Events

Boston Pizza Restaurants Added to Royalty Pool on January 1, 2020

On January 1, 2020, the Royalty Pool was adjusted to include five new full service restaurants that opened across Canada during the Year, and to remove five full service restaurants and one quick express restaurant that were permanently closed during the Year. The estimated annual Franchise Sales in 2020 for the five new Boston Pizza restaurants that opened in 2019 less the six Boston Pizza restaurants that permanently closed in 2019 is $1.6 million. The estimated Royalty and Distribution Income expected to be generated is 5.5% of this amount, or $0.09 million. The pre-tax amount for the purposes of calculating the Additional Entitlements, therefore, is approximately $0.08 million or 92.5% of $0.09 million. The estimated effective tax rate that the Fund will pay in the calendar year 2020 is 24.0%. Accordingly, the after-tax additional Royalty and Distribution Income for the purposes of calculating the Additional Entitlements is approximately $0.06 million ($0.08 million x (1 – 0.24)). In return for adding additional Royalty and Distribution Income from the five new Boston Pizza restaurants opened less the Royalty and Distribution Income lost from the six permanent closures, BPI indirectly received 35,720 Additional Entitlements (representing 80% of the total Additional Entitlements), comprised of 25,978 Class B Additional Entitlements and 9,742 Class 2 Additional Entitlements, and the Holdback is 8,930 Additional Entitlements (representing 20% of the total Additional Entitlements), comprised of 6,495 Class B Holdback and 2,435 Class 2 Holdback. The Holdback (as adjusted) will be indirectly received by BPI when both the actual full year performance of the five new Boston Pizza restaurants and the effective tax rate paid by the Fund are known with certainty. The 35,720 Additional Entitlements represented 0.1% of Units on a fully-diluted basis as of January 1, 2020. The full 44,650 Additional Entitlements (being the 35,720 Additional Entitlements indirectly received by BPI plus the 8,930 Holdback) represented 0.2% of Units on a fully diluted basis as of January 1, 2020. BPI receives an increase in monthly distributions based on 100% of the Additional Entitlements, subject to a reconciliation of the distributions paid to BPI in respect of these Additional Entitlements that will occur once the actual performance of the five new Boston Pizza restaurants opened less the Royalty and Distribution Income lost from the six permanent closures and the actual effective tax rate paid by the Fund for the 2020 Fiscal Year are known with certainty.

Audit of Boston Pizza Restaurants Added to Royalty Pool on January 1, 2019

In early 2020, an audit of the Franchise Sales of the 10 new Boston Pizza Restaurants that were added to the Royalty Pool on January 1, 2019 was performed and the actual effective tax rate paid by the Fund for the 2019 Fiscal Year was determined. The purpose of this was to compare the actual Franchise Sales from these 10 new Boston Pizza Restaurants to the estimated amount of Franchise Sales expected to be generated by these 10 new Boston Pizza Restaurants during the 2019 Fiscal Year and to compare the actual effective tax rate paid by the Fund for the 2019 Fiscal Year to the estimated effective tax rate the Fund expected to pay for the 2019 Fiscal Year. The original Franchise Sales expected to be generated from these 10 new Boston Pizza Restaurants less the Franchise Sales from the five permanent closures that occurred in 2018 was $11.8 million, and the actual Franchise Sales generated from these five net new restaurants was $1.0 million less. The original effective tax rate the Fund expected to pay for 2019 was 27.0% and the actual effective tax rate paid by the Fund for 2019

was 22.3%. As a result, Royalties LP decreased interest payable to BPI by a nominal amount in early 2020 to reconcile the difference paid on the full number of Class B Additional Entitlements and the effective tax rate. In addition, BP Canada LP will increase a future distribution payable to Holdings LP on its Class 2 LP Units by a nominal amount, and will correspondingly decrease a future distribution payable to BPI on its Class 2 GP Units by the same amount, to reconcile the difference paid on the full number of Class 2 Additional Entitlements and the effective tax rate. BPI received only 80% of the Additional Entitlements at the Adjustment Date in 2019. Following the audit, BPI received 56,800 Additional Entitlements, comprised of 41,309 Class B Additional Entitlements and 15,491 Class 2 Additional Entitlements.

Amended and Extended Credit Facilities

On January 24, 2020, Holdings LP and Royalties LP entered into and amended and restated credit agreement (the "**Amended and Restated Credit Agreement**") with a Canadian chartered bank (the "**Bank**") pursuant to which the Credit Facilities (defined below) were amended and extended (the "**Amended and Extended Credit Facilities**") as follows:

1. The maturity date was extended from May 20, 2020 to January 24, 2025;

2. The total amount of credit available was increased by approximately $6.7 million, from $90.3 million to approximately $97.0 million, by increasing the size of Facility B (defined below) from $55.0 million to approximately $61.7 million;

3. The permitted uses of Facility B were expanded to include the repayment of the Deferred Amount (defined below) to BPI;

4. The availment options for Facility B and Facility D (defined below) were changed to include, among others, availment by way of (i) Canadian dollar prime rate loans, (ii) bankers' acceptances for one (1) month or three (3) months, and (iii) Canadian dollar offered rate loans with terms of one (1) month or three (3) months, with fixed rate operating loans being eliminated as an availment option; and

5. The interest rates (or margins, as applicable) applicable to Canadian dollar prime rate loans, bankers' acceptances and Canadian dollar offered rate loans were reduced. In the case of Canadian prime rate loans, the interest rate is now equal to the Bank's prime rate plus between 0.00% and 0.40% (depending on the total funded net debt to EBITDA ratio) and, in the case of bankers' acceptances and Canadian dollar offered rate loans, the interest rate is equal to a variable interest rate based on the Bank's bankers' acceptance rates or Canadian dollar offered rates plus between 0.90% and 1.40% (depending on the total funded net debt to EBITDA ratio).

The guarantees and security supporting the Amended and Extended Credit Facilities are unchanged from those provided in respect of the Credit Facilities. The material covenants of Holdings LP and Royalties LP in respect of the Amended and Extended Credit Facilities are substantially similar to the material covenants in the Credit Facilities and the maximum total funded net debt to EBITDA covenant remains the same at 2.25 to 1. As well, no changes to the Swaps were made as part of the Amended and Extended Credit Facilities.

Full particulars of the Amended and Extended Credit Facilities, including applicable interest rates, security, guarantees and other terms and conditions are contained within the Amended and Restated Credit Agreement, a copy of which is available on www.sedar.com.

Units Outstanding

The following table sets forth a summary of the outstanding Units. BPI owns 100% of the Class B Units and 1% of the ordinary general partner units of Royalties LP. BPI also owns 100% of the Class 2 GP Units, and 100% of the Class 3, Class 4, Class 5 and Class 6 general partnership units of BP Canada LP. The Class B Units and Class 2 GP Units are exchangeable for Units. References to "Class B Additional Entitlements" and "Class 2

Additional Entitlements" in the table below refer to the number of Units into which the Class B Units and Class 2 GP Units, respectively, are exchangeable as of the dates indicated.

Summary of Boston Pizza Royalties Income Fund Units

	Dec. 31, 2019 Excluding Holdback	Dec. 31, 2019 Including Holdback	Feb. 12, 2020 Excluding Holdback	Feb. 12, 2020 Including Holdback	
Units Outstanding					
Total Issued and Outstanding Fund Units	21,787,763	21,787,763	21,787,763	21,787,763	
Class B Additional Entitlements Outstanding					
Class B Additional Entitlements (Excluding Jan. 1, 2020 Adjustment Date)	2,356,599	2,356,599	2,356,599	2,356,599	
Class B Holdback (Excluding Jan. 1, 2020 Adjustment Date)	N/A	46,367	N/A	N/A	(1)
Class B Additional Entitlements – Issued Jan. 1, 2020 (negative one Net New Restaurant)	N/A	N/A	25,978	25,978	
Class B Holdback – Created Jan. 1, 2020 (negative one Net New Restaurant)	N/A	N/A	N/A	6,495	(2)
Class B Holdback – Issued in respect of 2019 after audit	N/A	N/A	41,309	41,309	(3)
Total Class B Additional Entitlements	2,356,599	2,402,966	2,423,886	2,430,381	
Class 2 Additional Entitlements Outstanding					
Class 2 Additional Entitlements (Excluding Jan. 1, 2020 Adjustment Date)	803,520	803,520	803,520	803,520	
Class 2 Holdback (Excluding Jan. 1, 2020 Adjustment Date)	N/A	17,388	N/A	N/A	(1)
Class 2 Additional Entitlements – Issued Jan. 1, 2020 (negative one Net New Restaurant)	N/A	N/A	9,742	9,742	
Class 2 Holdback – Created Jan. 1, 2020 (negative one Net New Restaurant)	N/A	N/A	N/A	2,435	(2)
Class 2 Holdback – Issued in respect of 2019 after audit	N/A	N/A	15,491	15,491	(3)
Total Class 2 Additional Entitlements	803,520	820,908	828,753	831,188	
Summary					
Total Issued and Outstanding Fund Units	21,787,763	21,787,763	21,787,763	21,787,763	
Total Additional Entitlements	3,160,119	3,223,874	3,252,639	3,261,569	
Total Diluted Units	24,947,882	25,011,637	25,040,402	25,049,332	
BPI's Total Percentage Ownership	12.7%	12.9%	13.0%	13.0%	

1) Additional Entitlements from the five Net New Restaurants added to Royalty Pool on January 1, 2019 prior to the audit of the five Net New Restaurants and determination of the actual effective tax rate paid by the Fund.
2) Holdback from the Additional Entitlements to which BPI is entitled for adding to the Royalty Pool on January 1, 2020 additional Royalty and Distribution Income from the five new Boston Pizza restaurants opened less the Royalty and Distribution Income lost from the six permanent closures. The actual number of Additional Entitlements will be determined in early 2021, effective January 1, 2020, once audited results of the negative new restaurants and actual effective tax rate paid by the Fund are known.
3) Additional Entitlements from the five Net New Restaurants added to the Royalty Pool on January 1, 2019 determined in 2020 when the audited results of the five Net New Restaurants and actual effective tax rate paid by the Fund were known.

BPI directly and indirectly holds 100% of the special voting units (the "**Special Voting Units**") of the Fund, which entitle BPI to one vote in respect of matters to be voted upon by Unitholders for each Unit that BPI would be entitled to receive if it exchanged all of its Class B Units and Class 2 GP Units for Units. As of February 12, 2020,

BPI was entitled to 3,252,639 votes, representing 13.0% of the aggregate votes held by holders of Units and Special Voting Units. The number of Units that BPI is entitled to receive upon the exchange of its Class B Units and Class 2 GP Units and the number of votes that BPI is entitled to in respect of its Special Voting Units is adjusted periodically to reflect any additional Boston Pizza Restaurants that were added to the Royalty Pool.

TAX TREATMENT OF DISTRIBUTIONS

Of the $1.38 in distributions declared per Unit during the Year, 77.3% or $1.07 per Unit are taxable eligible dividends and 22.7% or $0.31 per Unit represents a tax-deferred return of capital.

LIQUIDITY & CAPITAL RESOURCES

The Fund's distribution policy is to distribute the total amount of cash received by the Fund from the Trust on the units of the Trust and notes of the Trust less the sum of: (a) administrative expenses and other obligations of the Fund; (b) amounts which may be paid by the Fund in connection with any cash redemptions of Units; (c) any interest expense incurred by the Fund; and (d) reasonable reserves established by the trustees of the Fund in their sole discretion, including, without limitation, reserves to pay SIFT Tax, in order to maximize returns to Unitholders. In light of seasonal variations that are inherent to the restaurant industry, the Fund's policy is to make equal distribution payments to Unitholders on a monthly basis in order to smooth out these fluctuations. Any further change in distributions will be implemented in such a manner so that the continuity of uniform monthly distributions is maintained, while making provisions for working capital due to seasonal variations of Boston Pizza Restaurant sales. It is expected that future distributions will continue to be funded entirely by cash flows from operations. The Fund believes its current sources of liquidity are sufficient to cover its currently known short and long-term obligations.

Indebtedness

As at December 31, 2019, Holdings LP and Royalties LP had credit facilities with the Bank in the amount of up to $90.3 million with a maturity date of May 5, 2020 (the "**Credit Facilities**"). The Credit Facilities were comprised of: (i) a $2.0 million committed operating facility issued to Royalties LP ("**Facility A**"); (ii) a $55.0 million committed revolving credit facility issued to Royalties LP for the purpose of refinancing previous credit facilities and to facilitate the Fund repurchasing and canceling Units under normal course issuer bids, substantial issuer bids or to finance the cash component of any exchange of general partnership units of BP Canada LP ("**Facility B**"); and (iii) a $33.3 million committed revolving credit facility issued to Holdings LP for the purpose of subscribing for Class 1 LP Units of BP Canada LP ("**Facility D**").

The Credit Facilities bore interest at fixed or variable interest rates, as selected by Royalties LP or Holdings LP, as applicable, comprised of either the Bank's current rate for fixed rate operating loans or a combination of the Bank's bankers' acceptance rates plus between 1.00% and 1.50%, or the Bank's prime rate plus between 0.00% and 0.50%, depending upon funded debt to EBITDA ratios.

The credit agreement that governed the Credit Facilities among Holdings LP, Royalties LP, the Fund, the Trust, Holdings GP and Royalties GP and the Bank dated May 5, 2015 contained a number of covenants and restrictions, including the requirement to meet certain financial ratios and financial condition tests. A failure of the Fund or its subsidiaries to comply with these covenants and restrictions could have entitled the Bank to demand repayment of the outstanding balance drawn on the Credit Facilities prior to maturity. Royalties LP and Holdings LP were in compliance with all of their financial covenants and financial condition tests as of the end of the Period.

On January 24, 2020, the Credit Facilities were amended and extended by the Amended and Restated Credit Agreement. See the "Subsequent Events – Amended and Extended Credit Facilities" section of this Management's Discussion and Analysis above for more details.

As of December 31, 2019, working capital of the Fund totaled negative $85.9 million (September 30, 2019 – negative $82.7 million). The Fund has no requirement to maintain a certain amount of working capital. As of

December 31, 2019, no amount was drawn on Facility A, $55.0 million was drawn on Facility B and $33.3 million was drawn on Facility D. The Fund's working capital as at December 31, 2019 was in a negative position due to the requirement to present the amounts drawn on the Credit Facilities as current liabilities since the Credit Facilities, before they were amended and extended by the Amended and Restated Credit Agreement, matured on May 5, 2020. Without inclusion of the amounts drawn on the Credit Facilities as current liabilities, the Fund's working capital would be $2.4 million at December 31, 2019.

The following table provides a summary of the Fund's contractual obligations and commitments (including expected interest payments) as at December 31, 2019:

(*in thousands of dollars*)	< 1 year	1 - 5 years	> 5 year	Total	Book Value
Accounts payable and accrued liabilities	522	–	–	522	522
Distributions payable to Fund Unitholders	2,506	–	–	2,506	2,506
Other liabilities	–	800	–	800	800
Credit Facilities and interest rate swaps[1]	89,306	–	–	89,306	88,224
	92,334	800	–	93,134	92,052

Note:

1) Credit Facilities and interest rate swaps include expected interest payments based on the Fund's blended rate of 3.18% to the previously scheduled maturity date of the Credit Facilities of May 5, 2020.

Interest Rate Swaps

Royalties LP and Holdings LP, as applicable, previously entered into the following interest rate swaps (the "**Swaps**") under their respective International Swap Dealers Association Master Agreements with the Bank:

(a) Royalties LP entered into a swap to fix the interest rate at 1.51% plus between 1.00% and 1.50% per annum (depending upon funded debt to EBITDA ratios) for a term ending on February 1, 2022 for $13.9 million of the $55.0 million drawn on Facility B;

(b) Holdings LP entered into a swap to fix the interest rate at 1.25% plus between 1.00% and 1.50% per annum (depending upon funded debt to EBITDA ratios) for a term ending on August 1, 2020 for $17.0 million of the $33.3 million drawn on Facility D;

(c) Holdings LP entered into a swap to fix the interest rate at 0.87% plus between 1.00% and 1.50% per annum (depending upon funded debt to EBITDA ratios) for a term ending on March 1, 2021 for $16.3 million of the $33.3 million drawn on Facility D;

(d) Royalties LP entered into a swap to fix the interest rate at 2.40% plus between 1.00% and 1.50% per annum (depending upon funded debt to EBITDA ratios) for a term ending on January 1, 2023 for $15.0 million of the $55.0 million drawn on Facility B; and

(e) Royalties LP entered into a swap to fix the interest rate at 2.27% plus between 1.00% and 1.50% per annum (depending upon debt to EBITDA ratios) for a term commencing on April 1, 2019 and ending on April 1, 2024 for $15.0 million of the $55.00 million drawn on Facility B.

$11.1 million drawn on Facility B currently bears interest at variable interest rates applicable to the Amended and Extended Credit Facilities discussed above.

The Fund uses the Swaps to mitigate its exposure to interest rate risk related to the Credit Facilities and Amended and Extended Credit Facilities. The Fund accounts for the Swaps as derivative instruments in accordance with IFRS. The fair market value of the Swaps is determined using valuation techniques at each reporting date and any change in the fair value of the Swaps is included in the Fund's comprehensive income or loss. The Fund recorded a $0.3 million fair value gain adjustment on the Swaps for the Period in its consolidated statements of

comprehensive income compared to a $0.7 million fair value loss adjustment on the Swaps for the fourth quarter of 2018. During the Year, the Fund recorded a $0.8 million fair value loss adjustment on the Swaps (2018 – $0.4 million fair value loss) in its consolidated statements of comprehensive income.

Cash Flows

Cash Flow from Operating Activities

Period

During the Period, the Fund generated $8.7 million in cash from operating activities principally comprised of Royalty income of $8.4 million and Distribution Income of $2.8 million, partially offset by income taxes paid of $2.1 million and administrative expenses of $0.3 million. During the fourth quarter of 2018, the Fund generated $8.9 million in cash from operating activities principally comprised of Royalty income of $8.5 million and Distribution Income of $2.8 million, partially offset by income taxes paid of $2.1 million and administrative expenses of $0.3 million. See the "Operating Results" section of this MD&A for a detailed discussion of each of Royalty income, Distribution Income, administrative expenses and income taxes.

Year

During the Year, the Fund generated $35.6 million in cash from operating activities principally comprised of Royalty income of $34.1 million and Distribution Income of $11.2 million, partially offset by income taxes paid of $8.6 million and administrative expenses of $1.2 million. In 2018, the Fund generated $35.7 million in cash from operating activities principally comprised of Royalty income of $34.2 million and Distribution Income of $11.4 million, partially offset by income taxes paid of $8.7 million and administrative expenses of $1.3 million.

Cash Flow used in Financing Activities

Period

During the Period, the Fund used $9.2 million in cash for financing activities, including $7.5 million of which was used to pay distributions to Unitholders, $1.0 million of which was used to pay interest to BPI on the Class B Units and $0.7 million of which was used to pay interest on the Credit Facilities, partially offset by the Fund's deferral of payment to BPI for reimbursement charges of $0.1 million.

In the fourth quarter of 2018, the Fund used $8.8 million in cash for financing activities, including $7.5 million of which was used to pay distributions to Unitholders, $0.9 million of which was used to pay interest to BPI on the Class B Units, $0.7 million of which was used to pay interest on the Credit Facilities and $1.6 million of which was used to purchase Units under the 2018 NCIB, which was offset by $1.6 million of cash generated by drawing on the Fund's Credit Facilities and the Fund's deferral of payment to BPI for administrative charges of $0.4 million.

Year

During the Year, the Fund used $36.6 million in cash for financing activities, including $30.1 million of which was used to pay distributions to Unitholders, $4.1 million of which was used to pay interest to BPI on the Class B Units and $2.8 million of which was used to pay interest on the Credit Facilities, partially offset by the Fund's deferral of payment to BPI for reimbursement charges of $0.4 million.

In 2018, the Fund used $36.3 million in cash for financing activities, including $30.2 million of which was used to pay distributions to Unitholders, $3.8 million of which was used to pay interest to BPI on the Class B Units, $2.7 million of which was used to pay interest on the Credit Facilities and $1.6 million of which was used to purchase Units under the 2018 NCIB, which was offset by $1.6 million of cash generated by drawing on the Fund's Credit Facilities and the Fund's deferral of payment to BPI for administrative charges of $0.4 million.

Related Party Transactions

BPI and BP Canada LP are considered to be related parties of the Fund by virtue of the common officers and directors of BPI and Royalties GP. The Fund's related party transactions at the end of the Period were as follows:

- The Fund has engaged Royalties LP, its administrator, to provide certain administrative services on behalf of the Fund. In turn, certain of the administrative services are performed by BPI as a general partner of Royalties LP. Under the terms of the partnership agreement governing Royalties LP, BPI is entitled to be reimbursed for certain out-of-pocket expenses incurred in performing these services. Royalties LP and BPI have agreed that for 2018 and 2019, BPI will charge Royalties LP $0.4 million of annual out-of-pocket expenses for which it is entitled to be reimbursed but that Royalties LP will defer payment of such amount to BPI (the "**Deferred Amount**"). The Deferred Amount will not bear interest and will become payable to BPI when the Fund's cash and cash equivalents is greater than 7% of Royalty and Distribution Income. The total amount charged by BPI in respect of these services for the Period was $0.1 million (Q4 2018 – $0.1 million) and for the Year was $0.4 million (2018 – $0.4 million). The total amount payable to BPI in respect of these services for the Period was $0.1 million (Q4 2018 – $0.1 million) and for the Year was $0.4 million (2018 – $0.4 million). The total amount payable to BPI in respect of these services for 2018 and 2019 was $0.8 million and as at December 31, 2019, is classified as a long-term liability on the Fund's consolidated statements of financial position.

- As at December 31, 2019, interest payable by the Fund to BPI in respect of the Class B Units was $0.3 million (December 31, 2018 – $0.3 million).

- As at December 31, 2019, the Royalty receivable from BPI was $3.0 million (Q4 2018 – $3.0 million), and the Distribution Income receivable from BP Canada LP was $0.9 million (Q4 2018 – $1.0 million). See the "Distributions" section of this MD&A for more details.

Other related party transactions and balances are referred to elsewhere in this MD&A.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The President ("**President**") and the Chief Financial Officer ("**CFO**") of Royalties GP, managing general partner of Royalties LP, administrator of the Fund, have designed or caused to be designed under their supervision disclosure controls and procedures to provide reasonable assurance that all material information regarding the Fund is gathered and reported to senior management, including the President and CFO, on a timely basis, particularly during the period in which the annual and interim filings are being prepared, so that appropriate decisions can be made regarding public disclosure.

An evaluation of the effectiveness of the Fund's disclosure controls and procedures, as defined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*, was carried out under the supervision of, and with the participation of management, including the President and CFO. Based on that evaluation, the President and CFO have concluded that the design and operation of these disclosure controls and procedures were effective in providing reasonable assurance that: (a) information required to be disclosed by the Fund in its annual filings, interim filings or other reports filed and submitted by it under applicable securities legislation is recorded, processed, summarized and reported within the prescribed time periods specified in securities legislation, and (b) material information regarding the Fund is accumulated and communicated to the Fund's administrator, Royalties LP, as well as the President and CFO in a timely manner, particularly during the period in which the annual and interim filings are being prepared.

During the Period and Year, there was no change in the Fund's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Fund's internal control over financial reporting. The Fund complies with the Committee of Sponsoring Organizations of the Treadway Commission Internal Control – Integrated Framework: 2013.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Fund's annual consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised. Significant areas requiring the use of management judgment and estimates relate to the determination of the following:

Judgment – Consolidation

Applying the criteria outlined in IFRS 10, judgment is required in determining whether the Fund controls Royalties LP. Making this judgment involves taking into consideration the concepts of power over Royalties LP, exposure and rights to variable returns, and the ability to use power to direct the relevant activities of Royalties LP so as to generate economic returns. Using these criteria, management has determined that the Fund ultimately controls Royalties LP through its 80% ownership of the managing general partner, Royalties GP.

Estimate – Intangible Assets – BP Rights

The Fund carries the BP Rights at historical cost comprising the amount of consideration paid for the BP Rights in 2002, as well as the value of additional Boston Pizza Restaurants rolled into the Royalty Pool to date. The value of additional Boston Pizza Restaurants added to the Royalty Pool is determined on a formula basis that is designed to estimate the present value of the cash flows that would ultimately be payable to the Fund as a result of the new Boston Pizza Restaurants being added to the Royalty Pool. The addition of these restaurants results in changes to the Intangible assets – BP Rights line item as well as the Units line item on the statements of financial position. As such, the calculation is dependent on a number of different variables including the estimated long-term sales of the new restaurants, the discount rate and the tax rate. The value assigned to the new restaurants, and as a result, the value assigned to the BP Rights, could differ from actual results.

The Fund tests the BP Rights for impairment annually. This requires that the Fund use a valuation technique to determine if impairment exists. This valuation technique may not represent the actual fair value less selling costs that the Fund would expect a sale of the BP Rights to generate.

Estimate – Class B Units, Class 1 LP Units and Class 2 LP Units Fair Value Adjustments

The Fund must classify fair value measurements according to a hierarchy that reflects the significance of the inputs used in performing such measurements. The Fund's fair value hierarchy comprises the following levels:

- Level 1 – quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

- Level 2 – pricing inputs are other than quoted in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date.

- Level 3 – valuations in this level are those with inputs for the asset or liability that are not based on observable data.

The fair values of the Class B Unit liability, Class 1 LP Units and Class 2 LP Units are all determined using Level 2 inputs and are measured on a recurring basis.

(i) Class B Units

The Fund records its Class B Unit liabilities at fair value, which may result in changes to the fair value adjustment on the Class B Unit liability line on the statements of financial position, the fair value gain (loss) on the Class B Unit liability line on the statements of comprehensive income (loss), and the corresponding non-cash adjustment line on the statements of cash flows. This requires that the Fund use a valuation technique to determine the value of the Class B Unit liability at each reporting date. The Fund estimates the fair value of the Class B Unit liability using a market approach by multiplying the number of Units BPI would be entitled to receive if it exchanged all Class B Units (including the Class B Holdback) held by BPI at the end of the Period by the closing price of the Units on the last business day of the Period. This valuation technique may not represent the actual value of the financial liability should such Class B Units be extinguished. Changes in the distribution rate on the Class B Units and the yield of the Fund's Units could materially impact the Fund's financial position and net income.

(ii) Class 1 Units and Class 2 LP Units

The Fund records the Class 1 LP Units and Class 2 LP Units held by Holdings LP at fair value, which may result in a fair value adjustment on the investment in BP Canada LP financial asset line on the statements of financial position, and fair value gain (loss) line on the statements of comprehensive income (loss), and a corresponding non-cash adjustment line on the statements of cash flows.

The Class 1 LP Units are entitled to distributions determined with respect to the interest cost payable on Facility D. The Fund estimates the fair value of the Class 1 LP Units using a market-corroborated input, being the interest rate applicable on Facility D. Consequently, the Fund estimated the fair value of Class 1 LP Units at carrying value adjusted for interest rate risk.

The fair value of the Class 2 LP Units is determined using a market approach, which involves using observable market prices for similar instruments. The Class 2 LP Units have similar cash distribution entitlements to the Class 2 GP Units, which are exchangeable into Units. Consequently, the Fund estimates the fair value of the Class 2 LP Units by multiplying the issued and outstanding number of Class 2 LP Units indirectly held by the Fund at the end of the applicable period by the closing price of the Units at the end of that period (or previous business day, if such day is not a business day).

These valuation techniques may not represent the actual value of the Class 1 LP Units and Class 2 LP Units should such units be sold. Changes in the distribution rates on the Class 1 LP Units and Class 2 LP Units and the yield of the Fund's Units could materially impact the Fund's financial position and net income.

CHANGES IN ACCOUNTING POLICIES

IFRS 16, Leases

On January 13, 2016, the International Accounting Standards Board (the "**IASB**") published a new standard, IFRS 16, Leases. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting remains largely unchanged and the distinction between operating and finance leases is retained. The new standard applies for annual periods beginning on or after January 1, 2019.

The Fund performed an analysis to assess the impact of this standard and developed a comprehensive plan to guide the implementation. There is no impact on the assets and liabilities of the Fund's consolidated balance sheet as a result of the adoption of this standard since the Fund does not have operating lease arrangements of more than 12 months in which it is considered the lessee. The impact of the adoption of new standard is non-cash in nature and, as such, there is no impact on cash flows of the Fund.

The Fund adopted these amendments in its consolidated financial statements for the period beginning on January 1, 2019.

DESCRIPTION OF NON-IFRS AND ADDITIONAL IFRS MEASURES

Non-IFRS Measures

Management believes that disclosing certain non-IFRS financial measures provides readers of this MD&A with important information regarding the Fund's financial performance and its ability to pay distributions. By considering these measures in combination with the most closely comparable IFRS measure, management believes that investors are provided with additional and more useful information about the Fund than investors would have if they simply considered IFRS measures alone.

The non-IFRS financial measures, such as SRS, Distributable Cash and Payout Ratio, do not have standardized meanings prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers. Investors are cautioned that non-IFRS measures should not be construed as a substitute or an alternative to cash flows from operating activities as determined in accordance with IFRS.

SRS

As noted above, SRS is the change in gross revenues of Boston Pizza Restaurants as compared to the gross revenues for the same period in the previous year for Boston Pizza Restaurants that have been open for a minimum of 24 months. A reconciliation of SRS to an IFRS measure is not possible. The Fund believes that SRS provides investors useful information regarding the change in gross sales of Boston Pizza Restaurants.

Distributable Cash

"**Distributable Cash**" is defined to be, in respect of any particular period, the Fund's cash flow from operations for that period minus (a) BPI's entitlement in respect of its Class B Units in respect of the period, minus (b) interest paid on long-term debt during the period, minus (c) the SIFT Tax expense in respect of the period, plus (d) SIFT Tax paid during the period (the sum of (c) and (d) being "**SIFT Tax on Units**"). Management believes that Distributable Cash provides investors with useful information about the amount of cash the Fund has generated and has available for distribution on the Units during the Period. The preceding tables under the heading "Financial Highlights" provide a reconciliation from this non-IFRS financial measure to cash flows from operating activities, which is the most directly comparable IFRS measure. In reconciling Distributable Cash to cash flow from operating activities, the Fund uses actual financial results for the component of interest paid on long-term debt. The remaining components in the reconciliation, being BPI's entitlement in respect of its Class B Units in respect of the period and SIFT Tax on Units, have been prepared using reasonable and supportable assumptions (including that the base rate of SIFT Tax will not increase throughout the calendar year and that certain expenses of the Fund will continue to be deductible for SIFT Tax purposes), all of which reflect the Fund's planned courses of action given management's judgment about the most probable set of economic conditions. There is a risk that the federal government of Canada could increase the base rate of SIFT Tax or that applicable taxation authorities could assess the Fund on the basis that certain expenses of the Fund are not deductible. Investors are cautioned that if either of these possibilities occurs, then the actual results for these components of Distributable Cash may vary, perhaps materially, from the amounts used in the reconciliation.

Payout Ratio

"**Payout Ratio**" is calculated by dividing the aggregate distributions paid by the Fund during the applicable period by the Distributable Cash generated in that period. For the purpose of calculating the Payout Ratio for the Period, the distributions paid by the Fund on the Units during the Period were the September 2019 distribution (which was paid on October 31, 2019), the October 2019 distribution (which was paid on November 29, 2019) and the November 2019 distribution (which was paid on December 31, 2019). Similarly, for the purpose of calculating the Payout Ratio for any other period, the distributions paid during that period would be used. Management believes that the Payout Ratio provides investors with useful information on the extent to which the Fund distributes cash on Units. As the Payout Ratio is calculated from a formula which includes Distributable Cash, which is a non-IFRS financial measure, a reconciliation of Payout Ratio to an IFRS measure is not possible.

Additional IFRS Measures

IFRS mandates certain minimum line items for financial statements and requires presentation of additional line items, headings and subtotals when such presentation is relevant to understand the issuer's financial position or performance. IFRS also requires that notes to the financial statements provide information that is not presented elsewhere in the financial statements, but is relevant to understanding them. Such financial measures outside the minimum mandated line items are considered additional IFRS measures. The annual consolidated financial statements of the Fund and the notes thereto include certain additional IFRS measures where management considers such information to be useful to understanding the Fund's financial results.

Profit Before Fair Value Adjustments and Income Taxes

Management believes that it is useful to provide investors with the sub-total of profit before fair value adjustments and income taxes to assist investors with understanding the "top-line" structure of the Fund and its financial impact especially since the fair value adjustments are non-cash items. Management uses this additional IFRS measure to monitor changes in the Fund's operating income.

OUTLOOK

The information contained in this "Outlook" section is forward-looking information. Please see the "Note Regarding Forward-Looking Information" and "Risks & Uncertainties" sections of this MD&A for a discussion of the risks and uncertainties in connection with forward-looking information.

The Fund's and Boston Pizza's growth plans are largely dependent upon the ability to generate positive SRS. The two principal factors that affect SRS are changes in guest traffic and changes in average guest cheque. BPI's and BP Canada LP's strategies to drive higher guest traffic include attracting a wide variety of guests into the restaurant, sports bar and take-out and delivery channels of each restaurant, offering a compelling value proposition to guests and leveraging a large marketing budget to drive national and local restaurant promotions. Increased average cheque levels are expected to be achieved through a combination of culinary innovation and periodic menu re-pricing. In addition, the franchise agreement governing each Boston Pizza Restaurant requires a complete restaurant renovation every seven years. Restaurants typically close for two to three weeks to complete the renovation and experience an incremental sales increase in the year following the re-opening.

The Canadian full-service restaurant sector has recently experienced declines in guest traffic and Boston Pizza is no exception. Management of BPI believes that such declines are the results of increased competition in the full-service restaurant sector, shifts in consumer spending habits in response to increased menu pricing tied to rising minimum wages, waning consumer confidence in the retail sector, increasing levels of household debt and high proportions of Boston Pizza restaurants being located in regions of Canada that are facing economic challenges. These factors have contributed to the decline in Boston Pizza's recent SRS performance. Management of BPI is aggressively implementing various initiatives to mitigate the effects current industry challenges are having on Boston Pizza's results, however, if current industry challenges persist, they will continue to negatively affect SRS. Notwithstanding the current industry challenges, management of BPI continues to believe that Boston Pizza is well positioned to attract guests, achieve positive SRS over the long term and continue to strengthen its position as the number one casual dining brand in Canada. In addition, management of BPI continues to believe that Boston Pizza remains well positioned for long term future expansion.

RISKS & UNCERTAINTIES

Risks Related to the Business of BPI and BP Canada LP

The Restaurant Industry and its Competitive Nature

The performance of the Fund is directly dependent upon the Royalty received from BPI and Distribution Income received from BP Canada LP. The amount of the Royalty and Distribution Income received by Royalties LP and Holdings LP from BPI and BP Canada LP, respectively, is dependent on various factors that may affect the casual

dining sector of the restaurant industry. The restaurant industry generally, and in particular the casual dining sector, is intensely competitive with respect to price, service, location and food quality. Competitors include national and regional chains, as well as independently owned restaurants. If BPI, BP Canada LP and the Boston Pizza franchisees are unable to successfully compete in the casual dining sector, Franchise Sales may be adversely affected; the amount of the Royalty and Distribution Income may be reduced and the ability of BPI to pay the Royalty, and the ability of BP Canada LP to pay Distribution Income, may be impaired. The restaurant industry is also affected by adverse weather conditions, changes in demographic trends, traffic patterns, general economic conditions and the type, number, and location of competing restaurants. In addition, factors such as government regulations, smoking bylaws, inflation, publicity from any food borne illnesses, increased food, labour and benefits costs, continuing operations of key suppliers and the availability of experienced management and hourly employees may adversely affect the restaurant industry in general and therefore potentially affect Franchise Sales. BPI's and BP Canada LP's success also depends on numerous factors affecting discretionary consumer spending, including economic conditions, disposable consumer income and consumer confidence. Adverse changes in these factors could reduce guest traffic or impose practical limits on pricing, either of which could reduce revenue and operating income, which could adversely affect Franchise Sales, the Royalty, Distribution Income and the ability of BPI to pay the Royalty to Royalties LP, and the ability of BP Canada LP to pay Distribution Income to Holdings LP.

Growth of the Royalty and Distribution Income

The growth of the Royalty payable by BPI to Royalties LP under the License and Royalty Agreement between Royalties LP and BPI (for the license to use the BP Rights in Canada for 99 years, commencing on July 17, 2002), and the growth of Distribution Income payable by BP Canada LP to Holdings LP, are dependent upon the ability of BPI and BP Canada LP to (i) maintain and grow their franchised restaurants, (ii) locate new restaurant sites in prime locations, and (iii) obtain qualified operators to become Boston Pizza franchisees. BPI and BP Canada LP face competition for restaurant locations and franchisees from their competitors and from franchisors of other businesses. BPI's and BP Canada LP's inability to successfully obtain qualified franchisees could adversely affect their business development. The opening and success of a Boston Pizza Restaurant is dependent on a number of factors, including: availability of suitable sites; negotiations of acceptable lease or purchase terms for new locations; availability, training and retention of management and other employees necessary to staff new Boston Pizza Restaurants; adequately supervising construction; securing suitable financing; and other factors, some of which are beyond the control of BPI and BP Canada LP. Boston Pizza franchisees may not have all the business abilities or access to financial resources necessary to open a Boston Pizza Restaurant or to successfully develop or operate a Boston Pizza Restaurant in their franchise areas in a manner consistent with BPI's and BP Canada LP's standards. BPI and BP Canada LP provide training and support to Boston Pizza franchisees, but the quality of franchised operations may be diminished by any number of factors beyond BPI's and BP Canada LP's control. Consequently, Boston Pizza franchisees may not successfully operate restaurants in a manner consistent with BPI's and BP Canada LP's standards and requirements, or may not hire and train qualified managers and other restaurant personnel. If they do not, the image and reputation of BPI and BP Canada LP may suffer, and gross revenue and results of operations of the Boston Pizza Restaurants could decline.

The Closure of Boston Pizza Restaurants May Affect the Amount of Royalty and Distribution Income

The amount of the Royalty payable to Royalty LP by BPI, and the amount of Distribution Income payable by BP Canada LP to Holdings LP, are dependent upon the Franchise Sales, which is dependent on the number of Boston Pizza Restaurants that are included in the Royalty Pool and the Franchise Sales of those Boston Pizza Restaurants. Each year, a number of Boston Pizza Restaurants may close and there is no assurance that BPI and BP Canada LP will be able to open sufficient new Boston Pizza Restaurants to replace the Franchise Sales of the Boston Pizza Restaurants that have closed.

BPI and BP Canada LP Revenue

The ability of BPI to pay the Royalty and the ability of BP Canada LP to pay Distribution Income are dependent on (i) Boston Pizza franchisees' ability to generate revenue and to pay royalties to BP Canada LP,

(ii) BP Canada LP's ability to enter into arrangements with suppliers and distributors to generate competitive pricing for franchisees and revenue for BP Canada LP, and (iii) BP Canada LP's receipt of amounts for other franchise fees (including initial and renewal franchise fees). Failure of BP Canada LP to achieve adequate levels of collection from Boston Pizza franchisees or the loss of revenues from arrangements with suppliers and distributors could have a serious effect on the ability of BP Canada LP to pay Distribution Income and of BPI to pay the Royalty.

Intellectual Property

The ability of BPI and BP Canada LP to maintain or increase Franchise Sales will depend on their ability to maintain "brand equity" through the use of the BP Rights licensed from Royalties LP. If Royalties LP fails to enforce or maintain any of its intellectual property rights, BPI and BP Canada LP may be unable to capitalize on their efforts to establish brand equity. All registered trademarks in Canada can be challenged pursuant to provisions of the *Trade-marks Act* (Canada) and if any BP Rights are ever successfully challenged, this may have an adverse impact on Franchise Sales, and therefore on the Royalty and Distribution Income. Royalties LP owns the BP Rights in Canada. However, it does not own identical or similar trademarks owned by parties not related to BPI or Royalties LP in other jurisdictions. Third parties may use such trademarks in jurisdictions other than Canada in a manner that diminishes the value of such trademarks. If this occurs, the value of the BP Rights may suffer and gross revenue by Boston Pizza Restaurants could decline. Similarly, negative publicity or events associated with such trademarks in jurisdictions outside of Canada may negatively affect the image and reputation of Boston Pizza Restaurants in Canada, resulting in a decline in gross revenue by Boston Pizza Restaurants.

Government Regulation

BPI and BP Canada LP are subject to various federal, provincial and local laws affecting their business. Each Boston Pizza Restaurant is subject to licensing and regulation by a number of governmental authorities, which may include alcoholic beverage control, smoking laws, health and safety and fire agencies. Difficulties in obtaining or failures to obtain the required licenses or approvals could delay or prevent the development of a new Boston Pizza Restaurant in a particular area or restrict the operations of an existing Boston Pizza Restaurant.

Regulations Governing Food Service and Alcoholic Beverages

Boston Pizza Restaurants are subject to various federal, provincial and local government regulations, including those relating to the sale of food and alcoholic beverages. Such regulations are subject to change from time to time. The failure to obtain and maintain these licenses, permits and approvals could adversely affect the operations of a Boston Pizza Restaurant. Typically, licenses must be renewed annually and may be revoked, suspended or denied renewal for cause at any time if governmental authorities determine that the Boston Pizza Restaurant's conduct violates applicable regulations. Difficulties or failures to maintain or obtain the required licenses and approvals could adversely affect existing Boston Pizza Restaurants and delay or result in a decision to cancel the opening of new Boston Pizza Restaurants, which would adversely affect BPI's and BP Canada LP's business.

In addition, the ability of Boston Pizza Restaurants to serve alcoholic beverages is an important factor in attracting customers. Alcoholic beverage control regulations require each Boston Pizza Restaurant to apply to provincial or municipal authorities for a license or permit to sell alcoholic beverages on the premises and, in certain locations, to provide service for extended hours and on Sundays. Typically, licenses must be renewed annually and may be revoked or suspended for cause at any time. Alcoholic beverage control regulations relate to numerous aspects of daily operations of Boston Pizza Restaurants, including minimum age of patrons and employees, hours of operation, advertising, wholesale purchasing, inventory control, and handling, storage and dispensing of alcoholic beverages. The failure of BPI, BP Canada LP or a Boston Pizza franchisee to retain a license to serve liquor for a Boston Pizza Restaurant would adversely affect that restaurant's operations. BPI, BP Canada LP or a Boston Pizza franchisee may be subject to legislation in certain provinces, which may provide a person injured by an intoxicated person the right to recover damages from an establishment that wrongfully served alcoholic beverages to the intoxicated person. BPI and BP Canada LP carry host liquor liability coverage as part of their

existing comprehensive general liability insurance. There is no assurance that such insurance coverage will be adequate.

Laws Concerning Employees

The operations of Boston Pizza Restaurants are also subject to minimum wage laws governing such matters as working conditions, overtime and tip credits, as well as rules and regulations regarding the employment of temporary foreign workers. Significant numbers of Boston Pizza Restaurants' food service and preparation personnel are paid at rates related to the minimum wage and, accordingly, further increases in the minimum wage could increase Boston Pizza Restaurants' labour costs. In some regions of Canada, Boston Pizza Restaurants employ temporary foreign workers – the supply of labour in such regions could be reduced by regulations concerning the employment of temporary foreign workers.

Sales Tax Regulations

While there are variations in studies about the extent to which sales taxes impact retail sales, the increase in the after-tax price of goods and services has a negative effect on the customer's perception of spending on restaurant dining. Such negative perception can potentially reduce the frequency of guest visits to restaurants, the total amount which guests spend per restaurant visit, or both. Price elasticity appears to have less impact on densely-populated and market-dominant areas such as urban or downtown restaurants. However, as customer perception of disposable spending is adversely affected by increased after-tax prices, Franchise Sales are at risk of declining if retail sales taxes increase.

Franchise Regulation Risk

The complete failure to provide a disclosure document as required by the franchise disclosure laws and regulations of the provinces of British Columbia, Alberta, Manitoba, Ontario, New Brunswick and Prince Edward Island (or the provision of a disclosure document that is materially non-compliant) provides a franchisee with a two-year absolute right of rescission. If a disclosure document is not provided within the time required by applicable provincial legislation, a franchisee is provided with sixty days from receipt of the disclosure document in which to rescind the franchise agreement. The statutory right of rescission gives a franchisee the right to receive back all monies paid, and to recover for its losses, if any. Franchise legislation also provides a franchisee with a statutory right of action to sue if a franchisee suffers a loss because of a misrepresentation contained in the disclosure document, or as a result of the franchisor's failure to comply with its disclosure obligations. These rights are in addition to any rights that might exist at common law. Claims arising from any non-compliance with franchise disclosure laws may adversely affect the ability of BP Canada LP to pay Distribution Income to Holdings LP, and of BPI to pay the Royalty to Royalties LP.

Potential Litigation and Other Complaints

BPI, BP Canada LP and Boston Pizza franchisees may be the subject of complaints or litigation from guests alleging food related illness, injuries suffered on the premises or other food quality, health or operational concerns. Adverse publicity resulting from such allegations may materially affect the sales by Boston Pizza Restaurants, regardless of whether such allegations are true or whether BPI, BP Canada LP or a Boston Pizza franchisee is ultimately held liable.

Insurance

BPI and BP Canada LP maintain insurance coverage to protect them from liabilities they incur in the course of their business. There is no assurance that such insurance coverage will respond to, or be adequate to protect them from, such liabilities. Additionally, in the future, BPI's and BP Canada LP's insurance premiums may increase and they may not be able to obtain similar levels of insurance on reasonable terms or at all. Any substantial inadequacy of, or inability to obtain insurance coverage could materially adversely affect BPI's and BP Canada LP's business, financial condition and results of operations. Furthermore, there are types of losses BPI or BP Canada LP may incur that cannot be insured against or that are not economically reasonable to insure.

Such losses could have a material adverse effect on BPI's and BP Canada LP's business and results of operations.

Dependence on Key Personnel

The success of the Fund depends upon the personal efforts of senior management of BPI, including their ability to retain and attract appropriate franchisee candidates. The loss of the services of such key personnel or the failure to attract such franchisees could have a material adverse effect on the performance of the Fund.

Security of Confidential Consumer Information and Personal Information

BPI, BP Canada LP and Boston Pizza franchisees collect and/or use confidential consumer information related to the electronic processing of credit and debit card transactions, personal information of consumers in connection with Boston Pizza's "MyBP" loyalty platform and personal information of their respective employees. If any of BPI, BP Canada LP or Boston Pizza franchisees experiences a security breach in which any of this type of information is stolen or disclosed, BPI, BP Canada LP or Boston Pizza franchisees may incur unanticipated costs, become subject to claims for purportedly fraudulent transactions arising out of the actual or alleged theft of credit or debit card information, and/or become subject to lawsuits or other proceedings relating to these types of incidents. In addition, most provinces have enacted legislation requiring notification of security breaches involving personal information, including credit and debit card information. Any such claims or proceedings could cause BPI or BP Canada LP to incur significant unplanned expenses, which could have an adverse impact on their financial condition and results of operations. Furthermore, adverse publicity resulting from these allegations may have a material adverse effect on Franchise Sales, Royalty, Distribution Income and the ability of BP Canada LP to pay Distribution Income to Holdings LP, or BPI to pay the Royalty to Royalties LP.

Reliance on Technology

BPI, BP Canada LP and Boston Pizza franchisees rely heavily upon information systems, including point-of-sale processing in Boston Pizza Restaurants, for management of their supply chain, payment of obligations, collection of cash, credit and debit card transactions and other processes and procedures, including the taking and sending of orders to Boston Pizza Restaurants. BPI's and BP Canada LP's ability to efficiently and effectively manage their business depends significantly on the reliability and capacity of these systems. BPI's and BP Canada LP's operations depend upon their ability to protect their computer equipment and systems against damage from physical theft, fire, power loss, telecommunications failure or other catastrophic events, as well as from internal and external security breaches, viruses and other disruptive problems. The failure of these systems to operate effectively, maintenance problems, upgrading or transitioning to new platforms, expanding BPI's and BP Canada LP's systems as they grow or a breach in security of these systems could result in delays in customer service and reduced efficiency in BPI's and BP Canada LP's operations. Remediation of such problems could result in significant, unplanned capital investments.

Risks Related to the Structure of the Fund

Investment Eligibility

There can be no assurance that the Units will continue to be qualified investments for registered retirement savings plans, registered retirement income funds, deferred profit sharing plans, registered education savings plans, registered disability savings plans or tax-free savings accounts under the *Income Tax Act (Canada)* (the "**Tax Act**"). In addition, a Unit may be a prohibited investment in respect of a registered disability savings plan, registered education savings plan, registered retirement savings plan, registered retirement income fund or tax-free savings account where, in general terms, the holder, subscriber or annuitant (as the case may be) does not deal at arm's length with the Fund or has a "significant interest" (as defined in the Tax Act) in the Fund. The Tax Act imposes penalties for the acquisition or holding of non-qualified or prohibited investments.

Dependence of the Fund on the Trust, Holdings LP, BPI and BP Canada LP

The cash distributions to the Unitholders are entirely dependent on the ability of the Trust to pay its interest obligations, if any, under the Series 1 Trust Notes, Series 2 Trust Notes and Series 3 Trust Notes (collectively, the "**Trust Notes**"), and to make distributions on the units of the Trust (the "**Trust Units**"). The ability of the Trust to pay its interest obligations or make distributions on Trust Units held by the Fund is entirely dependent upon the ability of Holdings LP to make distributions on the limited partner units of Holdings LP held by the Trust. The ability of Holdings LP to make distributions on limited partner units held by the Trust is entirely dependent upon the ability of Royalties LP to make distributions on the limited partner units of Royalties LP held by Holdings LP and upon BP Canada LP's ability to pay Distribution Income on the limited partner units of BP Canada LP held by Holdings LP.

The only sources of revenue of the Fund are: (i) the Royalty payable by BPI to Royalties LP; and (ii) Distribution Income payable by BP Canada LP to Holdings LP. BP Canada LP collects franchise fees and other amounts from Boston Pizza franchisees and BPI generates revenues from its corporate restaurants. In the conduct of the business, BPI pays expenses and incurs debt and obligations to third parties. These expenses, debts and obligations could impact the ability of BPI to pay the Royalty to Royalties LP, or of BP Canada LP to pay Distribution Income to Holdings LP.

Royalties LP, Holdings LP and the Fund are each entirely dependent upon the operations and assets of BPI and BP Canada LP to pay the Royalty to Royalties LP and Distribution Income to Holdings LP, and each is subject to the risks encountered by BPI and BP Canada LP in the operation of their business, including the risks relating to the casual dining restaurant industry referred to above and the results of operations and financial condition of BPI and BP Canada LP.

Leverage: Restrictive Covenants

Royalties LP and Holdings LP have third-party debt service obligations under the Amended and Extended Credit Facilities. The degree to which Royalties LP and Holdings LP are leveraged could have important consequences to Unitholders, including: (i) a portion of Royalties LP's and Holdings LP's cash flow from operations could be dedicated to the payment of the principal of and interest on their indebtedness, thereby reducing funds available for distribution to the Fund; and (ii) certain of Royalties LP's and Holdings LP's borrowings are at variable rates of interest, which exposes them to the risk of increased interest rates. The Amended and Extended Credit Facilities are due on January 24, 2025, at which time Royalties LP and Holdings LP will need to refinance such loans. There can be no assurance that refinancing of this indebtedness will be available to Royalties LP or Holdings LP, or available to Royalties LP or Holdings LP on acceptable terms. If Royalties LP and Holdings LP cannot refinance this indebtedness on acceptable terms upon maturity, it will negatively impact the ability of Royalties LP and Holdings LP to make distributions on their partnership securities, which in turn will negatively impact Distributable Cash and the Fund's ability to make distributions on the Units. Royalties LP's and Holdings LP's ability to make scheduled payments of principal or interest on, or to refinance, their indebtedness depends on future cash flows, which is dependent on Distribution Income Holdings LP receives from BP Canada LP, Royalty payments Royalties LP receives from BPI, prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond its control.

The Amended and Extended Credit Facilities contain numerous restrictive covenants that limit the discretion of Royalties LP's and Holdings LP's management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of Royalties LP and Holdings LP to incur additional indebtedness, to create liens or other encumbrances, to pay distributions or make certain other payments, investments, loans and guarantees, to sell or otherwise dispose of assets, to allow a change of control, to change the terms of their limited partnership agreements and to merge or consolidate with another entity. A failure to comply with the obligations in the Amended and Extended Credit Facilities could result in an event of default which, if not cured or waived, could result in the acceleration of the relevant indebtedness. If the indebtedness under the Amended and Extended Credit Facilities were to be accelerated, there can be no assurance that Royalties LP's, Holdings LP's and the Trust's assets would be sufficient to repay that indebtedness.

BPI has third-party debt service obligations under its credit facilities with the Bank (the "**BPI Credit Facilities**"). The degree to which BPI is leveraged could have important consequences to Unitholders, including: (i) a portion of BPI's cash flow from operations could be dedicated to the payment of the principal of and interest on BPI's indebtedness, thereby reducing funds available for payment of the Royalty; and (ii) certain of BPI's borrowings are at variable rates of interest, which exposes them to the risk of increased interest rates. The BPI Credit Facilities are due on January 24, 2025, at which time BPI will need to refinance such loans. There can be no assurance that refinancing of this indebtedness will be available to BPI, or available to BPI on acceptable terms. If BPI cannot refinance this indebtedness on acceptable terms upon maturity, it will negatively impact the ability of BPI to pay Royalty. Given the Fund's dependence upon BPI, this will negatively impact Distributable Cash and the Fund's ability to make distributions on the Units. BPI's ability to make scheduled payments of principal or interest on, or to refinance, its indebtedness depends on future cash flows, which is dependent on the success of Boston Pizza Restaurants, prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond its control.

The BPI Credit Facilities contain numerous restrictive covenants that limit the discretion of BPI's management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of BPI to incur additional indebtedness, to create liens or other encumbrances, to pay distributions or make certain other payments, investments, loans and guarantees, to sell or otherwise dispose of assets, to allow a change of control, and to merge or consolidate with another entity.

A failure by BPI to comply with the obligations in the BPI Credit Facilities could result in an event of default which, if not cured or waived, could result in the acceleration of the relevant indebtedness. If the indebtedness under the BPI Credit Facilities were to be accelerated, there can be no assurance that BPI's assets would be sufficient to repay that indebtedness. If BPI were unable to repay that indebtedness, it would adversely affect BPI's ability to pay the Royalty, thereby negatively impacting Distributable Cash and the Fund's ability to make distributions on the Units.

Cash Distributions are Not Guaranteed and Will Fluctuate with Royalties LP's and Holdings LP's Performance

Although the Fund's policy is to distribute the total amount of cash received by the Fund from the Trust on the Trust Units and the Trust Notes less the sum of: (a) administrative expenses and other obligations of the Fund; (b) amounts which may be paid by the Fund in connection with any cash redemptions of Units; (c) any interest expense incurred by the Fund; and (d) reasonable reserves established by the trustees of the Fund in their sole discretion, including, without limitation, reserves established to pay SIFT Tax, in order to maximize returns to Unitholders, there can be no assurance regarding the amounts of income to be generated by the Fund, Royalties LP or Holdings LP. The actual amount distributed in respect of the Units will depend upon numerous factors, including amount of and payment of Distribution Income by BP Canada LP, and the Royalty by BPI.

Restrictions on Certain Unitholders and Liquidity of Units

The Declaration of Trust imposes various restrictions on Unitholders. Unitholders that are non-residents of Canada for the purposes of the Tax Act ("**Non-residents**") and partnerships that are not Canadian partnerships for purposes of the Tax Act are prohibited from beneficially owning more than 50% of the Units (on a non-diluted and a fully-diluted basis). These restrictions may limit (or inhibit the exercise of) the rights of certain Unitholders, including Non-residents, to acquire Units, to exercise their rights as Unitholders and to initiate and complete take-over bids in respect of the Units. As a result, these restrictions may limit the demand for Units from certain Unitholders and thereby adversely affect the liquidity and market value of the Units held by the public.

Fund not a Corporation

Investors are cautioned that the Fund is not generally regulated by established corporate law and Unitholders' rights are governed primarily by the specific provisions of the Declaration of Trust of the Fund, which address such items as the nature of the Units, the entitlement of Unitholders to cash distributions, restrictions respecting non-resident holdings, meetings of Unitholders, delegation of authority, administration, Fund governance and liabilities and duties of the Trustees to Unitholders. As well, in the event of an insolvency or restructuring of the

Fund under Canadian insolvency legislation, the rights of Unitholders may be different from those of shareholders of an insolvent or restructuring corporation.

Nature of Units

Securities such as the Units are hybrids in that they share certain attributes common to both equity securities and debt instruments. The Units do not represent a direct investment in the Trust, Royalties LP or Holdings LP and should not be viewed by investors as units in the Trust, Royalties LP or Holdings LP. Unitholders will not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions. The Units represent a fractional interest in the Fund. The Fund's only assets are Series 1 Trust Notes, Trust Units, common shares of Royalties GP and common shares of Holdings GP. The price per Unit is typically a function of the anticipated amount of distributions.

Possible Unitholder Liability

The Declaration of Trust of the Fund provides that no Unitholder will be subject to any liability whatsoever to any person in connection with the holding of Units. However, there remains a risk, which is considered by the Fund to be remote in the circumstances, that a Unitholder could be personally liable despite such statement in the Declaration of Trust for the obligations of the Fund to the extent that claims are not satisfied out of the assets of the Fund. It is intended that the affairs of the Fund will be conducted to seek to minimize such risk wherever possible. There is legislation under the laws of British Columbia (discussed below) and certain other provinces which is intended to provide protection for beneficial owners of trusts.

On March 30, 2006, the *Income Trust Liability Act* (British Columbia) came into force. This legislation creates a statutory limitation on the liability of beneficiaries of British Columbia income trusts such as the Fund. The legislation provides that a unitholder of a trust will not be, as a beneficiary, liable for any act, default, obligation or liability of the trustees. However, this legislation has not been judicially considered and it is possible that reliance on the legislation by a Unitholder could be successfully challenged on jurisdictional or other grounds.

Distribution of Securities on Redemption of Units or Termination of the Fund

Upon a redemption of Units or termination of the Fund, the trustees may distribute Series 2 Trust Notes and Series 3 Trust Notes directly to the Unitholders, subject to obtaining all required regulatory approvals. There is currently no market for Series 2 Trust Notes or Series 3 Trust Notes. In addition, the Series 2 Trust Notes and Series 3 Trust Notes are not freely tradable and are not currently listed on any stock exchange. Securities of the Trust so distributed may not be qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans, registered education savings plans, registered disability savings plans or tax free savings accounts and may be prohibited investments for registered disability savings plans, registered education savings plans, registered retirement savings plans, registered retirement income funds and tax free savings accounts, depending upon the circumstances at the time.

The Fund May Issue Additional Units Diluting Existing Unitholders' Interests

The Declaration of Trust authorizes the Fund to issue an unlimited number of Units and Special Voting Units for such consideration and on such terms and conditions as will be established by the trustees of the Fund without the approval of any Unitholders. Additional Units will be issued by the Fund upon the exchange of the Class B Units or Class 2 GP Units held by BPI or any related party.

Income Tax Matters

There can be no assurance that Canadian federal income tax laws will not be changed in a manner that adversely affects the Fund and the Unitholders. If the Fund ceases to qualify as a "mutual fund trust" under the Tax Act, the income tax treatment afforded to Unitholders would be materially and adversely different in certain respects.

Distributions on the Trust Units accrue at the Fund level for income tax purposes whether or not actually paid. Similarly, the Royalty may accrue at the Royalties LP level, and Distribution Income may accrue at the Holdings LP level, for income tax purposes whether or not actually paid. As a result, the income of Royalties LP or Holdings LP allocated to the Fund (through the Trust and Holdings LP), in respect of a particular fiscal year may exceed the cash distributed by Royalties LP or Holdings LP to the Fund (through the Trust and Holdings LP) in such year. The Declaration of Trust provides that the trustees of the Fund may declare distributions to Unitholders in such amounts as the trustees may determine from time to time. Where, in a particular year, the Fund does not have sufficient available cash to distribute the amounts so declared to Unitholders (for instance, where distributions on the Trust Units are due but not paid in whole or in part), the Declaration of Trust provides that additional Units may be distributed to Unitholders in lieu of cash distributions. Unitholders will generally be required to include an amount equal to the fair market value of those distributed Units in their taxable income.

On January 1, 2011, the Fund became liable to pay the SIFT Tax. The payment of the SIFT Tax reduces the amount of cash available for distributions to Unitholders.

Effective January 1, 2018, the British Columbia provincial government increased the general corporate income tax rate in British Columbia from 11% to 12%. The amount of SIFT Tax payable by the Fund is determined in part by reference to the British Columbia general corporate income tax. This tax rate increase increases the Fund's income tax expense and reduces the amount of Distributable Cash.

Internal Control Over Financial Reporting

All internal control systems contain inherent limitations, no matter how well designed. As a result, management acknowledges that its internal controls over financial reporting will not prevent or detect all misstatements due to error or fraud. In addition, management's evaluation of internal controls can provide only reasonable, not absolute, assurance that all internal control issues that may result in material misstatements, if any, have been detected.

ADDITIONAL INFORMATION

Additional information relating to the Fund, Royalties LP, Royalties GP, BPCHP, the Trust, Holdings LP, Holdings GP, BPI and BP Canada LP, including the Fund's Annual Information Form dated February 12, 2020, is available on SEDAR at www.sedar.com and on the Fund's website at www.bpincomefund.com.

NOTE REGARDING FORWARD-LOOKING INFORMATION

Certain information in this MD&A constitutes "forward-looking information" that involves known and unknown risks, uncertainties, future expectations and other factors which may cause the actual results, performance or achievements of BPI, the Fund, the Trust, Royalties LP, Holdings LP, Holdings GP, Royalties GP, BPCHP, BP Canada LP, Boston Pizza Restaurants, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking information. When used in this MD&A, forward-looking information may include words such as "estimate", "may", "will", "expect", "believe", "plan", "should" and other similar terminology. This information reflects current expectations regarding future events and operating performance and speaks only as of the date of this MD&A.

Forward-looking information in this MD&A includes, but is not limited to, such things as:

- future distributions and dates distributions are to be paid or payable;
- adjustments to Additional Entitlements that are to occur in the future and when such adjustments will occur;
- how changes in distributions will be implemented;
- how distributions will be funded;
- expectations that cash flow will be sufficient to pay distributions;
- that increased average cheque level will be achieved through a combination of culinary innovation and periodic menu re-pricing;
- Boston Pizza being well positioned for long term future expansion;

- the Fund's current sources of liquidity being sufficient to cover its currently known short and long-term obligations;
- Boston Pizza being well positioned to attract guests, achieve positive SRS over the long term and continue to strengthen its position as the number one casual dining brand in Canada;
- impact of seasonality on Franchise Sales and the Payout Ratio;
- BPI aggressively implementing various initiatives to mitigate the effects current industry challenges are having on Boston Pizza's results;
- the persistence of industry challenges negatively affecting SRS;
- BPI's and BP Canada LP's strategies to drive higher guest traffic and higher average guest cheques;
- the Fund maintaining a Payout Ratio close to 100% over time;
- estimated effective tax rate;
- an expected increase in net Franchise Sales from Net New Restaurants added to the Royalty Pool;
- estimated 2019 annual Franchise Sales, Royalty and Distribution Income to be generated by Net New Restaurants;
- anticipated impact on financial performance of the adoption of new accounting policies; and
- that Boston Pizza Restaurants will close for two to three weeks to complete a renovation and experience an incremental sales increase in the year following the re-opening.

The forward-looking information disclosed herein is based on a number of assumptions including, among other things:

- the Fund maintaining the same distribution policy;
- absence of amendments to material contracts;
- no strategic changes of direction occurring;
- absence of changes in law;
- protection of BP Rights;
- pace of commercial real estate development;
- franchisees' access to financing;
- franchisees duly paying franchise fees and other amounts;
- there will be no closures of Boston Pizza Restaurants that materially affect the amount of Royalty or Distribution Income paid by BPI and BP Canada LP, respectively, to the Fund;
- future results being similar to historical results;
- expectations related to future general economic conditions;
- management of BPI and BP Canada LP maintaining current strategies to drive higher guest traffic and higher average guest cheques;
- Boston Pizza Restaurants maintaining operational excellence;
- culinary innovation and menu re-pricing;
- continuing operations of key suppliers;
- availability of experienced management and hourly employees;
- ability to obtain qualified franchisees;
- ability to open sufficient new Boston Pizza Restaurants to replace Franchise Sales of closed Boston Pizza Restaurants;
- ability to comply with disclosure obligations under franchise laws and regulations;
- ability to obtain adequate insurance coverage;
- ability to enter into arrangements with suppliers and distributors to generate competitive pricing for franchisees and revenue for BP Canada LP; and
- no additional increases in SIFT Tax and sales tax rates.

This forward-looking information involves a number of risks, uncertainties and future expectations including, but not limited to:

- competition;
- consumer spending habits;

- consumer confidence in the retail sector;
- household debt;
- weather;
- pricing;
- changes in demographic trends;
- changes in consumer preferences and discretionary spending patterns;
- changes in national and local business and economic conditions;
- legislation and government regulation;
- cash distributions are not guaranteed;
- accounting policies and practices;
- the results of operations and financial conditions of BPI and the Fund;
- inflation;
- publicity from any food borne illness;
- increase in food, labour or benefits costs;
- Boston Pizza Restaurant closures;
- successful challenge of the BP Rights;
- increases in the rate of SIFT Tax and sales tax;
- litigation against franchisees; and
- data security breaches.

The foregoing list of factors is not exhaustive and should be considered in conjunction with the risks and uncertainties set out in this MD&A.

This MD&A discusses some of the factors that could cause actual results to differ materially from those expressed in or underlying such forward-looking information. Forward-looking information is provided as of the date hereof and, except as required by law, the Fund assumes no obligation to update or revise forward-looking information to reflect new events or circumstances.

MANAGEMENT'S STATEMENT OF RESPONSIBILITIES

The accompanying consolidated financial statements are the responsibility of management and have been reviewed and approved by the Board of Directors of Boston Pizza GP Inc. and the Trustees of Boston Pizza Royalties Income Fund (the "Fund"). The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards and, where appropriate, reflect management's best estimates and judgments.

Management maintains appropriate policies, procedures and systems of internal control which provide reasonable assurance that the Fund's assets are safeguarded and the financial records are relevant, reliable, and provide a proper basis for the preparation of the consolidated financial statements and other financial information.

The Board of Directors of Boston Pizza GP Inc. and the Trustees of the Fund ensure that management fulfills its responsibilities for financial reporting and internal control through the Audit Committee. The Audit Committee meets with management and meets independently with the external auditors to satisfy itself that management's responsibilities are properly discharged. The Audit Committee also reviews the consolidated financial statements and reports to the Board of Directors of Boston Pizza GP Inc. and the Trustees of the Fund. The Fund's external auditors have full and direct access to the Audit Committee.

The consolidated financial statements have been independently audited by KPMG LLP in accordance with Canadian generally accepted auditing standards. Their report follows and expresses their opinion on the Fund's consolidated financial statements.

Jordan Holm

President, Boston Pizza GP Inc.
on behalf of the Board of Directors

Marc Guay

Chairman, Boston Pizza Royalties Income Fund
on behalf of the Trustees

February 12, 2020

KPMG LLP
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada
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INDEPENDENT AUDITORS' REPORT

To Unit Holders of Boston Pizza Royalties Income Fund

Opinion

We have audited the consolidated financial statements of Boston Pizza Royalties Income Fund (the Fund), which comprise:

- the consolidated statements of financial position as at December 31, 2019 and December 31, 2018
- the consolidated statements of comprehensive income for the years then ended
- the consolidated statements of changes in Unitholders' equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Fund as at December 31, 2019 and December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. Other information comprises:

- the information, other than the financial statements and the auditors' report thereon, included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Glossy Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information, other than the financial statements and the auditors' report thereon, included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Glossy Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), 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.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this auditors' report is Konstantin Polyakov.

KPMG LLP

Chartered Professional Accountants

February 12, 2020
Vancouver, Canada

BOSTON PIZZA ROYALTIES INCOME FUND
Consolidated Statements of Financial Position
(Expressed in thousands of Canadian dollars)

		December 31, 2019		December 31, 2018
Assets				
Current assets				
Cash and cash equivalents	$	1,753	$	2,714
Royalty receivable from Boston Pizza International Inc.		2,989		3,026
Distributions receivable from Boston Pizza Canada Limited Partnership		940		965
Prepaid expenses		49		45
Current income tax receivable		33		-
		5,764		6,750
Investment in Units of Boston Pizza Canada Limited Partnership (note 6)		106,749		115,751
Intangible assets – BP Rights (note 7)		283,823		280,271
Interest rate swaps (note 5)		90		914
Total assets	$	396,426	$	403,686
Liabilities and Unitholders' Equity				
Current liabilities				
Accounts payable and accrued liabilities	$	522	$	509
Distributions payable to Fund unitholders		2,506		2,506
Interest payable on Class B Units (note 8)		337		298
Credit Facilities (note 5)		88,314		-
		91,679		3,313
Credit Facilities (note 5)		-		88,314
Deferred income taxes (note 4)		6,500		6,080
Other liabilities (note 12)		800		400
Class B Unit Liability (note 8)		32,344		32,912
Unitholders' equity				
Fund units (note 9)		328,504		328,504
Accumulated deficit (note 10)		(63,401)		(55,837)
		265,103		272,667
Total liabilities and unitholders' equity	$	396,426	$	403,686

Subsequent events (note 16)

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

Marc Guay | David Merrell | Paulina Hiebert

BOSTON PIZZA ROYALTIES INCOME FUND
Consolidated Statements of Comprehensive Income
For the years ended December 31, 2019 and 2018
(Expressed in thousands of Canadian dollars, except per Fund unit data)

	2019	2018
Revenue		
Royalty income (note 11)	$ 34,149	$ 34,204
Distribution income (notes 6 and 11)	11,246	11,407
Total revenue	45,395	45,611
Administration charge from Boston Pizza International Inc.	400	400
Professional fees	202	241
Other administrative expenses	393	366
Trustee fees and expenses	253	248
Total administrative expenses	1,248	1,255
Profit before net interest expense, fair value adjustments and income taxes	44,147	44,356
Interest income	(40)	(33)
Interest expense on debt	2,830	2,676
Interest expense on Class B unit liability (note 8)	4,133	3,722
Net interest expense	6,923	6,365
Profit before fair value adjustments and income taxes	37,224	37,991
Fair value adjustment on investment in Boston Pizza Canada Limited Partnership (note 6)	9,002	37,099
Fair value adjustment on Class B Unit Liability (note 8)	(4,120)	(14,814)
Fair value adjustment on interest rate swaps (note 5)	824	412
Total fair value adjustments	5,706	22,697
Profit before income taxes	31,518	15,294
Current income tax expense (note 4)	8,595	8,685
Deferred income tax expense (recovery) (note 4)	420	(2,060)
Total tax expense	9,015	6,625
Net income and comprehensive income for the period	$ 22,503	$ 8,669
Weighted average Fund units outstanding	21,787,763	21,878,952
Weighted average fully diluted Fund units outstanding	25,011,637	24,793,726
Basic earnings per Fund unit (note 3(f))	$ 1.03	$ 0.40
Diluted earnings per Fund unit (note 3(f))	$ 0.88	$ (0.12)

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

BOSTON PIZZA ROYALTIES INCOME FUND
Consolidated Statements of Changes in Unitholders' Equity
(Expressed in thousands of Canadian dollars)

		Fund units		Accumulated deficit		Total unitholders' equity
Balance – January 1, 2019	$	328,504	$	(55,837)	$	272,667
Net and comprehensive income for the period		-		22,503		22,503
Distributions declared (note 9)		-		(30,067)		(30,067)
Balance – December 31, 2019	$	328,504	$	(63,401)	$	265,103
Balance – January 1, 2018	$	330,064	$	(34,326)	$	295,738
Acquisition of Fund units (note 5)		(1,560)		-		(1,560)
Net and comprehensive income for the period		-		8,669		8,669
Distributions declared (note 9)		-		(30,180)		(30,180)
Balance – December 31, 2018	$	328,504	$	(55,837)	$	272,667

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

BOSTON PIZZA ROYALTIES INCOME FUND
Consolidated Statements of Cash Flows
For the years ended December 31, 2019 and 2018
(Expressed in thousands of Canadian dollars)

	2019	2018
Cash flows provided by (used in)		
Operating activities		
Net and comprehensive income for the period	$ 22,503	$ 8,669
Adjustments for:		
Deferred income tax expense (recovery)	420	(2,060)
Fair value adjustment on investment in Boston Pizza Canada Limited Partnership	9,002	37,099
Fair value adjustment on Class B Unit Liability	(4,120)	(14,814)
Fair value adjustment on interest rate swaps	824	412
Interest expense on Class B unit liabilities	4,133	3,722
Changes in non-cash working capital	62	(32)
Current income tax expense	8,595	8,685
Current income tax paid	(8,628)	(8,679)
Interest income	(40)	(33)
Interest expense	2,830	2,676
Interest received	40	33
Net cash generated from operating activities	35,621	35,678
Financing activities		
Distributions paid to Fund unitholders	(30,067)	(30,191)
Interest paid on Class B unit liabilities	(4,094)	(3,757)
Interest paid on long-term debt	(2,821)	(2,710)
Acquisition of Fund units	-	(1,560)
Proceeds from long-term debt	-	1,558
Other liabilities	400	400
Net cash used in financing activities	(36,582)	(36,260)
Decrease in cash and cash equivalents	(961)	(582)
Cash and cash equivalents – beginning of period	2,714	3,296
Cash and cash equivalents – end of period	$ 1,753	$ 2,714

Supplemental cash flow information (note 15)

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

1. General Information:

(a) Organization:

Boston Pizza Royalties Income Fund together with its subsidiaries (note 3(b)) (the "**Fund**") is an unincorporated open-ended limited purpose trust established under the laws of the Province of British Columbia, Canada, and is governed by the Declaration of Trust signed June 10, 2002, and as amended and restated on July 17, 2002, September 22, 2008, and December 7, 2010. The Fund's principal business office is located at 10760 Shellbridge Way, Richmond, BC.

The Fund was established to indirectly, through Royalties LP (note 3 (b)), acquire the trademarks and trade names owned by BPI (note 3 (b)) including "Boston Pizza" and other similar related items, logos and designs (collectively, the "**BP Rights**") used in connection with the operation of Boston Pizza restaurants in Canada ("**Boston Pizza Restaurants**"). The BP Rights do not include the rights outside of Canada to any trademarks or trade names used by BPI or any affiliated entities in its business, and in particular do not include the rights outside of Canada to the trademarks registered or pending registration under the *Trade Marks Act* (Canada).

On May 6, 2015, the Fund indirectly completed an investment in Boston Pizza Canada Limited Partnership ("**BP Canada LP**") to effectively increase the Fund's interest ("**Franchise Sales Participation**") in franchise sales ("**Franchise Sales**") of Boston Pizza Restaurants in the Royalty Pool as defined in the License and Royalty Agreement between Royalties LP and BPI (the "**Royalty Pool**") by 1.5%, from 4.0% to 5.5% less the pro rata portion payable to BPI in respect of its retained interest in the Fund (the "**Transaction**"). BP Canada LP is a limited partnership controlled and operated by BPI and is the exclusive franchisor of Boston Pizza Restaurants in Canada.

(b) Nature of operations:

The Fund, as indirect owner of the BP Rights, has granted BPI exclusive license to the use of the BP Rights for a term of 99 years beginning in July 2002 (the "**License and Royalty Agreement**"). In return, BPI pays the Fund a royalty of 4.0% of Franchise Sales of Boston Pizza Restaurants in the Royalty Pool (the "**Royalty**"). The Fund, through its indirect investment in BP Canada LP is entitled to receive a distribution equal to 1.5% of Franchise Sales of Boston Pizza Restaurants in the Royalty Pool less the pro rata portion payable to BPI in respect of its retained interest in the Fund (the "**Distribution**"). There are 396 Boston Pizza Restaurants in the Royalty Pool as at December 31, 2019 (December 31, 2018 – 391). BP Canada LP carries on business as a franchisor of casual dining pizza and pasta restaurants and operates only in Canada. The rights to operations outside of Canada are owned by an affiliated company.

Substantially all of the Fund's revenues are earned from certain operations of Boston Pizza International Inc. (Boston Pizza International Inc. together with its wholly-owned subsidiaries, "**BPI**") and BP Canada LP, accordingly, the revenues of the Fund and its ability to pay distributions to Fund unitholders are dependent on the ongoing ability of BPI and BP Canada LP to generate and pay Royalty and Distribution to the Fund.

2. Basis of preparation:

(a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**").

These consolidated financial statements were authorized for issue by the Trustees of the Fund on February 12, 2020.

(b) Functional and presentation currency:

These consolidated financial statements are presented in Canadian dollars, which is the Fund's functional currency.

(c) Use of estimates and judgments:

The preparation of these consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised.

Significant areas requiring the use of management judgment and estimates relate to the determination of the following:

Judgment

- Consolidation

  Applying the criteria outlined in IFRS 10, judgment is required in determining whether the Fund controls Royalties LP. Making this judgement involves taking into consideration the concepts of power over Royalties LP, exposure and rights to variable returns, and the ability to use power to direct the relevant activities of Royalties LP so as to generate economic returns. Using this criteria management has determined that the Fund ultimately controls Royalties LP through its 80% ownership of the managing general partner, Boston Pizza GP Inc.

Estimates

- Intangible Assets – the BP Rights (note 7)

  The Fund carries the BP Rights at historical cost comprising the amount of consideration paid for the BP Rights in 2002, as well as the value of additional Boston Pizza Restaurants rolled into the Royalty Pool to date. The value of additional Boston Pizza Restaurants added to the Royalty Pool is determined on a formula basis that is designed to estimate the present value of the cash flows that would ultimately be payable to the Fund as a result of the new Boston Pizza Restaurants being added to the Royalty Pool. As such, the calculation is dependent on a number of different variables including the estimated long-term sales of the new Boston Pizza Restaurants, discount rate, and the tax rate. The

2. Basis of preparation (continued):

(c) Use of estimates and judgements (continued):

value assigned to the new Boston Pizza Restaurants, and as a result, the value assigned to the BP Rights, could differ from actual results.

The Fund tests the BP Rights for impairment annually, which requires that the Fund use a valuation technique to determine if impairment exists. This valuation technique may not represent the actual fair value less costs to sell that the Fund expects the BP Rights to generate.

- Investment in Boston Pizza Canada Limited Partnership Fair Value Adjustment (note 6)

  The Fund records its investment in BP Canada LP at fair value. The investment consists of Class 1 limited partnership units ("**Class 1 LP Units**") and Class 2 limited partnership units ("**Class 2 LP Units**"). This requires that the Fund use a valuation technique to determine the value of the investment in BP Canada LP at each reporting date (refer to note 3 (g)).

  This valuation technique may not represent the actual value of the financial asset and could materially impact the Fund's financial position and net and comprehensive income.

- Class B Unit Fair Value Adjustment (note 8)

  The Fund records a liability in respect of Class B general partner units ("**Class B Units**") of Royalties LP (the "**Class B Unit Liability**") at fair value. This requires that the Fund use a valuation technique to determine the value of the Class B Unit Liability at each reporting date (refer to note 3 (g)).

  This valuation technique may not represent the actual value of the financial liability should such units be extinguished and changes in the distribution rate on the Class B Units and the yield of the units of the Fund ("**Fund units**") could materially impact the Fund's financial position and net and comprehensive income.

3. Significant accounting policies:

The significant accounting policies used in the preparation of these consolidated financial statements are described below.

(a) Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the statements of financial position:

- The investment in BP Canada LP (Class 1 LP Units and Class 2 LP Units) is measured at fair value through the statement of comprehensive income.
- Class B Unit Liability is measured at fair value through the statement of comprehensive income.
- The Fund holds derivative financial instruments to manage its interest rate exposure. Financial derivatives not using hedge accounting are recognized initially at fair value;

3. Significant accounting policies (continued):

(a) Basis of measurement (continued):

attributable transaction costs are recognized in profit and loss as incurred. Subsequent to initial recognition, financial derivatives are recognized at fair value and changes therein are accounted for through the consolidated statement of comprehensive income.

(b) Consolidation:

These consolidated financial statements include the accounts of Boston Pizza Royalties Income Fund, its wholly-owned subsidiaries Boston Pizza Holdings Trust (the "**Trust**"), Boston Pizza Holdings GP Inc. and Boston Pizza Holdings Limited Partnership ("**Holdings LP**"), its 80%-owned subsidiary Boston Pizza GP Inc. ("**BPGP**") and its interest in Boston Pizza Royalties Limited Partnership ("**Royalties LP**"). BPGP is the managing general partner of Royalties LP. The 20% residual ownership of BPGP is owned by BPI directly or indirectly. BPI is a general partner of Royalties LP.

Subsidiaries are those entities which the Fund controls by having the power to govern the financial and operating policies of such entities so as to obtain economic benefits from their relevant activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Fund directs the activities of another entity.

(c) Cash and cash equivalents:

Cash and cash equivalents consist of cash on hand and balances on deposit with banks.

(d) Revenue:

Royalty, Distribution, and interest income are recognized on the accrual basis and is accrued for when earned. Royalty payments from BPI to the Fund are 4%, and Distribution payments from BPI to the Fund are 1.5% less the pro rata portion payable to BPI in respect of its retained interest in the Fund, of Franchise Sales for such period reported by BPI for Boston Pizza Restaurants in the Royalty Pool. Refer to note 1 for further information.

(e) Distributions on Fund units:

Declarations of distributions from the Fund are at the discretion of the Trustees of the Fund. For the year ended, December 31, 2019, $30.1 million (2018 – $30.2 million) in discretionary cash distributions were paid to Fund unitholders.

The amount of cash available to be distributed to Fund unitholders is determined with reference to the Fund's cash flow from operations adjusted for items such as BPI's entitlements in respect of its Class B Units, specified investment flow-through ("**SIFT**") tax expense and SIFT tax paid.

Distributions are recorded when declared and are subject to the Fund retaining such reasonable working capital reserves as may be considered appropriate by the Trustees of the Fund.

3. Significant accounting policies (continued):

(f) Basic and diluted earnings per Fund unit:

Basic earnings per Fund unit is based on the weighted average number of Fund units outstanding during the period. Diluted earnings per Fund unit is based on the weighted average number of Fund units, including BPI's Class B Units (note 8) and Class 2 general partnership units of BP Canada LP ("**Class 2 GP Units**") (note 6) outstanding during the period.

Diluted earnings per Fund unit includes the Class B Units (note 8) and Class 2 GP Units (note 6) and is calculated by adjusting the weighted average number of Fund units outstanding to assume conversion of all Class B Units and Class 2 GP Units.

For the year ended December 31, 2019, the basic and diluted earnings per Fund unit is $1.03 and $0.88 respectively, with the dilution a result of changes in the Class B Unit Liability. For December 31, 2018, the basic and diluted earnings (loss) per Fund unit were $0.40 and ($0.12) respectively.

The following reconciles the basic earnings to the diluted earnings:

(in thousands, except per Fund unit data)		2019		2018
Net income for the period	$	22,503	$	8,669
Increase in Distribution income to the Fund		1,688		1,535
Decrease in interest expense on Class B Unit Liability		4,133		3,722
Fair value adjustment on Class B Unit Liability		(4,120)		(14,814)
Increase in Fund's current and deferred income taxes		(2,295)		(2,063)
Fund's diluted earnings		21,909		(2,951)
Weighted average fully diluted Fund units outstanding		25,011,637		24,793,726
Diluted earnings per Fund unit	$	0.88 (Dilutive)	$	(0.12) (Dilutive)

(g) Financial instruments:

(i) Recognition, classification and measurement:

Financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows.

All financial assets are initially recorded at fair value and subsequently classified as measured at amortized cost, fair value through other comprehensive income (FVOCI), or fair value through profit and loss (FVTPL).

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as FVTPL:

- the asset is held within a business model whose objective is to hold the asset to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3. Significant accounting policies (continued):

(g) Financial instruments (continued):

A debt security is measured at FVOCI only if it meets both of the following conditions and is not designated as FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity instrument that is not held for trading, the Fund may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis. All other financial assets are classified as measured at FVTPL.

All financial liabilities are initially recorded at fair value and subsequently classified as measured at amortized cost or FVTPL. On initial recognition, the Fund may irrevocably designate a financial liability at FVTPL when doing so results in more relevant information, because either:

- the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases; or
- a group of financial liabilities or financial assets and financial liabilities is managed with its performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to key management personnel.

For financial assets classified as measured at FVTPL or designated at FVTPL, changes in fair value are recognized in the consolidated statement of comprehensive income. For financial assets classified as measured at FVOCI or an irrevocable election has been made, changes in fair value are recognized in the consolidated statement of comprehensive loss. For financial assets and other financial liabilities measured at amortized cost, interest income and interest expense are calculated using the effective interest method and is recognized in the consolidated statement of income.

(ii) Business model assessment:

The Fund makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the asset is managed and information is provided to management. The information considered includes:

- how the performance of the portfolio is evaluated and reported to management;
- how managers of the business are compensated;
- whether the assets are held for trading purposes;

3. Significant accounting policies (continued):

(g) Financial instruments (continued):

- the risks that affect the performance of the financial assets held within the business model and how those risks are managed; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sale activity.

(iii) Contractual cash flow characteristics assessment:

In assessing whether the contractual cash flows are solely payments of principal and interest, 'principal' is defined as the fair value of the financial asset on initial recognition and 'interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

The Fund considers the contractual terms of the financial asset and whether the asset contains contractual terms that could change the timing or amount of cash flows such that it would not meet the condition of principal and interest. Contractual terms considered in this assessment include contingent events that would change the amount and timing of cash flows, leverage features, prepayment and extension terms, terms that limit the claim to cash flows from specified assets, and features that modify the consideration from time value of money.

The following tables present the classification and carrying amounts of each category of financial assets and liabilities:

(in thousands)		December 31, 2019		December 31, 2018
Assets carried at FVTPL				
Class 1 Limited Partnership Units of Boston Pizza Canada Limited Partnership	$	33,314	$	33,314
Class 2 Limited Partnership Units of Boston Pizza Canada Limited Partnership		73,435		82,437
Fair value of interest rate swaps		90		914
	$	106,839	$	116,665
Assets carried at amortized cost				
Cash and cash equivalents	$	1,753	$	2,714
Royalty receivable from Boston Pizza International Inc.		2,989		3,026
Distributions receivable from Boston Pizza Canada Limited Partnership		940		965
Current income tax receivable		33		-
	$	5,715	$	6,705

3. Significant accounting policies (continued):

(g) Financial instruments (continued):

(in thousands)		December 31, 2019		December 31, 2018
Liabilities carried at FVTPL				
Class B Unit Liability	$	32,344	$	32,912
	$	32,344	$	32,912
Liabilities carried at amortized cost				
Accounts payable and accrued liabilities	$	522	$	509
Distributions payable to Fund unitholders		2,506		2,506
Interest payable on Class B Units		337		298
Other liabilities		800		400
Credit Facilities		88,314		88,314
	$	92,479	$	92,027

Unless otherwise noted, the fair values on instruments noted approximate their carrying amount largely due to the short-term maturities of these instruments.

The Fund must classify fair value measurements according to a hierarchy that reflects the significance of the inputs used in performing such measurements.

The Fund's fair value hierarchy comprises the following levels:

- Level 1 – quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – pricing inputs are other than quoted in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date.
- Level 3 – valuations in this level are those with inputs for the asset or liability that are not based on observable data.

The fair values of the Class 1 LP Units and Class 2 LP Units, the Swaps, and the Class B Unit Liability are determined using Level 2 inputs and are all measured on a recurring basis.

The Class 1 LP Units are entitled to distributions determined with respect to the interest cost incurred on Facility D (note 5). Thus, the fair value of the Class 1 LP Units is estimated using a market-corroborated input (interest rate on the credit facility). The Fund estimates the fair value of Class 1 LP Units at carrying value adjusted for interest rate risk.

The fair value of the Class 2 LP Units is determined using a market approach, which involves using observable market prices for similar instruments. The Class 2 LP Units have identical cash distribution entitlements and provisions to the Class 2 GP Units held by BPI, which are exchangeable into Fund units. The fair value of the Class 2 LP Units is determined by multiplying the issued and outstanding Class 2 LP Units held by the Fund at the end of the period by the closing price of Fund units on the last business day of the period.

3. Significant accounting policies (continued):

(g) Financial instruments (continued):

The fair value of the Class B Unit Liability is also determined via a market approach as the Class B Units held by BPI are exchangeable into Fund units. The fair value of the Class B Unit Liability is calculated by multiplying the total number of Fund units into which the Class B Units are exchangeable, including the Class B Holdback, at the end of the period by the closing price of a Fund unit on the last business day of the period.

The Fund has recorded the Credit Facilities at amortized cost. Royalties LP and Holdings LP use interest rate swaps to manage risks from fluctuations in interest rates on $77.2 million (December 31, 2018 – $62.2 million) of this balance, and any changes in the fair value of the interest rate swaps are recorded in the consolidated statement of comprehensive income in the period in which they arise. Without factoring in the interest rate swaps, the fair value of the $77.2 million of the Credit Facilities approximates its carrying amount since the debt has variable interest rates at terms that the Fund believes are reflective of currently available terms. The fair value of the remaining Credit Facilities balance, which equals the carrying amount, is $11.1 million (December 31, 2018 – $26.1 million) since the debt has variable interest rates at terms that the Fund believes are reflective of currently available terms.

(h) Impairment of financial assets:

Credit-impaired financial assets

At each reporting date, the Fund assesses whether financial assets carried at amortized cost are credit impaired. A financial asset is 'credit impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Fund on terms that the Fund would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amounts of the assets.

Financial instruments and contract assets

The Fund recognizes loss allowances for expected credit losses (ECL) on:

- financial assets measured at amortized cost;
- debt investments measured at fair value through other comprehensive income; and
- contracted assets.

3. Significant accounting policies (continued):

(h) Impairment of financial assets (continued):

The Fund measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which the credit risk has not increased significantly since initial recognition.

Loss allowances for trade receivables are measured at an amount equal to lifetime ECLs. Lifetime ECLs are the ECL that result from all possible default events over the expected life of a financial instrument. ECLs are probability-weighted estimate of credit losses, and credit losses are measured as the present value of cash shortfalls from a financial asset.

The Fund determines whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating lifetime ECLs, by considering reasonably available quantitative and qualitative information based on the Fund's credit risk experience, forward looking information, and other reasonable estimates.

The Fund has reviewed its Royalty receivable from BPI and Distribution receivable from BP Canada LP and has determined that no indicators of impairment exist.

(i) Impairment of non-financial assets:

Long-lived assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Long-lived assets that are not amortized, such as the BP Rights, are subject to an annual impairment test (note 7). For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows. 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 relevant asset). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. Impairment losses may be reversed if the fair value of the asset is determined to be greater than its carrying amount.

The Fund tested the BP Rights for impairment at December 31, 2019 and determined no impairment exists (note 7).

(j) Financial risk management:

The Fund is primarily exposed to credit risk, liquidity risk and interest rate risk as they relate to the identified financial instruments.

Credit risk

Credit risk is defined as an unexpected loss in cash and earnings if another party is unable to pay its obligations in due time. The Fund's exposure to credit risk arises from its Royalty receivable and Distribution receivable from BP Canada LP. The outstanding balances in these accounts represent the Fund's maximum credit exposure. The Fund monitors this risk through its regular review of operating and financing activities of BPI and BP Canada LP. Since its inception, the Fund has never failed to collect its Royalty receivable or Distribution receivable on a timely basis.

3. Significant accounting policies (continued):

(j) Financial risk management (continued):

The performance of the Fund is directly dependent upon the Royalty and Distribution payments received from BPI and BP Canada LP. The amount of Royalty and Distribution received is dependent on various factors that may affect the casual dining sector of the restaurant industry including competition and general economic conditions. In general, the restaurant industry, and in particular the casual dining sector, is intensely competitive with respect to price, service, location, and food quality. If BPI and BP Canada LP and its franchisees are unable to successfully compete in the casual dining sector or the economy is weak for an extended period of time, Franchise Sales, the basis on which Royalty and Distribution are paid, may be adversely affected. The reduction of royalties from Franchise Sales may impact BPI and BP Canada LP's ability to pay Royalty or Distribution due to the Fund.

As at December 31, 2019, the Fund had no provision for credit risk recorded in its financial statements (December 31, 2018 – nil).

Liquidity risk

Liquidity risk results from the Fund's potential inability to meet its financial obligations. Beyond effective net working capital and cash management, the Fund constantly monitors its operations and cash flows to ensure that current and future distributions to Fund unitholders will be met. At December 31, 2019, $3.4 million of current liabilities had a maturity of less than three months. The Fund's capital resources are comprised of its cash and cash equivalents, Royalty receivable from BPI, Distribution receivable from BP Canada LP and its undrawn Facility A (note 5).

(in thousands)		December 31, 2019
Cash and cash equivalents	$	1,753
Royalty receivable from Boston Pizza International Inc.		2,989
Distribution receivable from Boston Pizza Canada Limited Partnership		940
Undrawn Facility A		2,000
	$	7,682

The Fund's obligations under the Credit Facilities, as detailed in note 5, are secured by a first charge over the assets of the Fund, mature at dates specified in note 5 and have no scheduled repayment terms before maturity.

The Fund is subject to certain guarantor covenants and reporting requirements arising from the Credit Facilities that are further described in note 3(l).

The Fund's capital resources are comprised of cash and cash flow from operating activities. The maturities of the Fund's financial liabilities are as follows:

(in thousands)		Value	Maturity
Accounts payable and accrued liabilities	$	522	< 1 year
Distributions payable to Fund unitholders	$	2,506	< 1 year
Interest payable on Class B Units	$	337	< 1 year
Other liabilities	$	800	> 1 year
Credit Facilities	$	88,314	< 1 year

3. Significant accounting policies (continued):

(j) Financial risk management (continued):

Interest rate risk

The Fund's exposure to interest rate risk is mainly through the Credit Facilities. The Fund has entered into Swaps under the International Swap Dealers Association Master Agreements (the "**ISDA Agreements**") to manage interest rate risk on $77.2 million of its long-term debt and these Swaps are detailed in note 5. Therefore, the Fund's interest rate risk is mainly related to its $11.1 million floating rate debt. A 1.0% change in short-term interest rates would result in a minimal change in interest expense based on the Fund's floating rate debt at December 31, 2019.

(k) Identifiable long-lived assets:

Long-lived assets consist of the BP Rights (note 7). The long-lived assets are indefinite life assets and are not amortized but tested for impairment on an annual basis.

(l) Capital disclosures:

The Fund's objective when managing capital is to safeguard its ability to continue as a going concern so that it can continue to provide distributions to Fund unitholders and benefits for other stakeholders. The Fund includes its Credit Facilities and unitholders' equity, in its definition of capital.

The Fund seeks to maintain a balance between the higher returns that might be possible with the leverage afforded by higher borrowing levels and the security afforded by a sound capital structure. It does this by maintaining appropriate debt levels in relation to its cash flows, working capital and other assets in order to provide the maximum distributions to Fund unitholders commensurate with the level of risk. Also, the Fund utilizes its debt capabilities to buy back Fund units, when appropriate, in order to maximize cash distribution rates for remaining Fund unitholders.

The Fund maintains formal financial policies to manage its capital structure that are adjusted to respond to changes in economic conditions, the underlying risks inherent in its operations, and capital requirements to maintain and grow its operations. In order to maintain or adjust its capital structure, the Fund may adjust the amount of distributions paid to Fund unitholders, purchase Fund units in the market, or issue new Fund units. The Fund's policy is to distribute all available cash from operations to Fund unitholders after provisions for cash required for working capital and other reserves considered advisable by the Fund's Trustees. The Fund has eliminated the impact of seasonal fluctuations by equalizing monthly distributions.

The Fund had debt of $88.3 million at December 31, 2019 (December 31, 2018 – $88.3 million). In addition, the Fund's banking covenants currently require it to limit its funded debt to rolling 12 month EBITDA to 2.25:1 and have rolling 12 month distributions to Fund unitholders not exceed rolling 12 month distributable cash plus cash on hand. The Fund's funded debt to EBITDA ratio at December 31, 2019 was 2.00:1 (December 31, 2018 – 1.99:1) and its 12 month rolling distributions to Fund unitholders did not exceed 12 month rolling distributable cash and cash on hand as at December 31, 2019. The Fund is in compliance with its covenants as at December 31, 2019.

3. Significant accounting policies (continued):

(l) Capital disclosures (continued):

The Fund is not subject to any other statutory capital requirements and has no commitments to sell or otherwise issue Fund units, other than the commitment to exchange Class B Units and Class 2 GP Units held by BPI for Fund units, as described in notes 6, 8 and 9.

(m) Accounting standards and amendments issued and adopted:

On January 13, 2016, the IASB published IFRS 16, Leases. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance. Lessor accounting remains largely unchanged and the distinction between operating and finance leases is retained. The new standard applies for annual periods beginning on or after January 1, 2019.

The Fund performed an analysis to assess the impact of this standard and developed a comprehensive plan to guide the implementation. There is no impact on the assets and liabilities of the consolidated statements of financial position as a result of the adoption of this standard, since the Fund does not have operating lease arrangements of more than 12 months in which it is considered the lessee. The impact of the adoption of new standard is non-cash in nature, as such there is no impact on cash flows.

The Fund adopted these amendments in its consolidated financial statements on January 1, 2019.

4. Income taxes:

The Fund has recorded current income tax expense of $8.6 million for the year ended December 31, 2019 (December 31, 2018 – $8.7 million). The current income tax position (receivable or payable) is the cumulative result of the Fund's SIFT tax installments above the Fund's SIFT tax expense.

The Fund has recorded a deferred income tax expense of $0.4 million for the year ended December 31, 2019 (December 31, 2018 – deferred income tax recovery of $2.1 million). The deferred income tax liability arises mainly as a result of the Fund recording, in the current period, its cumulative share of the temporary differences between the accounting and tax bases of (i) the BP Rights owned by the Royalties LP generated since the inception of the Fund, (ii) the Fund's indirect investment in BP Canada LP, and (iii) the deferred tax benefit associated with the Fund's issuance costs related to the Transaction. This expense had no impact on the Fund's cash flow for the period.

The reconciliation to statutory tax rate is as follows:

(in thousands, except tax rate)		2019		2018
Profit before income taxes	$	31,518	$	15,294
Combined Canadian federal and provincial rate		27.0%		27.0%
Computed expected tax expense		8,510		4,129
Decreased by:				
Current year's earnings not taxable		(2,572)		(4,637)
Increased by:				
Current year's earnings that are taxable		3,077		7,133
Total tax expense per statement of income	$	9,015	$	6,625

4. Income taxes (continued):

The tax effect of the temporary differences that gives rise to the deferred income tax liability is as follows:

(in thousands)	December 31, 2019	December 31, 2018
Deferred income tax liabilities:		
Difference related to the BP Rights	$ 6,500	$ 6,390
Difference related to issuance costs	-	(310)
Net deferred tax liability	$ 6,500	$ 6,080

As at December 31, 2019, there is an unrecognized deductible temporary difference associated with the Fund's investments in BP Canada LP of $20.6 million (2018 – $15.3 million) as it is not probable that taxable profit will be available against which the deductible temporary difference can be utilized.

5. Credit facilities:

The Fund's credit agreement with a Canadian chartered bank (the "**Lender**") provides Holdings LP and Royalties LP with the following credit facilities (the "**Credit Facilities**"):

(i) a $2.0 million committed operating facility issued to Royalties LP ("**Facility A**");

(ii) a $55.0 million committed revolving credit facility issued to Royalties LP for the purpose of refinancing any previous credit facilities prior to May 5, 2015 and to facilitate the Fund repurchasing and canceling Fund units under normal course issuer bids, substantial issuer bids or to finance the cash component of any exchange of general partner units of BP Canada LP ("**Facility B**"); and

(iii) a $33.3 million committed revolving credit facility issued to Holdings LP for the purpose of subscribing for Class 1 LP Units ("**Facility D**").

The Fund is subject to certain guarantor covenants and reporting requirements arising from the Credit Facilities which are described in note 3(l). The Fund is additionally subject to commitment fees at rates of 0.2% to 0.3% on any unused portions of the Credit Facilities, payable on a quarterly basis.

On April 1, 2019 the Fund agreed to swap $15.0 million of its then $26.1 million floating rate debt to a five year fixed rate term of 2.27% plus the applicable margin of 1.50% totaling a fixed rate of 3.77%.

The Fund recorded a financial derivative asset based on the fair value of the Swaps at December 31, 2019 of $0.1 million (December 31, 2018 – $0.9 million) in accordance with accounting for derivatives under IFRS. The Fund intends to hold the outstanding Swaps to maturity.

The Credit Facilities bear interest at fixed or variable interest rates, as selected by Royalties LP or Holdings LP, as applicable, comprised of either the Lender's current rate for fixed rate operating loans or a combination of the Lender's bankers' acceptance rates plus between 1.00% and 1.50%, or the Lender's prime rate plus between 0.00% and 0.50%, depending upon debt to EBITDA ratios. The credit agreement expires on May 5, 2020. The principal balance becomes due upon the expiry of the credit agreement on May 5, 2020.

The Credit Facilities are guaranteed by the Fund, the Trust, Boston Pizza Holdings GP Inc., Holdings

5. Credit facilities (continued):

LP, Royalties LP and BPGP, all of whom have granted security for their obligations under those guarantees. No guarantee or security has been given by BPI or BP Canada LP with respect to the Credit Facilities.

The Fund did not acquire any Fund units from January 1, 2019 – December 31, 2019. From January 1, 2018 to December 31, 2018, the Fund acquired 98,300 Fund units under its then active normal course issuer bid at an average price of $15.86 per Unit for a total of $1.6 million and financed such purchases by drawing on Facility B.

As of December 31, 2019, no amount was drawn on Facility A, $55.0 million was drawn on Facility B and $33.3 million was drawn on Facility D.

The below chart summarizes fixed and variable rate swap terms under Facility B and Facility D of the credit agreement that expires on May 5, 2020.

(in thousands)	December 31, 2019	December 31, 2018
Credit facility managed by interest rate swaps:		
Bank of Montreal Credit Facility B bearing interest at 1.51% plus between 1.00% and 1.50% per annum, with a maturity date of February 1, 2022	$ 13,900	$ 13,900
Bank of Montreal Credit Facility D bearing interest at 1.25% plus between 1.00% and 1.50% per annum, with a maturity date of August 1, 2020	17,000	17,000
Bank of Montreal Credit Facility D bearing interest at 0.87% plus between 1.00% and 1.50% per annum, with a maturity date of March 1, 2021	16,314	16,314
Bank of Montreal Credit Facility B bearing interest at 2.40% plus between 1.00% and 1.50% per annum, with a maturity date of January 1, 2023	15,000	15,000
Bank of Montreal Credit Facility B bearing interest at 2.27% plus between 1.00% and 1.50% per annum, with a maturity date of April 1, 2024	15,000	-
Credit Facility at variable interest rates:		
Bank of Montreal Credit Facility B bearing interest at short-term fixed rate operating loan rates (1.97% at December 31, 2019 and 2.16% at December 31, 2018) plus 1.50% per annum, with a maturity date of May 5, 2020	11,100	26,100
	$ 88,314	$ 88,314

5. Credit facilities (continued):

The fair value of the Fund's debt is $88.3 million since the debt has fixed and variable interest rates at terms that the Fund believes are reflective of those currently available. Accordingly, the impact of a 1.0% change in the prime rate would not result in a significant change in the fair value of the debt.

The Credit Facilities have been classified as current liabilities as the credit agreement expires in less than twelve months, however, the Fund refinanced its debt before maturity and did not repay any portion of the principal amount outstanding prior to maturity (refer to note 16 (c)).

6. Investment in Units of Boston Pizza Canada Limited Partnership:

The investment in BP Canada LP is comprised of:

(in thousands, except per unit data)	Issued and outstanding LP Units		Investment in BP Canada LP
Issued and outstanding Class 1 LP Units upon closing of the Transaction on May 6, 2015	1,000	$	33,314
Issued and outstanding Class 2 LP Units upon closing of the Transaction on May 6, 2015	5,047,613		105,373
Exchange of Class 2 GP Units for Fund units and issuance of Class 2 LP Units on September 26, 2017	408,149		8,740
Fair value adjustment on investment in Units of Boston Pizza Canada Limited Partnership			(31,676)
Balance at December 31, 2018		$	115,751
Fair value adjustment on investment in Units of Boston Pizza Canada Limited Partnership			(9,002)
Balance at December 31, 2019		$	106,749

The carrying value of the Class 1 LP Units approximates the fair value as the Fund's interest cost is reflective of available market interest rates. The fair value of the Class 2 LP Units is determined at each period end by multiplying the issued and outstanding Class 2 LP Units held by the Fund at the end of the period by the closing price of Fund units on the last business day of the period. At the completion of the Transaction, the initial cost of each Class 2 LP Units acquired by the Fund was $20.88. On September 26, 2017 BPI exchanged 40,815,839 Class 2 GP Units of BP Canada LP for 408,149 Fund units at a price of approximately $21.41 per Fund unit. As the Class 2 LP Units are carried at fair value through profit and loss, no gain or loss was recognized on the exchange as the value of the Class 2 LP Units and Fund units was equal. As a result of this exchange, the Fund's unitholders' equity and investment in BP Canada LP increased by $8.7 million which is based on the market value of the Fund units at the time of the exchange.

6. Investment in Units of Boston Pizza Canada Limited Partnership (continued):

As at December 31, 2019, the closing price of a Fund unit was $13.46 (December 31, 2018 – $15.11) while the number of issued and outstanding Class 2 LP Units held by the Fund was 5,455,762 (December 31, 2018 – 5,455,762). The fair value adjustment of the investment in BP Canada LP for the year ending December 31, 2019 was a $9.0 million loss.

The Class 1 LP Units and Class 2 LP Units entitle the Fund to receive distributions from BP Canada LP equal to 1.5% of Franchise Sales of Boston Pizza Restaurants in the Royalty Pool less the pro rata portion payable to BPI in respect of its retained interest in the Fund. BPI receives such pro rata portion of Franchise Sales through distributions on Class 2 GP Units. BPI continues to pay the Fund the balance of the Fund's Franchise Sales Participation in the form of Royalty fees.

The number of Fund units that BPI is entitled to receive in exchange for its Class 2 GP Units is adjusted on January 1 of each year (each, an "**Adjustment Date**") to reflect the addition of new Boston Pizza Restaurants to the Royalty Pool (the number of Fund units BPI is indirectly entitled to receive in connection therewith is the "**Class 2 Additional Entitlements**", with 80% of the Class 2 Additional Entitlements being received on the Adjustment Date with the balance (the "**Class 2 Holdback**") being received once the performance of the new stores and the actual effective tax rate paid by the Fund are known for certain), all in a manner similar to adjustments to the Class B Units that BPI holds (refer to note 8). BPI also has the right to further increase the Fund's Franchise Sales Participation by up to an additional 1.5% of Franchise Sales (in 0.5% increments) upon meeting certain financial thresholds designed to ensure that the additional Franchise Sales Participation is accretive to the Fund and that BPI retains the financial capacity to satisfy its obligations to the Fund. The Fund has an obligation to issue Fund units when BPI exercises its rights to exchange Class 2 GP Units for Fund units.

As at December 31, 2019, BPI's Class 2 GP Units were exchangeable for 803,520 Fund units (December 31, 2018 – 716,287).

	Issued and outstanding Class 2 Additional Entitlements	Issued and outstanding Class 2 Additional Entitlements including Class 2 Holdback
Balance at December 31, 2018	716,287	736,608
Class 2 Additional Entitlements for addition of 5 net new restaurants opened in 2018 and added to the Royalty Pool in 2019 – granted January 1, 2019	69,550	86,938
Adjustment to prior year Class 2 Additional Entitlements for actual performance of new restaurants opened in 2017 and added to Royalty Pool in 2018 and actual effective tax rate	17,683	(2,638)
Balance at December 31, 2019	803,520	820,908

6. Investment in Units of Boston Pizza Canada Limited Partnership (continued):

Should an exchange occur, BP Canada LP would issue additional Class 2 LP Units to the Fund, the Fund would issue additional Fund units to BPI, resulting in an increase in the Fund's investment in BP Canada LP recognizing its entitlement to a larger portion of distributions.

7. Intangible assets – BP Rights:

Royalties LP and BPI entered into the License and Royalty Agreement to allow BPI the use of the BP Rights for a term of 99 years beginning in July 2002, for which BPI pays the Royalty. Since the trademarks may remain in force indefinitely, the BP Rights have an indefinite life, are recognized at cost and are not amortized but are tested for indicators of impairment at each reporting date and tested for impairment annually on December 31. In January of each year, new Boston Pizza Restaurants are added to the Royalty Pool. In exchange for adding new Boston Pizza Restaurants into the Royalty Pool, BPI is granted the Class B Additional Entitlements (note 8), the fair value of which are determined using the expected annual Franchise Sales of the new Boston Pizza Restaurants discounted by the yield of the Fund units. The value of the Class B Additional Entitlements is adjusted in the following year once the annual Franchise Sales of the new Boston Pizza Restaurants and the actual effective tax rate of the Fund are known for certain.

The fair values of the Class B Additional Entitlements are recognized as an internally generated intangible asset and are added to the carrying value of the BP Rights.

Each year on December 31, the Fund tests the carrying value of the BP Rights for impairment. Impairment exists if the carrying value of the BP Rights exceeds the fair value less costs to sell (the **"recoverable amount**").

The Fund determines the recoverable amount of the BP Rights based on its fair value less costs to sell. Management first determines the fair value of the Fund, and then deducts from this value the fair value of all of the Fund's other assets and liabilities, leaving only the BP Rights. The fair value of the Fund is determined based on the current market price of the outstanding Fund units. Based on the nature of the other assets and liabilities, management has determined that there are no material differences between the book value and fair value of these other assets and liabilities. Management estimates the costs to sell based on past experience with the previous sale and exchange of Fund units.

As at December 31, 2019, the Fund has tested the BP Rights for impairment in the manner described above and has determined that the recoverable amount exceeds the carrying value by approximately $58 million. The Fund has determined that no impairment exists. The key variable in the fair value less cost to sell calculation is the closing price of a Fund unit ($13.46 as at December 31, 2019). If the closing price of a Fund unit was approximately $2.50 lower, the recoverable amount would be approaching carrying value.

7. Intangible assets – BP Rights (continued):

The reconciliation of the intangible asset is as follows:

(in thousands)		
Balance – January 1, 2018	$	273,464
Class B Additional Entitlements for net 8 new restaurants opened in 2017 and added to the Royalty Pool in 2018 – granted January 1, 2018		5,909
Adjustment to prior year Class B Additional Entitlements for actual performance of new restaurants opened in 2016 and added to the Royalty Pool in 2017 and actual effective tax rate		898
Balance – December 31, 2018	$	280,271
Class B Additional Entitlements for net 5 new restaurants opened in 2018 and added to the Royalty Pool in 2019 – granted January 1, 2019		3,705
Adjustment to prior year Class B Additional Entitlements for actual performance of new restaurants opened in 2017 and added to the Royalty Pool in 2018 and actual effective tax rate		(153)
Balance – December 31, 2019	$	283,823

8. Royalties LP unit liabilities:

Class B Units:

The Class B Units are presented in the Fund's consolidated financial statements as a result of the Fund consolidating the accounts of Royalties LP under IFRS. The Class B Units are classified as a financial liability and are initially and subsequently recorded at fair value. The determination of the fair value of the Class B Unit Liability is described later in this note.

BPI has the right to exchange Class B Units for a number of Fund units based, at any time, on a defined calculation which is based in part on the net Franchise Sales from Boston Pizza Restaurants added to the Royalty Pool. On each Adjustment Date, an adjustment is made to add to the Royalty Pool new Boston Pizza Restaurants that opened and to remove any Boston Pizza Restaurants that permanently closed since the previous Adjustment Date. In return for adding net additional Royalty revenue, BPI receives the right to indirectly acquire additional Fund units (the "**Class B Additional Entitlements**" and together with Class 2 Additional Entitlements, the "**Additional Entitlements**"). BPI receives 80% of the Class B Additional Entitlements on the Adjustment Date with the balance (the "**Class B Holdback**", and together with Class 2 Holdback, the "**Holdback**") received once the performance of the new Boston Pizza Restaurants and the actual effective tax rate paid by the Fund are known for certain. BPI receives 100% of the distributions from the Class B Additional Entitlements throughout the year. Once the new Boston Pizza Restaurants have been in the Royalty Pool for a full year, an audit of the Franchise Sales of the new Boston Pizza Restaurants is performed and the actual effective tax rate paid by the Fund is determined. At such time, an adjustment is made to reconcile the number of Class B Additional Entitlements and associated distributions to the actual performance of the new Boston Pizza Restaurants and the actual effective tax rate of the Fund. Class B Units held by BPI carry voting rights equivalent to the number of Fund units into which the Class B Units are exchangeable at any time.

8. Royalties LP unit liabilities (continued):

On January 1, 2019, 10 new Boston Pizza Restaurants that opened during the period from January 1, 2018 to December 31, 2018 were added to the Royalty Pool while five Boston Pizza Restaurants that closed during 2018 were removed. The Franchise Sales of these five net new Boston Pizza Restaurants has been estimated at $11.8 million. The total number of Boston Pizza Restaurants in the Royalty Pool was increased to 396. As a result of the contribution of the additional net Franchise Sales to the Royalty Pool, BPI received Class B Additional Entitlements (including the Class B Holdback) equivalent to 231,836 (2018 – 270,943) Fund units.

BPI also received a proportionate increase in monthly distributions from Royalties LP. Of the 231,836 Class B Additional Entitlements, 20% (2019 – 46,367 Class B Holdback; 2018 – 54,189 Class B Holdback), remain unissued and are not eligible for conversion to Fund units until January 1, 2020 (2018 units – January 1, 2019) based on the actual performance of the new Boston Pizza Restaurants and the actual effective tax rate paid by the Fund.

In early 2019, adjustments to Royalty payments and Class B Additional Entitlements were made based on the actual performance of eight net new additional Boston Pizza Restaurants added to the Royalty Pool on January 1, 2018 and the actual effective tax rate paid by the Fund in 2018. Based on these adjustments, BPI received Class B Additional Entitlements equivalent to 47,153 Fund units.

The fair value of the Class B Unit Liability is determined at the end of each period by multiplying the issued and outstanding Class B Additional Entitlements (including Class B Holdback) held by BPI at the end of the period by the closing price of Fund units on the last business day of the period. As at December 31, 2019, the closing price of a Fund unit was $13.46 (December 31, 2018 – $15.11) while the number of Fund units BPI would be entitled to receive if it exchanged all of its Class B Units (including Class B Holdback) was 2,402,966 (December 31, 2018 – 2,178,166).

Consequently, the Class B Unit Liability was valued at $32.3 million (December 31, 2018 – $32.9 million). The Fund has no obligation to settle this financial liability in cash. If BPI were to exchange all of its Class B Units for Fund units on December 31, 2019, the Fund would issue the equivalent number of Fund units and the Class B Unit Liability would be extinguished.

8. Royalties LP unit liabilities (continued):

The following chart summarizes the Class B Additional Entitlements and Class B Unit Liability:

	Issued and outstanding Class B Additional Entitlements	Issued and outstanding Class B Additional Entitlements including Class B Holdback		Class B Unit Liability
Balance at December 31, 2017	1,792,084	1,867,580	$	40,919
Class B Additional Entitlements for addition of 8 net new restaurants opened in 2017 and added to the Royalty Pool in 2018 – granted January 1, 2018	216,754	270,943		5,909
Adjustment to prior year Class B Additional Entitlements for actual performance of new restaurants opened in 2016 and added to Royalty Pool in 2017 and actual effective tax rate	115,139	39,643		898
Fair value adjustment	-	-		(14,814)
Balance at December 31, 2018	2,123,977	2,178,166	$	32,912
Class B Additional Entitlements for addition of 5 net new restaurants opened in 2018 and added to the Royalty Pool in 2019 – granted January 1, 2019	185,469	231,836		3,705
Adjustment to prior year Class B Additional Entitlements for actual performance of new restaurants opened in 2017 and added to Royalty Pool in 2018 and actual effective tax rate	47,153	(7,036)		(153)
Fair value adjustment	-	-		(4,120)
Balance at December 31, 2019	2,356,599	2,402,966	$	32,344

9. Fund units:

(a) The Fund's Declaration of Trust provides that an unlimited number of Fund units may be issued. Each Fund unit is transferable and represents an equal undivided beneficial interest in any distributions of the Fund and in the net assets of the Fund. All Fund units have equal rights and privileges. Each Fund unit entitles the holder thereof to participate equally in the allocations and distributions and to one vote at all meetings of Fund unitholders for each Fund unit held. The Fund units issued are not subject to future calls or assessments.

Pursuant to the Declaration of Trust, the holders, other than the Fund or its subsidiaries, of the Class A general partner units of Royalties LP ("**Class A Units**"), Class B Units, and Class 2 GP Units are entitled to vote in all votes of Fund unitholders as if they were holders of the number of Fund units they would receive if Class A Units, Class B Units, and Class 2 GP Units were exchanged into Fund units at the record date of such votes, and will be treated in all respects as Fund unitholders for the purpose of any such votes.

9. Fund units (continued):

Fund units are redeemable at any time at the option of the Fund unitholder at a price based on market value as defined in the Declaration of Trust, subject to a maximum of $50,000 in cash redemptions in any one month. The limitation may be waived at the discretion of the Trustees of the Fund. Redemptions in excess of these amounts, assuming no waiving of the limitation, shall be paid by way of distribution in specie of a pro rata number of securities of the Trust held by the Fund.

(b) Fund units outstanding:

(in thousands, except unit data)	Number of Fund units	Fund units as equity
Opening balance at January 1, 2019	21,787,763	$ 328,504
Acquisition of Fund units	-	-
Balance at December 31, 2019	21,787,763	$ 328,504

As at December 31, 2019, the Class B Units held by BPI were exchangeable into 2,356,599 Fund units and the Class 2 GP Units held by BPI were exchangeable into 803,520 Fund units, for a total of 12.7% of the issued and outstanding Fund units on a fully diluted basis.

(c) Distributions declared to unitholders of the Fund during the year ended December 31, 2019 totaled $30.1 million (2018 – $30.2 million) or $1.38 per Fund unit (2018 – $1.38).

10. Accumulated deficit:

The following chart summarizes the components of the Fund's accumulated deficit in order to provide more details with respect to how it arose. Specifically, the components have been split into those affecting cash, and those not affecting cash, in line with how the Fund assesses its financial performance. Profit before fair value adjustments and income taxes, distributions declared to unitholders of the Fund, current income taxes, fair value adjustments and deferred income taxes are cumulative from inception (July 2002) to date or indicated below.

(in thousands)	December 31, 2019	December 31, 2018
Profit before fair value adjustments and income taxes	$ 403,128	$ 365,904
Distributions declared to unitholders of the Fund	(339,403)	(309,336)
Current income taxes	(63,338)	(54,743)
	$ 387	$ 1,825
Non-Cash items:		
Fair value adjustments	(56,838)	(51,132)
Deferred income taxes	(6,950)	(6,530)
	$ (63,788)	$ (57,662)
Accumulated deficit	$ (63,401)	$ (55,837)

11. Operations:

(in thousands, except number of Restaurants in the Royalty Pool)		2019		2018
Restaurants in the Royalty Pool		396		391
Franchise Sales reported by Restaurants in the Royalty Pool	$	853,728	$	855,108
Royalty income – 4% of Franchise Sales		34,149		34,204
Distribution income – 1.5% of Franchise Sales (less BPI retained interest)		11,246		11,407

Boston Pizza Restaurants experience seasonal fluctuations in Franchise Sales, which are inherent in the full service restaurant industry in Canada. Seasonal factors such as tourism and better weather allow Boston Pizza Restaurants to open their patios and generally increase Franchise Sales in the second and third quarters compared to the first and fourth quarters.

12. Other liabilities:

The Fund and BPI have agreed that for 2019 and 2018, BPI will charge the Fund $0.4 million of annual out-of-pocket expenses for which it is entitled to be reimbursed but the Fund will defer payment of the such amount to BPI (totaling $0.8 million, the "**Deferred Amount**"). The Deferred Amount will not bear interest and will become payable to BPI when the Fund's cash and cash equivalents is greater than 7% of Royalty and Distribution income.

13. Related party transactions:

BPI and BP Canada LP are considered to be related parties of the Fund by virtue of common officers and directors in Royalties LP, BPI, and BP Canada LP. The Fund has engaged Royalties LP, its administrator, to provide certain administrative services on behalf of the Fund. In turn, certain of the administrative services are performed by BPI as a general partner of Royalties LP. The total amount charged from BPI in respect of these out-of-pocket expenses for the year ended December 31, 2019 was $0.4 million (December 31, 2018 – $0.4 million). The total amount payable to BPI in respect of these services for the year ended December 31, 2019 was $0.8 million (December 31, 2018 – $0.4 million). Refer to note 12 for further details.

As at December 31, 2019, interest payable to BPI on Class B Units was $0.3 million (December 31, 2018 – $0.3 million), Royalty receivable from BPI was $3.0 million (December 31, 2018 – $3.0 million), and distribution receivable from BP Canada LP was $0.9 million (December 31, 2018 – $1.0 million).

14. Compensation of key management:

Key management personnel who receive direct remuneration from the Fund are the Trustees of the Fund. Aggregate details of their remuneration are set out in the table below with further information about the remuneration of individual Trustees provided in the Fund's Annual Information Form. Other key management personnel are compensated indirectly by the Fund through the administration charge.

(in thousands)		2019		2018
Remuneration paid to Trustees	$	226	$	222

15. Supplemental cash flow information:

(a) Non-cash transactions

(in thousands)		2019		2018
Roll-in of new stores – January 1, net	$	3,552	$	6,807

(b) Reconciliation of changes in non-cash working capital:

(in thousands)		2019		2018
Change in:				
Royalty receivable from Boston Pizza International Inc.	$	37	$	(20)
Distribution receivable from Boston Pizza Canada Limited Partnership		25		(18)
Prepaid expenses		(4)		(1)
Accounts payable and accrued liabilities		13		(27)
Adjusted for:				
Interest expense		(2,830)		(2,676)
Interest paid on long-term debt		2,821		2,710
Changes in non-cash working capital	$	62	$	(32)

16. Subsequent events:

(a) On January 1, 2020, five new Boston Pizza Restaurants that opened across Canada between January 1, 2019 and December 31, 2019 were added to the Royalty Pool and the five restaurants and one quick express restaurant that permanently closed during 2019 were removed from the Royalty Pool. The total number of restaurants in the Royalty Pool decreased to 395 from 396. In return for adding net additional Royalty and Distribution from the five new Boston Pizza Restaurants less the six Boston Pizza restaurants that permanently closed, BPI received 35,720 Additional Entitlements (representing 80% of the total Additional Entitlements), comprised of 25,978 Class B Additional Entitlements and 9,742 Class 2 Additional Entitlements, and the Holdback was 8,930 Additional Entitlements (representing 20% of the total Additional Entitlements), comprised of 6,495 Class B Holdback and 2,435 Class 2 Holdback. The Holdback remains unissued and is not eligible for conversion to Fund units until the first quarter of 2021. BPI receives an increase in monthly distributions based on 100% of the Additional Entitlements, subject to a reconciliation of the distributions paid to BPI in respect of these Additional Entitlements that will occur once the actual performance of these five new restaurants and the actual effective tax rate paid by the Fund for 2020 are known.

(b) In the first quarter of 2020, adjustments to Royalty and Distribution payments and Class B Additional Entitlements and Class 2 Additional Entitlements were made based on the actual performance of five net new additional Boston Pizza Restaurants added to the Royalty Pool on January 1, 2019 and the effective tax rate paid by the Fund in 2019. Based on these adjustments, BPI received 41,309 Class B Additional Entitlements and 15,491 Class 2 Additional Entitlements.

16. Subsequent events (continued):

(c) On January 24, 2020, Holdings LP and Royalties LP entered into an amended and restated credit agreement (the **"Amended and Restated Credit Agreement"**) with the Lender pursuant to which the Credit Facilities were amended and extended (the "**Amended and Extended Credit Facilities"**) as follows:

i. The maturity date was extended from May 20, 2020 to January 24, 2025;

ii. The total amount of credit available was increased by approximately $6.7 million, from $90.3 million to approximately $97.0 million, by increasing the size of Facility B from $55.0 million to approximately $61.7 million;

iii. The permitted uses of Facility B were expanded to include the repayment of the Deferred Amount to BPI (refer to note 12);

iv. The availment options for Facility B and Facility D were changed to include, among others, availment by way of (i) Canadian dollar prime rate loans, (ii) bankers' acceptances for one month or three months, and (iii) Canadian dollar offered rate loans with terms of one month or three months, with fixed rate operating loans being eliminated as an availment option;

v. The interest rates (or margins, as applicable) applicable to Canadian dollar prime rate loans, bankers' acceptances and Canadian dollar offered rate loans were reduced. In the case of Canadian prime rate loans, the interest rate is now equal to the Bank's prime rate plus between 0.00% and 0.40% (depending on the total funded net debt to EBITDA ratio) and, in the case of bankers' acceptances and Canadian dollar offered rate loans, the interest rate is equal to a variable interest rate based on the Bank's bankers' acceptance rates or Canadian dollar offered rates plus between 0.90% and 1.40% (depending on the total funded net debt to EBITDA ratio).

The guarantees and security supporting the Amended and Extended Credit Facilities are unchanged from those provided in respect of the Credit Facilities (refer to note 5). The material covenants of Holdings LP and Royalties LP in respect of the Amended and Extended Credit Facilities are substantially similar to the material covenants in the Credit Facilities and the maximum total funded net debt to EBITDA covenant remains the same at 2.25 to 1. As well, no changes to the Swaps were made as part of the Amended and Extended Credit Facilities.

(d) On February 12, 2020, the Trustees of the Fund declared a distribution for January 2020 of $0.102 per unit, which will be payable on February 28, 2020 to unitholders of record on February 21, 2020. The distribution rate of $0.102 per unit represents a reduction of 1.3 cents from the previous distribution rate of $0.115 per unit and represents an annual distribution rate of $1.224 per unit compared to the previous annual distribution rate of $1.38 per unit.

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BOSTON PIZZA INTERNATIONAL INC.

FINANCIAL HIGHLIGHTS

The tables below set out selected information from the annual consolidated financial statements of Boston Pizza International Inc. ("**BPI**"), and where applicable also includes its wholly-owned subsidiaries, and the accounts of Boston Pizza Canada Limited Partnership ("**BP Canada LP**"), together with other data, and should be read in conjunction with the annual consolidated financial statements of BPI for the years ended December 31, 2019 and December 31, 2018. The financial information reported in the tables included in this Management Discussion and Analysis ("**MD&A**") are reported in accordance with International Financial Reporting Standards ("**IFRS**") except as otherwise noted and are stated in Canadian dollars. Certain comparative figures have been recasted – please refer to the "Comparative Figures and Prior Period Adjustment" section of this MD&A.

For the periods ended December 31	2019	2018	2017
(in thousands of dollars - except number of restaurants and per share items)			
System-Wide Gross Sales[1]	1,106,687	1,115,200	1,099,107
Number of Boston Pizza Restaurants[2]	395	396	391
Franchise Sales reported by Boston Pizza Restaurants[3]	859,038	859,485	850,599
Income Statement Data			
Total revenues	125,537	126,928	123,214
Royalty expense	34,149	34,204	33,780
Distribution expense	11,246	11,407	10,904
Operating expenses excluding Royalty expense and Distribution expense	75,660	75,818	77,255
Earnings before interest and fair value gain on financial instruments	4,482	5,499	1,275
Net interest income	1,482	1,538	4,006
Loss on sale of units	-	-	(2,516)
Fair value gain on financial instruments	4,882	22,285	1,319
Earnings before income taxes	10,846	29,322	4,084
Current and deferred income tax expense (recovery)	324	(347)	(21,240)
Net and comprehensive income	10,522	29,669	25,324
Basic and diluted income per share	107.27	302.48	258.18
Dividends per share	-	-	61.17
Balance Sheet Data	Dec 31, 2019	Dec 31, 2018	Dec 31, 2017
Total assets	147,564	140,279	149,061
Total liabilities	420,592	423,829	462,280

1) "**System-Wide Gross Sales**" means the gross revenue: (i) of the corporate Boston Pizza Restaurants (defined below) in Canada owned by BPI; and (ii) reported to BP Canada LP by franchised Boston Pizza Restaurants in Canada, without audit or other form of independent assurance, and in the case of both (i) and (ii), including revenue from the sale of liquor, beer, wine and revenue from BP Canada LP approved national promotions and discounts, but excluding applicable sales and similar taxes.
2) As at the end of the applicable period.
3) "**Franchise Sales**" means the gross revenue: (i) of the corporate Boston Pizza Restaurants in Canada owned by BPI; and (ii) reported to BP Canada LP by franchised Boston Pizza Restaurants in Canada, without audit or other form of independent assurance, and in the case of both (i) and (ii), after deducting revenue from the sale of liquor, beer, wine and revenue from BP Canada LP approved national promotions and discounts, and excluding applicable sales and similar taxes.

SUMMARY OF QUARTERLY RESULTS

The financial results reported in the table below are reported with the adoption of IFRS 16, and as a result are not directly comparable to those figures contained within historical financial statements or MD&A of BPI that were prepared before their adoption. See the "Changes in Accounting Policies" section of this MD&A for more details. Certain comparative figures have been recasted – please refer to the "Comparative Figures and Prior Period Adjustment" section of this MD&A.

	Q4 2019	Q3 2019	Q2 2019	Q1 2019
(in thousands of dollars - except number of restaurants and per share items)				
System-Wide Gross Sales[1]	276,509	283,570	281,310	265,298
Number of Boston Pizza Restaurants[2]	395	397	395	395
Franchise Sales reported by Boston Pizza Restaurants[3]	213,089	221,528	217,974	206,447
Income Statement Data				
Total revenues	31,397	31,792	32,305	30,043
Royalty expense	8,447	8,769	8,675	8,258
Distribution expense	2,785	2,886	2,856	2,719
Operating expenses excluding Royalty expense and Distribution expense	17,778	17,726	21,093	19,063
Earnings (loss) before interest and fair value gain (loss) on financial instruments	2,387	2,411	(319)	3
Net interest income	732	355	357	38
Fair value gain (loss) on financial instruments	11,570	488	(2,350)	(4,826)
Earnings (loss) before income taxes	14,689	3,254	(2,312)	(4,785)
Current and deferred income tax (recovery) expense	(2,257)	722	540	1,319
Net and comprehensive income (loss)	16,946	2,532	(2,852)	(6,104)
Basic and diluted income (loss) per share	172.76	25.81	(29.08)	(62.23)

	Q4 2018	Q3 2018	Q2 2018	Q1 2018
(in thousands of dollars - except number of restaurants and per share items)				
System-Wide Gross Sales[1]	278,486	290,331	280,848	265,535
Number of Boston Pizza Restaurants[2]	396	389	391	390
Franchise Sales reported by Boston Pizza Restaurants[3]	214,276	225,643	215,529	204,037
Income Statement Data				
Total revenues	31,697	33,228	32,258	29,745
Royalty expense	8,454	8,974	8,615	8,161
Distribution expense	2,823	2,991	2,871	2,722
Operating expenses excluding Royalty expense and Distribution expense	17,885	18,429	21,713	17,791
Earnings (loss) before interest and fair value gain on financial instruments	2,535	2,834	(941)	1,071
Net interest income	686	352	371	129
Fair value gain on financial instruments	7,014	8,096	1,081	6,094
Earnings before income taxes	10,235	11,282	511	7,294
Current and deferred income tax expense (recovery)	1,040	(428)	(256)	(703)
Net and comprehensive income	9,195	11,710	767	7,997
Basic and diluted income per share	93.74	119.38	7.82	81.53

OVERVIEW

General

This MD&A covers the three month period from October 1, 2019 to December 31, 2019 (the "**Period**") and the twelve month period from January 1, 2019 to December 31, 2019 (the "**Year**") and is dated February 12, 2020. It provides additional analysis of the operations, financial position and financial performance of BPI and should be read in conjunction with BPI's applicable annual consolidated financial statements and the accompanying notes. The annual consolidated financial statements of BPI are in Canadian dollars and have been prepared in accordance with IFRS except as otherwise noted.

BPI is a privately controlled company and prior to April 6, 2015, was the exclusive franchisor of the Boston Pizza (defined below) concept in Canada. On April 6, 2015, BP Canada LP, a British Columbia limited partnership controlled and operated by BPI, became the exclusive franchisor of the Boston Pizza concept in Canada. On May 6, 2015, Boston Pizza Royalties Income Fund (the "**Fund**") completed an indirect investment in BP Canada LP to effectively increase the Fund's indirect interest in Franchise Sales of Boston Pizza Restaurants (defined below) in the Royalty Pool (defined below) by 1.5%, from 4.0% to 5.5% less the pro rata portion payable to BPI in respect of its retained interest in the Fund (the "**2015 Transaction**").

BPI and BP Canada LP compete in the casual dining sector of the restaurant industry and Boston Pizza is the number one casual dining brand in Canada. With 395 restaurants stretching from Victoria to St. John's, Boston Pizza has more restaurants and serves more customers annually than any other casual dining restaurant chain in Canada.

Royalty

BP Canada LP charges a 7.0% royalty fee on Franchise Sales for full-service Boston Pizza restaurants open in Canada and a 5.0% royalty fee on Franchise Sales for Boston Pizza quick express restaurants that are open in Canada (collectively, the "**Boston Pizza Restaurants**"). BPI pays Boston Pizza Royalties Limited Partnership ("**Royalties LP**"), an entity controlled by the Fund, a 4.0% royalty fee (the "**Royalty**") on Franchise Sales from the Boston Pizza Restaurants in the royalty pool (the "**Royalty Pool**") for the use of the Boston Pizza trademarks in Canada (the "**BP Rights**"[4]). As at December 31, 2019, there were 396 Boston Pizza Restaurants in the Royalty Pool and 395 Boston Pizza Restaurants in operation.

Distributions from BP Canada LP

Boston Pizza Holdings Limited Partnership ("**Holdings LP**"), an entity controlled by the Fund, holds Class 1 limited partnership units ("**Class 1 LP Units**") and Class 2 limited partnership units ("**Class 2 LP Units**") of BP Canada LP, and BPI holds, indirectly through Boston Pizza Canada Holdings Partnership ("**BPCHP**"), Class 2 general partnership units of BP Canada LP ("**Class 2 GP Units**"), which are exchangeable for units of the Fund ("**Fund Units**"). The Class 1 LP Units and Class 2 LP Units provide Holdings LP with the right to receive distributions from BP Canada LP equal, in aggregate, to 1.5% of Franchise Sales, less the pro rata portion payable to BPI in respect of its Class 2 GP Units (the "**Distributions**"). Specifically, the Class 1 LP Units entitle Holdings LP to receive a priority distribution equal to the amount of interest that Holdings LP pays on certain indebtedness of Holdings LP plus 0.05% of that amount, with the balance of 1.5% of Franchise Sales being distributed pro rata to Holdings LP and BPI on the Class 2 LP Units and Class 2 GP Units, respectively. After BP Canada LP pays distributions on the Class 1 LP Units, Class 2 LP Units and Class 2 GP Units, BPI is entitled to all residual distributions from BP Canada LP on the Class 3 general partnership units ("**Class 3 GP Units**"), Class 4 general partnership units ("**Class 4 GP Units**"), Class 5 general partnership units ("**Class 5 GP Units**") and Class 6 general partnership units ("**Class 6 GP Units**") of BP Canada LP that BPI holds.

4) BP Rights are the trademarks that as at July 17, 2002 were registered or the subject of pending applications for registration under the *Trade-marks Act* (Canada), and other trademarks and trade names which are confusing with the registered or pending trademarks. The BP Rights purchased do not include the rights outside of Canada to any trademarks or trade names used by BPI or any affiliated entities in its business, and in particular do not include the rights outside of Canada to the trademarks registered or pending registration under the *Trademarks Act* (Canada).

Addition of New Restaurants to Royalty Pool

On January 1 of each year, an adjustment is made to add to the Royalty Pool new Boston Pizza Restaurants that opened and to remove any Boston Pizza Restaurants that permanently closed since January 1 of the previous year (the "**Net New Restaurants**"). In return for adding net additional Royalty and Distributions from Net New Restaurants, BPI receives the right to indirectly acquire additional Fund Units (in respect of the Royalty, "**Class B Additional Entitlements**" and in respect of Distributions, "**Class 2 Additional Entitlements**", and collectively, "**Additional Entitlements**"). The calculation of Additional Entitlements is designed to be accretive to unitholders of the Fund ("**Unitholders**") as the expected increase in net Franchise Sales from the Net New Restaurants added to the Royalty Pool is valued at a 7.5% discount. The Additional Entitlements are calculated at 92.5% of the expected Royalty and Distributions to be generated by the Net New Restaurants, multiplied by one minus the effective tax rate estimated to be paid by the Fund, divided by the yield of the Fund, divided by the weighted average Fund Unit price over a specified period. BPI receives 80% of the Additional Entitlements initially, with the balance received when the actual full year performance of the Net New Restaurants and the actual effective tax rate paid by the Fund are known with certainty (such balance of Fund Units in respect of the increased Royalty, the "**Class B Holdback**", and in respect of the increased Distributions, the "**Class 2 Holdback**", and collectively, the "**Holdback**"). BPI receives 100% of the distributions on the Additional Entitlements throughout the year. After the Net New Restaurants have been part of the Royalty Pool for a full year, an audit of the Franchise Sales of these restaurants is performed, and the actual effective tax rate paid by the Fund is determined. At such time, an adjustment is made to reconcile distributions paid to BPI and the Additional Entitlements received by BPI.

Business Strategy

The success of the business of BPI, BP Canada LP, their affiliated entities and franchisees ("**Boston Pizza**") can be attributed to four simple underlying principles that are the foundation for all strategic decision-making – the "Four Pillars" strategy.

- **Building the brand**
- **Continually improving the guest experience**
- **A commitment to Franchisee profitability**
- **On-going engagement in local communities**

BPI and BP Canada LP realize that franchisees have to be profitable to succeed. To enhance profitability and to facilitate the growth of Boston Pizza, BPI and BP Canada LP aggressively enhance and promote the Boston Pizza brand through national television and radio advertising, and national and local promotions. The costs associated with national marketing of Boston Pizza are paid for by Boston Pizza Co-op Advertising (the "**Co-op**"). Franchisees pay 3.0% of Franchise Sales into the Co-op; 76.0% of these funds are used to purchase television, on-line and radio media advertising, and the remaining 24.0% is used for production of materials and administration. Both Boston Pizza franchisees and the corporate support staff continuously find new ways to improve the guests' experience so that guests will return to Boston Pizza again and again. Boston Pizza and its franchisees connect with their communities by hosting events, engaging with local organizations, and supporting philanthropic causes. Management is confident that this "Four Pillars" strategy will continue to focus BPI's and BP Canada LP's efforts, develop new markets and strengthen Boston Pizza's position as Canada's number one casual dining brand.

OPERATING RESULTS

Same Restaurant Sales ("SRS")

SRS[5], a key driver of distribution growth for Unitholders, is the change in gross sales of Boston Pizza Restaurants as compared to the gross sales for the same period in the previous year, where restaurants were open for a

5) SRS is a non-IFRS financial measure and as such, does not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers. A reconciliation of SRS to an IFRS measure is not possible as there is no directly comparable measure under IFRS. BPI believes that SRS provides investors with useful information regarding the change in gross sales of Boston Pizza Restaurants.

minimum of 24 months. In reporting periods prior to the second quarter of 2019, BPI and the Fund referred to SRS as same store sales growth. Starting in the second quarter of 2019, BPI and the Fund renamed same store sales growth as same restaurant sales to better reflect the business operated by BPI, BP Canada LP and its franchisees. The two principal factors that affect SRS are changes in guest traffic and changes in average guest cheque.

Period

SRS was negative 2.1% for the Period compared to negative 0.2% reported in the fourth quarter of 2018. Franchise Sales, the basis upon which the Royalty and Distributions are paid by BPI and BP Canada LP respectively, indirectly to the Fund, excludes revenue from sales of liquor, beer, wine and approved national promotions and discounts. On a Franchise Sales basis, SRS was negative 1.8% for the Period compared to positive 0.1% for the fourth quarter of 2018. SRS for the Period was principally due to declines in restaurant guest traffic, partially offset by increased take-out and delivery sales and menu price increases. Management of BPI believes that such declines in guest traffic are the results of increased competition in the full-service restaurant sector, shifts in consumer spending habits in response to increased menu pricing tied to rising minimum wages, waning consumer confidence in the retail sector, increasing levels of household debt and high proportions of Boston Pizza restaurants being located in regions of Canada that are facing economic challenges.

Year

SRS was negative 2.2% for the Year compared to positive 0.1% reported in 2018. On a Franchise Sales basis, SRS was negative 1.5% for the Year compared to negative 0.3% reported in 2018. SRS for the Year was principally due to declines in restaurant guest traffic, partially offset by increased take-out and delivery sales and menu price increases. Management of BPI believes that such declines in guest traffic are the results of increased competition in the full-service restaurant sector, shifts in consumer spending habits in response to increased menu pricing tied to rising minimum wages, waning consumer confidence in the retail sector, increasing levels of household debt and high proportions of Boston Pizza restaurants being located in regions of Canada that are facing economic challenges.

New Restaurant Openings, Closures and Renovations

During the Period, no new Boston Pizza Restaurants opened (Year – 5) and two Boston Pizza Restaurants closed (Year – 6). Subsequent to December 31, 2019, one Boston Pizza Restaurant opened and one Boston Pizza Restaurant closed. As well, during the Period, 10 Boston Pizza Restaurants were renovated (Year – 36). Restaurants typically close for two to three weeks to complete the renovation and experience an incremental sales increase in the year following the re-opening. Subsequent to December 31, 2019, one additional restaurant was renovated. The total number of Boston Pizza Restaurants in operation as of February 12, 2020 is 395.

Seasonality

Boston Pizza Restaurants experience seasonal fluctuations in Franchise Sales, which are inherent in the full service restaurant industry in Canada. Seasonal factors, such as tourism and better weather allow Boston Pizza Restaurants to open their patios and generally increase Franchise Sales in the second and third quarters each year compared to the first and fourth quarters.

Revenues

Period

BPI's total revenue was $31.4 million for the Period compared to $31.7 million for the fourth quarter of 2018. BPI's revenue was principally derived from royalty revenue and advertising fund contributions received by BP Canada LP from franchised Boston Pizza Restaurants, sales from corporately owned restaurants, initial franchise fees, franchise renewal fees and supplier contributions. The $0.3 million decrease in revenue for the Period was primarily due to lower revenues resulting from lower SRS and fewer restaurant openings.

Year

BPI's total revenue was $125.5 million for the Year compared to $126.9 million in 2018. The $1.4 million decrease in revenue for the Year was primarily due to lower revenues from corporately owned restaurants and lower revenues resulting from lower SRS and fewer restaurant openings.

Royalty Expense

Period

BPI's Royalty expense to Royalties LP (being 4.0% of Franchise Sales from Boston Pizza Restaurants in the Royalty Pool) was $8.4 million for the Period compared to $8.5 million for the fourth quarter of 2018. The $0.1 million decrease in Royalty expense for the Period was primarily due to the negative SRS on a Franchise Sales basis, partially offset by additional Franchise Sales from five Net New Restaurants added to the Royalty Pool on January 1, 2019.

Year

BPI's Royalty expense to Royalties LP was $34.1 million for the Year compared to $34.2 million in 2018. The $0.1 million decrease in Royalty expense for the Year was primarily due to the negative SRS on a Franchise Sales basis, partially offset by additional Franchise Sales from five Net New Restaurants added to the Royalty Pool on January 1, 2019.

Distribution Expense

Period

BPI's Distribution expense (being 1.5% of Franchise Sales from Boston Pizza Restaurants in the Royalty Pool, less BPI's retained interest) was $2.8 million for the Period, relatively unchanged from the fourth quarter of 2018. Distribution Expense for the Period was relatively unchanged from the fourth quarter of 2018 primarily due to negative SRS on a Franchise Sales basis and BPI's retained interest in the Fund related to the Class 2 GP Units being higher for the Period compared to the fourth quarter of 2018 as a result of the five Net New Restaurants added to the Royalty Pool on January 1, 2019 and the adjustment of the Holdback that occurred in the first quarter of 2019 in respect of the eight Net New Restaurants added to the Royalty Pool on January 1, 2018, partially offset by the additional Franchise Sales from five Net New Restaurants added to the Royalty Pool on January 1, 2019.

Year

BPI's Distribution expense was $11.2 million for the Year, compared to $11.4 million in 2018. The $0.2 million decrease in Distribution Expense for the Year was primarily due to negative SRS on a Franchise Sales basis and BPI's retained interest in the Fund related to the Class 2 GP Units being higher for the Year compared to year-to-date 2018 as a result of the five Net New Restaurants added to the Royalty Pool on January 1, 2019 and the adjustment of the Holdback that occurred in the first quarter of 2019 in respect of the eight Net New Restaurants added to the Royalty Pool on January 1, 2018, partially offset by the additional Franchise Sales from five Net New Restaurants added to the Royalty Pool on January 1, 2019.

Operating Expenses Excluding Royalty Expense and Distribution Expense

Period

BPI's operating expenses excluding Royalty expense and Distribution expense were $17.8 million for the Period. Operating expenses excluding Royalty expense and Distribution expense include advertising fund expenditures of $6.2 million, compensation of $4.5 million, operational costs of corporately owned restaurants of $2.9 million, other costs associated with services provided to franchised Boston Pizza Restaurants of $2.9 million, depreciation and amortization of $1.6 million, and management fees for services rendered by companies under common control of $0.4 million. This was partially offset by the amortization of deferred gain on the sale of BP Rights to Royalties LP

of $0.7 million. In the fourth quarter of 2018, BPI's operating expenses excluding Royalty expense and Distribution expense were $17.9 million for the Period. Operating expenses excluding Royalty expense and Distribution expense include advertising fund expenditures of $6.7 million, compensation of $4.5 million, operational costs of corporately owned restaurants of $3.4 million, other costs associated with services provided to franchised Boston Pizza Restaurants of $2.8 million, depreciation and amortization of $1.4 million, and management fees for services rendered by companies under common control of $0.1 million. This was partially offset by the amortization of deferred gain on the sale of BP Rights to Royalties LP of $0.7 million.

The decrease in operating expenses excluding Royalty expense and Distribution expense for the Period was primarily due to a decrease in restaurant operating costs as a result of the sale of a corporately owned restaurant in the fourth quarter of 2018, a decrease in rent expense and restaurant operating costs as a result of the adoption of IFRS 16 *Leases* (refer to Changes in Accounting Policies section for further details), and a decrease in advertising fund expenditures. This was partially offset by an increase in amortization due to the adoption of IFRS 16 *Leases* and an increase in management fees.

The deferred gain on the sale of BP Rights to Royalties LP is amortized over 99 years beginning in 2002 for the term of the License and Royalty Agreement dated July 17, 2002, as amended on May 9, 2005, between Royalties LP and BPI. The net deferred gain as at December 31, 2019 was $230.1 million compared to $229.4 million as at December 31, 2018.

Year

For the Year, BPI's operating expenses excluding Royalty expense and Distribution expense were $75.7 million. Operating expenses excluding Royalty expense and Distribution expense include advertising fund expenditures of $26.4 million, compensation of $20.3 million, operational costs of corporately owned restaurants of $14.2 million, other costs associated with services provided to franchised Boston Pizza Restaurants of $10.1 million, depreciation and amortization of $5.7 million, and management fees for services rendered by companies under common control of $2.0 million. This was partially offset by the amortization of deferred gain on the sale of BP Rights to Royalties LP of $2.8 million. For the same period in 2018, BPI's operating expenses excluding Royalty expense and Distribution expense were $75.8 million. Operating expenses excluding Royalty expense and Distribution expense include advertising fund expenditures of $26.9 million, compensation of $19.6 million, operational costs of corporately owned restaurants of $16.2 million, other costs associated with services provided to franchised Boston Pizza Restaurants of $11.9 million, depreciation and amortization of $3.7 million, and management fees for services rendered by companies under common control of $0.3 million. This was partially offset by the amortization of deferred gain on the sale of BP Rights to Royalties LP of $2.8 million.

The decrease in operating expenses excluding Royalty expense and Distribution expense for the Year was primarily due to a decrease in restaurant operating costs resulting from lower restaurant sales, a decrease in rent expense and restaurant operating costs as a result of the adoption of IFRS 16 *Leases*, a decrease in advertising fund expenditures and a decrease in other expenses due to the decreased costs associated with BPI's bi-annual franchisee conference that were included in the same period one year ago. This was partially offset due to an increase in amortization due to the adoption of IFRS 16 *Leases* and an increase in management fees and compensation expense.

Earnings (Loss) before Interest and Fair Value Gain (Loss) on Financial Instruments

Period

BPI's earnings before interest and fair value gain (loss) on financial instruments was $2.4 million for the Period compared to $2.5 million for the fourth quarter of 2018. The $0.1 million decrease in earnings before interest and fair value gain (loss) on financial instruments for the Period was principally due to a decrease in revenues, partially offset by a decrease in operating expenses.

Year

For the Year, BPI's earnings before interest and fair value gain (loss) on financial instruments was $4.5 million compared to $5.5 million for the same period in 2018. The $1.0 million decrease in earnings before interest and fair value gain (loss) on financial instruments for the Year was principally due to a decrease in revenues, partially offset by a decrease in operating expenses.

Net Interest Income

Period

BPI's net interest income during the Period was $0.7 million, comprised mainly of $1.4 million of interest income received by BPI on its Class B general partner units of Royalties LP ("**Class B Units**"), partially offset by $0.5 million of interest expense on the Credit Facilities (defined below) and $0.1 million in interest expense on lease obligations. BPI's net interest income for the fourth quarter of 2018 was $0.7 million, comprised mainly of $1.2 million of interest income received by BPI on its Class B Units, partially offset by $0.5 million of interest paid on the Credit Facilities. The nominal increase in net interest income for the Period was primarily due to an increase in interest income received on the Class B Units resulting from an increase in the number of Fund Units into which the Class B Units held were exchangeable, partially offset by interest expense relating to lease obligations recognized under the adoption of IFRS 16 *Leases*.

Year

For the Year, BPI's net interest income was $1.5 million, comprised mainly of $4.1 million of interest income received by BPI on its Class B Units, partially offset by $2.2 million of interest expense on the Credit Facilities and $0.4 million in interest expense on lease obligations. BPI's net interest income for the same period in 2018 was $1.5 million, comprised mainly of $3.7 million of interest income received by BPI on its Class B Units, partially offset by $2.2 million of interest on the Credit Facilities. The nominal decrease in net interest income for the Period was primarily due to interest expense relating to lease obligations recognized under the adoption of IFRS 16 *Leases*, partially offset by an increase in interest income on Class B Units resulting from an increase in the number of Fund Units into which the Class B Units held by BPI were exchangeable.

Fair Value Gain (Loss) on Financial Instruments

Period

During the Period, BPI recorded a fair value gain on financial instruments of $11.6 million compared to a fair value gain on financial instruments of $7.0 million for the same period in 2018. The change in fair value was principally due to the change in the price of Fund Units into which Class B Units are exchangeable and upon which the Class 2 LP Units liability is measured.

BPI estimates the fair value of the Class B Units by multiplying the number of Fund Units that BPI would be entitled to receive if it exchanged all of the Class B Units (including the Class B Holdback) held by BPI at the end of the Period by the closing price of a Fund Unit on the last business day of the Period. As at December 31, 2019, the Fund's closing price was $13.46 per Fund Unit (September 30, 2019 – $17.25 per Fund Unit) and the number of Fund Units BPI would be entitled to receive if it exchanged all of the Class B Units (including the Class B Holdback) held by BPI was 2,402,966 (September 30, 2019 – 2,402,966). Consequently, BPI's Class B Units were calculated to be valued at $32.3 million (September 30, 2019 – $41.5 million). The difference between the value of BPI's Class B Units at the end of the Period and September 30, 2019 was a fair value gain of $9.1 million. In general, the value of the Class B Units will increase as the market price of Fund Units increase and vice versa. In addition, the value of the Class B Units increases as the number of Fund Units BPI would be entitled to receive if it exchanged all of its Class B Units (including the Class B Holdback) increases and vice versa.

The Class 1 LP Units are entitled to distributions determined with respect to the interest cost paid by the Fund on the credit facility of the Fund drawn on at the time of the 2015 Transaction to pay for the Fund's indirect investment in Class 1 LP Units of BP Canada LP. BPI estimates the fair value of the Class 1 LP Units liability using a market-

corroborated input, being the interest rate on the applicable credit facility. Consequently, BPI estimated the fair value of Class 1 LP Units liability as at December 31, 2019 to be $33.3 million (September 30, 2019 – $33.3 million), resulting in no fair value adjustment for the Period.

BPI estimates the fair value of the Class 2 LP Units liability by multiplying the number of Class 2 LP Units indirectly held by the Fund at the end of the Period by the closing price of a Fund Unit on the last business day of the Period. As at December 31, 2019, the Fund indirectly held 5,455,762 Class 2 LP Units (September 30, 2019 – 5,455,762) and the Fund's closing price was $13.46 per Fund Unit (September 30, 2019 – $17.25 per Fund Unit). Consequently, BPI estimated the fair value of the Class 2 LP Units liability as at December 31, 2019 to be $73.4 million (September 30, 2019 – $94.1 million), resulting in a fair value loss of $20.7 million for the Period. In general, the fair value of the Class 2 LP Units liability will increase as the market price of Fund Units increases and vice versa.

Year

During the Year, BPI recorded a fair value gain on financial instruments of $4.9 million compared to a fair value gain on financial instruments of $22.3 million for the same period in 2018. The change in fair value was principally due to the change in the price of Fund Units into which Class B Units are exchangeable and upon which the Class 2 LP Units liability is measured.

As at December 31, 2018, the Fund's closing price was $15.11 per Fund Unit and the number of Fund Units BPI would be entitled to receive if it exchanged all of its Class B Units (including the Class B Holdback) was 2,178,166. BPI's Class B Units were calculated to be valued at $32.9 million as at December 31, 2018. As discussed above, the Class B Units at the end of the Period were valued at $32.3 million. The difference between the value of BPI's Class B Units at the end of the Period and December 31, 2018 was a decrease of $0.6 million, comprised of a fair value loss of $4.1 million and $3.6 million of Class B Additional Entitlements received by BPI on January 1, 2019.

Holdings LP acquired the Class 1 LP Units on May 6, 2015 for $33.3 million. As discussed above, BPI estimated the fair value of Class 1 LP Units as at December 31, 2019 to be $33.3 million (December 31, 2018 – $33.3 million), resulting in no fair value adjustment for the Year.

As at December 31, 2018, the Fund indirectly held 5,455,762 Class 2 LP Units and the Fund's closing price was $15.11 per Fund Unit. Consequently, BPI estimated the fair value of the Class 2 LP Units as at December 31, 2018 to be $82.4 million. As discussed above, BPI estimated the fair value of the Class 2 LP Units liability as at December 31, 2019 to be $73.4 million, resulting in a fair value gain of $9.0 million for the Year.

Earnings (Loss) before Income Taxes

Period

Given the combined effects of the above-noted factors, BPI had earnings before income taxes of $14.7 million for the Period compared to $10.2 million for the fourth quarter of 2018. The $4.5 million increase in earnings before income taxes was primarily due to an increase in the fair value gain on financial instruments, partially offset by a decrease in earnings before interest and fair value gain (loss) on financial instruments.

Year

Given the combined effects of the above-noted factors, BPI had earnings before income taxes of $10.8 million for the Year compared to $29.3 million for the same period in 2018. The $18.5 million decrease in earnings before income taxes was primarily due to a decrease in fair value gain on financial instruments and a decrease in earnings before interest and fair value gain (loss) on financial instruments.

Income Tax Expense (Recovery)

Period

BPI recorded a $0.4 million current income tax recovery for the Period compared to a $0.2 million current income tax expense for the fourth quarter of 2018. The increase in current income tax recovery for the Period is primarily due to lower earnings before income taxes and fair value gain (loss) on financial instruments.

BPI recorded a $1.8 million deferred income tax recovery for the Period compared to $0.8 million for the fourth quarter of 2018. The increase in deferred income tax recovery is primarily due to the change in fair value on the Class B Units for the Period and non-capital loss carryforwards recognized for corporately owned stores, partially offset by the usage of non-capital loss carryforwards in 2018.

Year

For the Year, BPI recorded a $1.8 million current income tax expense compared to $0.1 million recorded for the same period in 2018. The increase in current income tax expense for the Year is primarily due to timing of deferred revenue received and the usage of non-capital loss carryforwards in 2018.

For the Year, BPI recorded a $1.5 million deferred income tax recovery compared to $0.5 million for the same period in 2018. The increase in deferred income tax recovery is primarily due to the timing of deferred revenue received, the change in fair value on the Class B Units for the Year, and non-capital loss carryforwards recognized for corporately owned stores, partially offset by the usage of non-capital loss carryforwards in 2018.

Net and Comprehensive Income

Period

BPI's net and comprehensive income during the Period was $16.9 million compared to net and comprehensive income of $9.2 million for the fourth quarter of 2018. The increase of $7.7 million in net and comprehensive income is primarily due to the increase in earnings before income taxes and the increase in income tax recovery compared to the same period in 2018.

Year

BPI's net and comprehensive income for the Year was $10.5 million compared to net and comprehensive income of $29.7 million in 2018. The decrease of $19.2 million in net and comprehensive income is primarily due to the decrease in earnings before income taxes and the increase in income tax expense compared to the same period in 2018.

New Restaurants Added to the Royalty Pool

Boston Pizza Restaurants Added to Royalty Pool on January 1, 2019

On January 1, 2019, 10 new Boston Pizza Restaurants that opened across Canada between January 1, 2018 and December 31, 2018 were added to the Royalty Pool and the five restaurants that permanently closed during 2018 were removed from the Royalty Pool. The estimated 2019 annual Franchise Sales for the 10 new Boston Pizza Restaurants that opened less the Franchise Sales from the five permanent closures was $11.8 million. The estimated Royalty and Distributions expected to be generated in 2019 by these five Net New Restaurants was 5.5% of that amount, or approximately $0.7 million. The pre-tax amount for the purposes of calculating the Additional Entitlements, therefore, was approximately $0.7 million, or 92.5% of $0.7 million. The estimated effective tax rate that the Fund would pay in the calendar year 2019 was 27.0%. Accordingly, the after-tax additional Royalty and Distributions for the purposes of calculating the Additional Entitlements was approximately $0.5 million ($0.7 million x (1 – 0.27)). In return for adding net additional Royalty and Distributions from the five Net New Restaurants added to the Royalty Pool, BPI received 255,019 Additional Entitlements (representing 80% of the estimated total Additional Entitlements), comprised of 185,469 Class B Additional Entitlements and 69,550 Class 2 Additional

Entitlements, and the Holdback was 63,755 Additional Entitlements (representing 20% of the estimated total Additional Entitlements), comprised of 46,367 Class B Holdback and 17,388 Class 2 Holdback. The 255,019 Additional Entitlements represented 1.0% of Fund Units on a fully diluted basis on January 1, 2019. The full 318,774 Additional Entitlements (being 255,019 Additional Entitlements received by BPI plus the 63,755 Holdback) represented 1.3% of Fund Units on a fully diluted basis on January 1, 2019. BPI received an increase in monthly distributions based on 100% of the Additional Entitlements, subject to a reconciliation of the distributions paid to BPI in respect of these Additional Entitlements that occurred after the actual performance of the 10 new Boston Pizza Restaurants added to the Royalty Pool on January 1, 2019 and the actual effective tax rate paid by the Fund for 2019 were known. After both the actual performance of the 10 new Boston Pizza Restaurants added to the Royalty Pool on January 1, 2019 and the actual effective tax rate paid by the Fund for 2019 were known, the number of Additional Entitlements was adjusted in early 2020 to reflect the actual Franchise Sales generated by these Boston Pizza Restaurants in 2019 and the actual effective tax rate paid by the Fund in 2019. See the "Operating Results – Subsequent Events" section of this MD&A for details of these adjustments.

Audit of Boston Pizza Restaurants Added to Royalty Pool on January 1, 2018

In February 2019, an audit of the Franchise Sales of the 11 new Boston Pizza Restaurants that were added to the Royalty Pool on January 1, 2018 was performed and the actual effective tax rate paid by the Fund for the 2018 Fiscal Year was determined. The purpose of this was to compare the actual Franchise Sales from these 11 new Boston Pizza Restaurants to the estimated amount of Franchise Sales expected to be generated by these 11 new Boston Pizza Restaurants during the 2018 Fiscal Year and to compare the actual effective tax rate paid by the Fund for the 2018 Fiscal Year to the estimated effective tax rate the Fund expected to pay for the 2018 Fiscal Year. The original Franchise Sales expected to be generated from these 11 new Boston Pizza Restaurants less the Franchise Sales from the three permanent closures that occurred in 2017 was $13.5 million, and the actual Franchise Sales generated from these eight Net New Restaurants was $0.8 million less. The original effective tax rate the Fund expected to pay for 2018 was 25.0% and the actual effective tax rate paid by the Fund for 2018 was 22.4%. As a result, Royalties LP decreased interest paid to BPI by a nominal amount in early 2019 to reconcile the difference paid on the full number of Class B Additional Entitlements and the effective tax rate. In addition, BP Canada LP increased the distribution paid to Holdings LP on its Class 2 LP Units by a nominal amount, and correspondingly decreased the distribution paid to BPI on its Class 2 GP Units by the same amount, to reconcile the difference paid on the full number of Class 2 Additional Entitlements and the effective tax rate. BPI received only 80% of the estimated Additional Entitlements at the Adjustment Date in 2018. Following the audit, BPI received 64,836 Additional Entitlements, comprised of 47,153 Class B Additional Entitlements and 17,683 Class 2 Additional Entitlements.

Subsequent Events

Boston Pizza Restaurants Added to Royalty Pool on January 1, 2020

On January 1, 2020, the Royalty Pool was adjusted to include five new full service restaurants that opened across Canada during the Year, and to remove five full service restaurants and one quick express restaurant that were permanently closed during the Year. The estimated annual Franchise Sales in 2020 for the five new Boston Pizza restaurants that opened in 2019 less the six Boston Pizza restaurants that permanently closed in 2019 is $1.6 million. The estimated Royalty and Distributions expected to be generated is 5.5% of this amount, or $0.09 million. The pre-tax amount for the purposes of calculating the Additional Entitlements, therefore, is approximately $0.08 million or 92.5% of $0.09 million. The estimated effective tax rate that the Fund will pay in the calendar year 2020 is 24.0%. Accordingly, the after-tax additional Royalty and Distributions for the purposes of calculating the Additional Entitlements is approximately $0.06 million ($0.08 million x (1 – 0.24)). In return for adding additional Royalty and Distributions from the five new Boston Pizza restaurants opened less the Royalty and Distributions lost from the six permanent closures, BPI indirectly received 35,720 Additional Entitlements (representing 80% of the total Additional Entitlements), comprised of 25,978 Class B Additional Entitlements and 9,742 Class 2 Additional Entitlements, and the Holdback is 8,930 Additional Entitlements (representing 20% of the total Additional Entitlements), comprised of 6,495 Class B Holdback and 2,435 Class 2 Holdback. The Holdback (as adjusted) will be indirectly received by BPI when both the actual full year performance of the five new Boston Pizza restaurants and the effective tax rate paid by the Fund are known with certainty. The 35,720 Additional Entitlements represented 0.1% of Units on a fully-diluted basis as of January 1, 2020. The full 44,650 Additional

Entitlements (being the 35,720 Additional Entitlements indirectly received by BPI plus the 8,930 Holdback) represented 0.2% of Units on a fully diluted basis as of January 1, 2020. BPI receives an increase in monthly distributions based on 100% of the Additional Entitlements, subject to a reconciliation of the distributions paid to BPI in respect of these Additional Entitlements that will occur once the actual performance of the five new Boston Pizza restaurants opened less the Royalty and Distribution Income lost from the six permanent closures and the actual effective tax rate paid by the Fund for the 2020 Fiscal Year are known with certainty.

Audit of Boston Pizza Restaurants Added to Royalty Pool on January 1, 2019

In early 2020, an audit of the Franchise Sales of the 10 new Boston Pizza Restaurants that were added to the Royalty Pool on January 1, 2019 was performed and the actual effective tax rate paid by the Fund for the 2019 Fiscal Year was determined. The purpose of this was to compare the actual Franchise Sales from these 10 new Boston Pizza Restaurants to the estimated amount of Franchise Sales expected to be generated by these 10 new Boston Pizza Restaurants during the 2019 Fiscal Year and to compare the actual effective tax rate paid by the Fund for the 2019 Fiscal Year to the estimated effective tax rate the Fund expected to pay for the 2019 Fiscal Year. The original Franchise Sales expected to be generated from these 10 new Boston Pizza Restaurants less the Franchise Sales from the five permanent closures that occurred in 2018 was $11.8 million, and the actual Franchise Sales generated from these five net new restaurants was $1.0 million less. The original effective tax rate the Fund expected to pay for 2019 was 27.0% and the actual effective tax rate paid by the Fund for 2019 was 22.3%. As a result, Royalties LP decreased interest payable to BPI by a nominal amount in early 2020 to reconcile the difference paid on the full number of Class B Additional Entitlements and the effective tax rate. In addition, BP Canada LP will increase a future distribution payable to Holdings LP on its Class 2 LP Units by a nominal amount, and will correspondingly decrease a future distribution payable to BPI on its Class 2 GP Units by the same amount, to reconcile the difference paid on the full number of Class 2 Additional Entitlements and the effective tax rate. BPI received only 80% of the Additional Entitlements at the Adjustment Date in 2019. Following the audit, BPI received 56,800 Additional Entitlements, comprised of 41,309 Class B Additional Entitlements and 15,491 Class 2 Additional Entitlements.

Amended and Extended Credit Facilities

On January 24, 2020, BPI entered into an amended and restated credit agreement (the "**Amended and Restated Credit Agreement**") with a Canadian chartered bank (the "**Bank**") pursuant to which the Credit Facilities (defined below) were amended and extended (the "**Amended and Extended Credit Facilities**") as follows:

1. The maturity date was extended from September 27, 2022 to January 24, 2025;

2. The total amount of credit available was decreased $6.0 million, from $50.0 million to $44.0 million, by decreasing the size of the Term Loan (defined below) from $40.0 million to $34.0 million to reflect repayments of principal that BPI previously paid the Bank;

3. The availment options for the Operating Line (defined below) were changed to include, among others, availment by way of (i) Canadian dollar prime rate loans, (ii) bankers' acceptances with a maturity between 30 and 182 days, (iii) Canadian dollar offered rate loans with terms of one (1) month or three (3) months, and (iv) letter of credit advances;

4. The interest rates (or margins, as applicable) applicable to Canadian dollar prime rate loans, bankers' acceptances and Canadian dollar offered rate loans were reduced. In the case of Canadian prime rate loans, the interest rate is now equal to the Bank's prime rate plus between 0.00% and 1.50% (depending on the total funded net debt to EBITDA ratio) and, in the case of bankers' acceptances and Canadian dollar offered rate loans, the interest rate is equal to a variable interest rate based on the Bank's bankers' acceptance rates or Canadian dollar offered rates plus between 1.00% and 2.50% (depending on the total funded net debt to EBITDA ratio). The fees applicable to Letter of Credit advances are equal to the maximum amount that the lender may be called upon to disburse under a Letter of Credit multiplied by the applicable margin between 1.00% and 2.50% (depending on the total funded net debt to EBITDA ratio) multiplied by the number of days in which the Letter of Credit advances were outstanding in the given fiscal quarter; and

5. Certain financial covenants and other provisions were modified.

The guarantees and security supporting BPI's Amended and Extended Credit Facilities remain unchanged from those provided in respect of the Credit Facilities.

Fund Units Outstanding

The following table sets forth a summary of the outstanding Fund Units. BPI owns 100% of the Class B Units and 1% of the ordinary general partner units of Royalties LP. BPI also owns 100% of the Class 2 GP Units, and 100% of the Class 3 GP Units, Class 4 GP Units, Class 5 GP Units and Class 6 GP Units of BP Canada LP. The Class B Units and Class 2 GP Units are exchangeable for Fund Units. References to "Class B Additional Entitlements" and "Class 2 Additional Entitlements" in the table below refer to the number of Fund Units into which the Class B Units and Class 2 GP Units, respectively, are exchangeable as of the dates indicated.

Summary of Boston Pizza Royalties Income Fund Units

	Dec. 31, 2019 Excluding Holdback	Dec. 31, 2019 Including Holdback	Feb. 12, 2020 Excluding Holdback	Feb. 12, 2020 Including Holdback	
Fund Units Outstanding					
Total Issued and Outstanding Fund Units	21,787,763	21,787,763	21,787,763	21,787,763	
Class B Additional Entitlements Outstanding					
Class B Additional Entitlements (Excluding Jan. 1, 2020 Adjustment Date)	2,356,599	2,356,599	2,356,599	2,356,599	
Class B Holdback (Excluding Jan. 1, 2020 Adjustment Date)	N/A	46,367	N/A	N/A	(1)
Class B Additional Entitlements – Issued Jan. 1, 2020 (negative one Net New Restaurant)	N/A	N/A	25,978	25,978	
Class B Holdback – Created Jan. 1, 2020 (negative one Net New Restaurant)	N/A	N/A	N/A	6,495	(2)
Class B Holdback – Issued in respect of 2019 after audit	N/A	N/A	41,309	41,309	(3)
Total Class B Additional Entitlements	2,356,599	2,402,966	2,423,886	2,430,381	
Class 2 Additional Entitlements Outstanding					
Class 2 Additional Entitlements (Excluding Jan. 1, 2020 Adjustment Date)	803,520	803,520	803,520	803,520	
Class 2 Holdback (Excluding Jan. 1, 2020 Adjustment Date)	N/A	17,388	N/A	N/A	(1)
Class 2 Additional Entitlements – Issued Jan. 1, 2020 (negative one Net New Restaurant)	N/A	N/A	9,742	9,742	
Class 2 Holdback – Created Jan. 1, 2020 (negative one Net New Restaurant)	N/A	N/A	N/A	2,435	(2)
Class 2 Holdback – Issued in respect of 2019 after audit	N/A	N/A	15,491	15,491	(3)
Total Class 2 Additional Entitlements	803,520	820,908	828,753	831,188	
Summary					
Total Issued and Outstanding Fund Units	21,787,763	21,787,763	21,787,763	21,787,763	
Total Additional Entitlements	3,160,119	3,223,874	3,252,639	3,261,569	
Total Diluted Fund Units	24,947,882	25,011,637	25,040,402	25,049,332	
BPI's Total Percentage Ownership	12.7%	12.9%	13.0%	13.0%	

(1) Additional Entitlements from the five Net New Restaurants added to the Royalty Pool on January 1, 2019 prior to the audit of the five Net New Restaurants and determination of the actual effective tax rate paid by the Fund.
(2) Holdback from the Additional Entitlements to which BPI is entitled for adding to the Royalty Pool on January 1, 2020 additional Royalty and Distributions from the five new Boston Pizza restaurants opened less the Royalty and Distributions lost from the six permanent closures. The actual number of Additional Entitlements will be determined in early 2021, effective January 1, 2020, once audited results of the negative new restaurants and actual effective tax rate paid by the Fund are known.
(3) Additional Entitlements from the five Net New Restaurants added to the Royalty Pool on January 1, 2019 determined in 2020 when the audited results of the five Net New Restaurants and actual effective tax rate paid by the Fund were known.

BPI directly and indirectly holds 100% of the special voting units (the "**Special Voting Units**") of the Fund, which entitle BPI to one vote in respect of matters to be voted upon by Unitholders for each Fund Unit that BPI would be entitled to receive if it exchanged all of its Class B Units and Class 2 GP Units for Fund Units. As of February 12, 2020, BPI was entitled to 3,252,639 votes, representing 13.0% of the aggregate votes held by holders of Fund Units and Special Voting Units. The number of Fund Units that BPI is entitled to receive upon the exchange of its Class B Units and Class 2 GP Units and the number of votes that BPI is entitled to in respect of its Special Voting Units is adjusted periodically to reflect any additional Boston Pizza Restaurants that were added to the Royalty Pool.

LIQUIDITY & CAPITAL RESOURCES

BPI is an entirely franchised business except for five corporate restaurants. For 2020, BPI has forecasted capital requirements of approximately $2 million, which consist mainly of the development of software applications and digital platforms, computer equipment, and leasehold improvements. BPI believes it has sufficient cash and capital resources to cover forecasted expenditures, capital requirements, commitments and repayments for 2020. BPI constantly monitors its operations and cash flows to ensure that current and future obligations will be met. BPI believes its current sources of liquidity are sufficient to cover its currently known short and long-term obligations. BPI manages its working capital with the Operating Line.

Indebtedness

Credit Facilities

As at December 31, 2019, BPI had credit facilities with the Bank in the amount of up to $50 million with a maturity date of September 27, 2022 (the "**Credit Facilities**"). The Credit Facilities were comprised of: (i) a $10 million committed revolving facility to cover BPI's day-to-day operating requirements if needed (the "**Operating Line**"); and (ii) a $40 million committed non-revolving term facility to finance the reorganization of BPI and its shareholders (the "**Reorganization**"), which was completed on September 30, 2017 (the "**Term Loan**"). The Credit Facilities bore interest at variable interest rates, as selected by BPI, comprised of a combination of the Bank's bankers' acceptance rates plus between 1.00% and 2.50%, or the Bank's prime rate plus between 0.00% and 1.00%, depending upon debt to EBITDA ratios, and interest was payable monthly in arrears. The Term Loan and the principal amount drawn on the Operating Line were due and payable upon maturity. The principal amount drawn on the Term Loan had to be reduced by quarterly payments amortized over 15 years. The Term Loan was fully drawn down on September 29, 2017 and the proceeds were used to finance the Reorganization. As of December 31, 2019, $0.8 million was drawn on the Operating Line and $34.7 million was outstanding on the Term Loan.

The Credit Facilities were guaranteed by BPI's wholly-owned subsidiaries, all of whom granted security for their obligations under those guarantees. No security had been given by BP Canada LP in respect of the Credit Facilities.

The principal financial covenants of the Credit Facilities were: (i) BPI and its subsidiaries, taken as a whole, must have maintained a total Funded Debt to EBITDA ratio of not greater than: (A) 5.50:1 on or before September 30, 2018; (B) 4.75:1 between October 1, 2018 and September 30, 2019; (C) 4.00:1 between October 1, 2019 and March 31, 2020; and (D) 3.00:1 after March 31, 2020 (tested on a trailing 12-month basis) and (ii) BPI and its subsidiaries, taken as a whole, must have not permit its debt service coverage ratio to be less than 1.25:1 (tested on a trailing 12-month basis). BPI was in compliance with all of its financial covenants and financial condition tests as of the end of the Period.

On January 24, 2020, the Credit Facilities were amended and extended by the Amended and Restated Credit Agreement. See the "Subsequent Events – Amended and Extended Credit Facilities" section of this Management's Discussion and Analysis above for more details.

Acquired Restaurant Credit Facility

In 2016 and 2017, one of BPI's subsidiaries established a $4.2 million credit facility with the Bank for the purposes of funding a portion of the acquisition cost for a Boston Pizza Restaurant that one of BPI's subsidiaries purchased from a former franchisee of BP Canada LP in June 2016 (the "**Acquired Restaurant**") and making renovations to the Acquired Restaurant. On January 24, 2020, that credit facility was amended and extended (the "**Acquired Restaurant Credit Facility**"). The total available credit under the Acquired Restaurant Credit Facility is $3.4 million, it bears interest at the Bank's prime rate plus 1.0%, it is repayable on January 24, 2025, but is subject to reductions in principal based upon monthly payments of blended interest and principal over 15 years. As at December 31, 2019, $3.3 million was outstanding on this credit facility. The principal financial covenant under the Acquired Restaurant Credit Facility is that the Fixed Charge Coverage Ratio shall not be less than 1.15 to 1. "**Fixed Charge Coverage Ratio**" is defined as the ratio of (a) EBITDA minus (i) cash taxes, (ii) unfunded capital expenditures, and (iii) distributions paid to shareholder, divided by (b) interest expenses and principal payments paid or payable over the last 12 month period. BPI and BPI's subsidiary were in compliance with all of the financial covenants and financial condition tests governing this credit facility as of the end of the Period.

Contractual Obligations and Commercial Commitments

A summary of the estimated amount and estimated timing of cash flows related to BPI's contractual obligations and commercial commitments as at December 31, 2019 is as follows:

(in thousands of dollars)	< 1 year	1 – 2 years	3 – 4 years	> 5 years	Total	Book Value
Accounts payable and accrued liabilities and income taxes payable	12,179	-	-	-	12,179	12,179
Long-term debt[1]	4,429	43,181	-	-	47,610	37,980
Other long-term liabilities	-	250	-	-	250	250
Shareholder loan payable	303	-	-	-	303	303
Lease obligations[2]	2,069	3,244	1,867	2,921	10,101	8,555
	18,980	46,675	1,867	2,921	70,443	59,267

Note:
1) Includes estimated interest on long-term debt and excludes deferred financing costs of $0.6 million.
2) Represents minimum annual rental payments under operating lease contracts for office space, restaurants space and equipment.

Cash Flows

Cash Flow from Operating Activities

Period

During the Period, operating activities generated $2.3 million of cash compared to $0.5 million during the fourth quarter of 2018. The increase in cash generated of $1.8 million during the Period was primarily due to the timing of working capital items partially offset by an increase in net income taxes paid.

Year

During the Year, operating activities generated $6.2 million of cash compared to $3.2 million during the same period in 2018. The increase in cash generated of $3.0 million during the Year was primarily due to the timing of working capital items, higher earnings after adjustments for non-cash items, partially offset by an increase in net income taxes paid.

Cash Flow from Financing Activities

Period

During the Period, financing activities used $2.3 million of cash compared to $2.2 million during the fourth quarter of 2018. The increase in cash used of $0.1 million during the Period was primarily due to the payment of lease obligations of $0.4 million (previously classified as operating activity, but reclassified as financing, with adoption of IFRS 16 Leases – see the "Changes in Accounting Policies" section of this MD&A for more details) and related interest of $0.1 million and higher repayment of the Operating Line of $0.3 million, partially offset by a lower repayment of the Term Loan of $0.7 million due to the timing of withdrawal.

Year

During the Year, financing activities used $6.9 million of cash compared to $5.2 million during the same period in 2018. The increase in cash used of $1.7 million during the Year was primarily due to payment of lease obligations of $1.6 million (previously classified as operating activity, but reclassified as financing, with adoption of IFRS 16 *Leases* – see the "Changes in Accounting Policies" section of this MD&A for more details) and related interest of $0.4 million, and lower proceeds from the Operating Line of $0.5 million, partially offset by a lower repayment of the Term Loan of $0.7 million due to the timing of withdrawal.

Cash Flow from Investing Activities

Period

During the Period, investing activities generated $0.3 million of cash compared to $0.3 million of cash used during the fourth quarter of 2018. Cash generated from investing activities typically represents distributions received by BPI on the Class B Units. Cash used from investing activities typically represents purchases of property and equipment as well as intangible assets. The increase in cash generated during the period was due to a decrease of property and equipment purchases by $1.0 million and a $0.1 million increase in interest received from investment in Royalties LP on Class B Units, partially offset by proceeds from the sale of a corporately owned restaurant in the same period in 2018 of $0.4 million.

Year

During the Year, investing activities generated $2.1 million of cash compared to $0.8 million of cash used during the same period in 2018. The increase in cash generated during the Year of $2.9 million was primarily due to the acquisition of two corporately owned Boston Pizza Restaurants in the same period in 2018 of $2.0 million, a decrease of property and equipment purchases by $1.2 million and an increase in interest received from investment in Royalties LP on Class B Units of $0.3 million, partially offset by proceeds from the sale of a corporately owned restaurant in the previous year of $0.4 million and lower purchases of intangible assets of $0.3 million.

Related Party Transactions

The Fund is considered to be a related party of BPI by virtue of common officers and directors of BPI and Boston Pizza GP Inc., the managing general partner of Royalties LP. BPI's related party transactions at the end of the Period were as follows:

- The Fund has engaged Royalties LP, its administrator, to provide certain administrative services on behalf of the Fund. In turn, certain of the administrative services are performed by BPI, as general partner of Royalties LP. Under the terms of the limited partnership agreement governing Royalties LP, BPI is entitled to be reimbursed for certain out-of-pocket expenses incurred in performing these services. Royalties LP and BPI have agreed that for 2018 and 2019, BPI will charge Royalties LP $0.4 million of annual out-of-pocket expenses for which it is entitled to be reimbursed but that Royalties LP will defer payment of such amount to BPI (the "**Deferred Amount**"). The Deferred Amount will not bear interest and will become payable to BPI when the Fund's cash and cash equivalents is greater than 7% of Royalty and Distributions. The total amount charged by BPI in respect of these services for the Period was $0.1 million (Q4 2018 –

$0.1 million) and for the Year was $0.4 million (2018 – $0.4 million). The total amount payable to BPI in respect of these services for 2018 and 2019 was $0.8 million and as at December 31, 2019, is classified as a long-term liability on the Fund's consolidated statements of financial position.

- As at December 31, 2019, the Royalty payable by BPI to Royalties LP was $3.0 million (December 31, 2018 – $3.0 million). BPI incurred Royalty expense of $8.4 million for the Period (Q4 2018 – $8.5 million) and $34.1 million for the Year (2018 – $34.2 million).

- As at December 31, 2019, Distributions payable by BPI to Holdings LP were $0.9 million (December 31, 2018 – $1.0 million). BPI incurred Distribution expense of $2.8 million for the Period (Q4 2018 – $2.8 million) and $11.2 million for the Year (2018 - $11.4 million).

BPI earned revenues from a company under common control of $0.8 million for the Period (Q4 2018 – $0.8 million) and $3.2 million for the Year (2018 - $3.1 million). Included in compensation expense costs are management fees of $0.2 million for the Period (Q4 2018 – $0.2 million) and $1.0 million for the Year (2018 – $0.9 million) to companies under common control. Additionally, included in management fees for the Period is $0.5 million (Q4 2018 – $0.1 million) and $2.0 million for the Year (2018 – $0.3 million) paid to a company under common control for services rendered. As at the end of the Period, BPI had $0.7 million in accounts payable due to associated companies (December 31, 2018 – nil). As at the end of the Period, BPI had accounts receivable due from associated companies through common ownership of $0.5 million (December 31, 2018 – $1.1 million). As at the end of the Period, BPI owed its parent company $0.3 million (December 31, 2018 – $1.1 million) in shareholder's loan payable.

Other related party transactions and balances are referred to elsewhere in this MD&A.

COMPARATIVE FIGURES AND PRIOR PERIOD ADJUSTMENT

Certain of the comparative figures have been reclassified to conform to the financial statement presentation adopted in the year.

In 2019, BPI identified certain immaterial additional required government remittances relating to prior years. The liability amounted to $0.8 million, of which $0.2 million related to 2018 and $0.6 million related to years prior to 2018. As a result, BPI has recasted its 2018 opening figures. BPI has increased its opening shareholder deficiency by $0.6 million on the Consolidated Statements of Changes in Shareholder Deficiency, increased other expenses by $0.2 million on its 2018 comparative figures in the Consolidated Statements of Comprehensive Income, increased accounts payable and accrued liabilities by $0.8 million in its Consolidated Statements of Financial Position, and decreased the change in non-cash operating items by $0.2 million on its Consolidated Statements of Cash Flows.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

During the Period, there was no change in BPI's internal control over financial reporting that materially affected, or is reasonably likely to materially affect, BPI's internal controls over financial reporting. BPI complies with the Committee of Sponsoring Organizations of the Treadway Commission Internal Control – Integrated Framework: 2013.

CRITICAL ACCOUNTING ESTIMATES

The preparation of BPI's consolidated financial statements in accordance with IFRS requires estimates and judgments to be made that affect the reported amounts of assets and liabilities, earnings and expenses, and related disclosures. These estimates are based on historical experience and knowledge of economics, market factors and the restaurant industry along with various other assumptions that are believed to be reasonable under the circumstances.

BPI believes that the following selected accounting policies are critical to understanding the estimates, assumptions and uncertainties that affect the amounts reported and disclosed in BPI's consolidated financial statements and related notes:

Estimate – Investment in Royalties LP

BPI's investment in Royalties LP is principally comprised of the Class B Units. The value of additional Boston Pizza Restaurants rolled into the Royalty Pool is also recognized within BPI's investment in Royalties LP through BPI's right to receive Class B Additional Entitlements. The value of the Class B Additional Entitlements that BPI will be entitled to as a result of adding new Boston Pizza Restaurants to the Royalty Pool is determined on a formula basis that is designed to estimate the present value of the cash flows due to the Fund as a result of the new Boston Pizza Restaurants being added to the Royalty Pool. As such, the calculation is dependent on a number of variables including the estimated long-term sales of the new Boston Pizza Restaurants and a discount rate. The value of the Class B Additional Entitlements that BPI will be entitled to as a result of adding new Boston Pizza Restaurants to the Royalty Pool could differ from actual results and may impact the investment in Royalties LP and deferred gains line items.

Estimate – Accounts Receivable

BPI provides an allowance for uncollectable trade receivables based on a customer-by-customer basis using estimates for past and current performance, aging, arrears status, the level of allowance already in place, and management's interpretation of economic conditions specific to BPI's customer base. If certain judgments or estimates prove to be inaccurate, then the accounts receivable line item on the statement of financial position and the operating expenses line item on the statements of comprehensive income (loss) may be impacted.

Estimate – Class B Units, Class 1 LP Units, Class 2 LP Units and Receivable from Royalties LP Fair Value Adjustments

BPI must classify fair value measurements according to a hierarchy that reflects the significance of the inputs used in performing such measurements. BPI's fair value hierarchy comprises the following levels:

- Level 1 – quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

- Level 2 – pricing inputs are other than quoted in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date.

- Level 3 – valuations in this level are those with inputs for the asset or liability that are not based on observable data.

The fair values of Class B Units, Class 1 LP Units liability and Class 2 LP Units liability are all determined using Level 2 inputs and are measured on a recurring basis. The fair value of a receivable from Royalties LP is measured using level 3 inputs and is measured on a recurring basis.

(i) Class B Units

BPI has elected under IFRS to measure the Class B Units as a financial asset at fair value through profit and loss. The fair value of the Class B Units asset for BPI mirrors the fair value of the Class B Units liability recorded by the Fund for any particular period. The Class B Units are exchangeable into Fund Units, and thus, it is estimated that their fair values approximate each other. BPI estimates the fair value of the Class B Units by multiplying the number of Fund Units that BPI would be entitled to receive if it exchanged all of the Class B Units (including the Class B Holdback) at the end of the period by the closing price of a Fund Unit at the end of that period. This valuation technique may not represent the actual value of the financial asset should such Class B Units be exchanged and may impact the investment in Royalties LP and the fair value gain, gain on disposal, and provision for financial assets line items.

(ii) Class 1 LP Units Liability and Class 2 LP Units Liability

The Class 1 LP Units liability and Class 2 LP Units liability are classified as financial liabilities measured at fair value through profit or loss because the entitlements to distributions are considered embedded derivatives to the limited partnership units. BPI measures the Class 1 LP Units liability and Class 2 LP Units liability at fair value using Level 2 inputs, which may result in a fair value adjustment on the BP Canada LP units liability line on the statements of financial position, and the fair value loss (gain) line on the statements of comprehensive income (loss), and a corresponding non-cash adjustment line on the statements of cash flows.

The fair value of the Class 1 LP Units liability for BPI mirrors the fair value of the investment in Class 1 LP Units asset recorded by the Fund for any particular period. The Class 1 LP Units are entitled to distributions with respect to the interest payable by the Fund on the credit facility of the Fund drawn on at the time of the 2015 Transaction to pay for the Fund's indirect investment in Class 1 LP Units of BP Canada LP. BPI estimates the fair value of Class 1 LP Units liability using a market-corroborated input, being the interest rate on the applicable credit facility. Consequently, BPI estimates the fair value of Class 1 LP Units liability at carrying value adjusted for interest rate risk. The carrying value of the Class 1 LP Units liability approximates the fair value as the Fund's interest cost is reflective of available market interest rates.

The fair value of the Class 2 LP Units liability for BPI mirrors the fair value of the investment in Class 2 LP Units asset recorded by the Fund for any particular period. The fair value of the Class 2 LP Units liability is determined using a market approach, which involves using observable market prices for similar instruments. The Class 2 LP Units have similar cash distribution entitlements to the Class 2 GP Units, which are exchangeable into Fund Units. Consequently, BPI estimates the fair value of the Class 2 LP Units liability by multiplying the number of Class 2 LP Units indirectly held by the Fund at the end of the period by the closing price of a Fund Unit at the end of that period.

These valuation techniques may not represent the actual value of the Class 1 LP Units liability and Class 2 LP Units liability should such liabilities be extinguished. Changes in the distribution rates on the Class 1 LP Units and Class 2 LP Units and the yield of Fund Units could materially impact BPI's financial position and net income.

(iii) Receivable from Royalties LP

The Fund and BPI have agreed that for 2018 and 2019, BPI will charge the Fund the Deferred Amount (being $0.4 million of annual out-of-pocket expenses for which BPI is entitled to be reimbursed) but the Fund will not be required to immediately pay such amount to BPI. The Deferred Amount will not bear interest and will become payable to BPI when the Fund's cash and cash equivalents is greater than 7% of Royalty and Distributions. The receivable is measured at fair value using the income approach to value future expected cash flows to a present amount using a discount rate. This valuation technique may not represent the actual value of the receivable from Royalties LP.

Judgment – Consolidation

Applying the criteria outlined in IFRS 10, judgment is required in determining whether BPI controls Royalties LP and BP Canada LP. Making this judgment involves taking into consideration the concepts of power over Royalties LP and BP Canada LP, exposure and rights to variable returns, and the ability to use power to direct the relevant activities of Royalties LP and BP Canada LP so as to generate economic returns. With respect to Royalties LP, using these criteria, management has determined that BPI does not ultimately control Royalties LP. With respect to BP Canada LP, using these criteria, management has determined that BPI ultimately controls BP Canada LP through its ability to direct relevant activities to generate economic returns from BP Canada LP and its governance as managing general partner of BP Canada LP.

CHANGES IN ACCOUNTING POLICIES

IFRS 16 *Leases*

On January 13, 2016, the International Accounting Standards Board published a new standard, IFRS 16 *Leases*. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance. Lessor accounting remains largely unchanged and the distinction between

operating and finance leases is retained. The mandatory effective date of the new standard applies for annual periods beginning on or after January 1, 2019.

BPI adopted IFRS 16 *Leases* as of January 1, 2019 using the modified retrospective approach. Under this approach, there is no restatement of prior period financial information and any cumulative effect of initially applying the standard is recognized as an adjustment to opening retained earnings at the date of initial application. As of January 1, 2019, BPI recognized right-of-use assets of $9.0 million, net of a $1.1 million balance of unamortized lease incentives reclassified from liabilities, and lease obligations of $10.1 million in certain operating lease arrangements for which BPI is considered the lessee with lease terms of more than 12 months. There was no impact to opening retained earnings. Furthermore, the impact of the adoption of new standard is non-cash in nature; as such, there is no material impact on cash flows.

OUTLOOK

The information contained in this "Outlook" section is forward-looking information. Please see the "Note Regarding Forward-Looking Information" and "Risks & Uncertainties" sections of this MD&A for a discussion of the risks and uncertainties in connection with forward-looking information.

The Fund's and Boston Pizza's growth plans are largely dependent upon the ability to generate positive SRS. The two principal factors that affect SRS are changes in guest traffic and changes in average guest cheque. BPI's and BP Canada LP's strategies to drive higher guest traffic include attracting a wide variety of guests into the restaurant, sports bar and take-out and delivery channels of each restaurant, offering a compelling value proposition to guests and leveraging a large marketing budget to drive national and local restaurant promotions. Increased average cheque levels are expected to be achieved through a combination of culinary innovation and periodic menu re-pricing. In addition, the franchise agreement governing each Boston Pizza Restaurant requires a complete restaurant renovation every seven years. Restaurants typically close for two to three weeks to complete the renovation and experience an incremental sales increase in the year following the re-opening.

The Canadian full-service restaurant sector has recently experienced declines in guest traffic and Boston Pizza is no exception. Management of BPI believes that such declines are the results of increased competition in the full-service restaurant sector, shifts in consumer spending habits in response to increased menu pricing tied to rising minimum wages, waning consumer confidence in the retail sector, increasing levels of household debt and high proportions of Boston Pizza restaurants being located in regions of Canada that are facing economic challenges. These factors have contributed to the decline in Boston Pizza's recent SRS performance. Management of BPI is aggressively implementing various initiatives to mitigate the effects current industry challenges are having on Boston Pizza's results, however, if current industry challenges persist, they will continue to negatively affect SRS. Notwithstanding the current industry challenges, management of BPI continues to believe that Boston Pizza is well-positioned to attract guests, achieve positive SRS over the long term and continue to strengthen its position as the number one casual dining brand in Canada. In addition, management of BPI continues to believe that Boston Pizza remains well positioned for long term future expansion.

RISKS & UNCERTAINTIES

Risks Related to the Business of BPI and BP Canada LP

The Restaurant Industry and its Competitive Nature

The performance of the Fund is directly dependent upon the Royalty received from BPI and Distributions received from BP Canada LP. The amount of the Royalty and Distributions received by Royalties LP and Holdings LP from BPI and BP Canada LP, respectively, is dependent on various factors that may affect the casual dining sector of the restaurant industry. The restaurant industry generally, and in particular the casual dining sector, is intensely competitive with respect to price, service, location and food quality. Competitors include national and regional chains, as well as independently owned restaurants. If BPI, BP Canada LP and the Boston Pizza franchisees are unable to successfully compete in the casual dining sector, Franchise Sales may be adversely affected; the amount of the Royalty and Distributions may be reduced and the ability of BPI to pay the Royalty, and the ability of BP Canada LP to pay Distributions, may be impaired. The restaurant industry is also affected by adverse weather

conditions, changes in demographic trends, traffic patterns, general economic conditions and the type, number, and location of competing restaurants. In addition, factors such as government regulations, smoking bylaws, inflation, publicity from any food borne illnesses, increased food, labour and benefits costs, continuing operations of key suppliers and the availability of experienced management and hourly employees may adversely affect the restaurant industry in general and therefore potentially affect Franchise Sales. BPI's and BP Canada LP's success also depends on numerous factors affecting discretionary consumer spending, including economic conditions, disposable consumer income and consumer confidence. Adverse changes in these factors could reduce guest traffic or impose practical limits on pricing, either of which could reduce revenue and operating income, which could adversely affect Franchise Sales, the Royalty, Distributions and the ability of BPI to pay the Royalty to Royalties LP, and the ability of BP Canada LP to pay Distributions to Holdings LP.

Growth of the Royalty and Distributions

The growth of the Royalty payable by BPI to Royalties LP under the License and Royalty Agreement between Royalties LP and BPI (for the license to use the BP Rights in Canada for 99 years, commencing on July 17, 2002), and the growth of Distributions payable by BP Canada LP to Holdings LP, are dependent upon the ability of BPI and BP Canada LP to (i) maintain and grow their franchised restaurants, (ii) locate new restaurant sites in prime locations, and (iii) obtain qualified operators to become Boston Pizza franchisees. BPI and BP Canada LP face competition for restaurant locations and franchisees from their competitors and from franchisors of other businesses. BPI's and BP Canada LP's inability to successfully obtain qualified franchisees could adversely affect their business development. The opening and success of a Boston Pizza Restaurant is dependent on a number of factors, including: availability of suitable sites; negotiations of acceptable lease or purchase terms for new locations; availability, training and retention of management and other employees necessary to staff new Boston Pizza Restaurants; adequately supervising construction; securing suitable financing; and other factors, some of which are beyond the control of BPI and BP Canada LP. Boston Pizza franchisees may not have all the business abilities or access to financial resources necessary to open a Boston Pizza Restaurant or to successfully develop or operate a Boston Pizza Restaurant in their franchise areas in a manner consistent with BPI's and BP Canada LP's standards. BPI and BP Canada LP provide training and support to Boston Pizza franchisees, but the quality of franchised operations may be diminished by any number of factors beyond BPI's and BP Canada LP's control. Consequently, Boston Pizza franchisees may not successfully operate restaurants in a manner consistent with BPI's and BP Canada LP's standards and requirements, or may not hire and train qualified managers and other restaurant personnel. If they do not, the image and reputation of BPI and BP Canada LP may suffer, and gross revenue and results of operations of the Boston Pizza Restaurants could decline.

The Closure of Boston Pizza Restaurants May Affect the Amount of Royalty and Distributions

The amount of the Royalty payable to Royalty LP by BPI, and the amount of Distributions payable by BP Canada LP to Holdings LP, are dependent upon the Franchise Sales, which is dependent on the number of Boston Pizza Restaurants that are included in the Royalty Pool and the Franchise Sales of those Boston Pizza Restaurants. Each year, a number of Boston Pizza Restaurants may close and there is no assurance that BPI and BP Canada LP will be able to open sufficient new Boston Pizza Restaurants to replace the Franchise Sales of the Boston Pizza Restaurants that have closed.

BPI and BP Canada LP Revenue

The ability of BPI to pay the Royalty and the ability of BP Canada LP to pay Distributions are dependent on (i) Boston Pizza franchisees' ability to generate revenue and to pay royalties to BP Canada LP, (ii) BP Canada LP's ability to enter into arrangements with suppliers and distributors to generate competitive pricing for franchisees and revenue for BP Canada LP, and (iii) BP Canada LP's receipt of amounts for other franchise fees (including initial and renewal franchise fees). Failure of BP Canada LP to achieve adequate levels of collection from Boston Pizza franchisees or the loss of revenues from arrangements with suppliers and distributors could have a serious effect on the ability of BP Canada LP to pay Distributions and of BPI to pay the Royalty.

Intellectual Property

The ability of BPI and BP Canada LP to maintain or increase Franchise Sales will depend on their ability to maintain "brand equity" through the use of the BP Rights licensed from Royalties LP. If Royalties LP fails to enforce or maintain any of its intellectual property rights, BPI and BP Canada LP may be unable to capitalize on their efforts to establish brand equity. All registered trademarks in Canada can be challenged pursuant to provisions of the *Trademarks Act* (Canada) and if any BP Rights are ever successfully challenged, this may have an adverse impact on Franchise Sales, and therefore on the Royalty and Distributions. Royalties LP owns the BP Rights in Canada. However it does not own identical or similar trademarks owned by parties not related to BPI or Royalties LP in other jurisdictions. Third parties may use such trademarks in jurisdictions other than Canada in a manner that diminishes the value of such trademarks. If this occurs, the value of the BP Rights may suffer and gross revenue by Boston Pizza Restaurants could decline. Similarly, negative publicity or events associated with such trademarks in jurisdictions outside of Canada may negatively affect the image and reputation of Boston Pizza Restaurants in Canada, resulting in a decline in gross revenue by Boston Pizza Restaurants.

Government Regulation

BPI and BP Canada LP are subject to various federal, provincial and local laws affecting their business. Each Boston Pizza Restaurant is subject to licensing and regulation by a number of governmental authorities, which may include alcoholic beverage control, smoking laws, health and safety and fire agencies. Difficulties in obtaining or failures to obtain the required licenses or approvals could delay or prevent the development of a new Boston Pizza Restaurant in a particular area or restrict the operations of an existing Boston Pizza Restaurant.

Regulations Governing Food Service and Alcoholic Beverages

Boston Pizza Restaurants are subject to various federal, provincial and local government regulations, including those relating to the sale of food and alcoholic beverages. Such regulations are subject to change from time to time. The failure to obtain and maintain these licenses, permits and approvals could adversely affect the operations of a Boston Pizza Restaurant. Typically, licenses must be renewed annually and may be revoked, suspended or denied renewal for cause at any time if governmental authorities determine that the Boston Pizza Restaurant's conduct violates applicable regulations. Difficulties or failures to maintain or obtain the required licenses and approvals could adversely affect existing Boston Pizza Restaurants and delay or result in a decision to cancel the opening of new Boston Pizza Restaurants, which would adversely affect BPI's and BP Canada LP's business.

In addition, the ability of Boston Pizza Restaurants to serve alcoholic beverages is an important factor in attracting customers. Alcoholic beverage control regulations require each Boston Pizza Restaurant to apply to provincial or municipal authorities for a license or permit to sell alcoholic beverages on the premises and, in certain locations, to provide service for extended hours and on Sundays. Typically, licenses must be renewed annually and may be revoked or suspended for cause at any time. Alcoholic beverage control regulations relate to numerous aspects of daily operations of Boston Pizza Restaurants, including minimum age of patrons and employees, hours of operation, advertising, wholesale purchasing, inventory control, and handling, storage and dispensing of alcoholic beverages. The failure of BPI, BP Canada LP or a Boston Pizza franchisee to retain a license to serve liquor for a Boston Pizza Restaurant would adversely affect that restaurant's operations. BPI, BP Canada LP or a Boston Pizza franchisee may be subject to legislation in certain provinces, which may provide a person injured by an intoxicated person the right to recover damages from an establishment that wrongfully served alcoholic beverages to the intoxicated person. BPI and BP Canada LP carry host liquor liability coverage as part of their existing comprehensive general liability insurance. There is no assurance that such insurance coverage will be adequate.

Laws Concerning Employees

The operations of Boston Pizza Restaurants are also subject to minimum wage laws governing such matters as working conditions, overtime and tip credits, as well as rules and regulations regarding the employment of temporary foreign workers. Significant numbers of Boston Pizza Restaurants' food service and preparation personnel are paid at rates related to the minimum wage and, accordingly, further increases in the minimum wage could increase Boston Pizza Restaurants' labour costs. In some regions of Canada, Boston Pizza Restaurants employ temporary

foreign workers – the supply of labour in such regions could be reduced by regulations concerning the employment of temporary foreign workers.

Sales Tax Regulations

While there are variations in studies about the extent to which sales taxes impact retail sales, the increase in the after-tax price of goods and services has a negative effect on the customer's perception of spending on restaurant dining. Such negative perception can potentially reduce the frequency of guest visits to restaurants, the total amount which guests spend per restaurant visit, or both. Price elasticity appears to have less impact on densely-populated and market-dominant areas such as urban or downtown restaurants. However, as customer perception of disposable spending is adversely affected by increased after-tax prices, Franchise Sales are at risk of declining if retail sales taxes increase.

Franchise Regulation Risk

The complete failure to provide a disclosure document as required by the franchise disclosure laws and regulations of the provinces of British Columbia, Alberta, Manitoba, Ontario, New Brunswick and Prince Edward Island (or the provision of a disclosure document that is materially non-compliant) provides a franchisee with a two year absolute right of rescission. If a disclosure document is not provided within the time required by applicable provincial legislation, a franchisee is provided with sixty days from receipt of the disclosure document in which to rescind the franchise agreement. The statutory right of rescission gives a franchisee the right to receive back all monies paid, and to recover for its losses, if any. Franchise legislation also provides a franchisee with a statutory right of action to sue if a franchisee suffers a loss because of a misrepresentation contained in the disclosure document, or as a result of the franchisor's failure to comply with its disclosure obligations. These rights are in addition to any rights that might exist at common law. Claims arising from any non-compliance with franchise disclosure laws may adversely affect the ability of BP Canada LP to pay Distributions to Holdings LP, and of BPI to pay the Royalty to Royalties LP.

Potential Litigation and Other Complaints

BPI, BP Canada LP and Boston Pizza franchisees may be the subject of complaints or litigation from guests alleging food related illness, injuries suffered on the premises or other food quality, health or operational concerns. Adverse publicity resulting from such allegations may materially affect the sales by Boston Pizza Restaurants, regardless of whether such allegations are true or whether BPI, BP Canada LP or a Boston Pizza franchisee is ultimately held liable.

Insurance

BPI and BP Canada LP maintain insurance coverage to protect them from liabilities they incur in the course of their business. There is no assurance that such insurance coverage will respond to, or be adequate to protect them from, such liabilities. Additionally, in the future, BPI's and BP Canada LP's insurance premiums may increase and they may not be able to obtain similar levels of insurance on reasonable terms or at all. Any substantial inadequacy of, or inability to obtain insurance coverage could materially adversely affect BPI's and BP Canada LP's business, financial condition and results of operations. Furthermore, there are types of losses BPI or BP Canada LP may incur that cannot be insured against or that are not economically reasonable to insure. Such losses could have a material adverse effect on BPI's and BP Canada LP's business and results of operations.

Dependence on Key Personnel

The success of the Fund depends upon the personal efforts of senior management of BPI, including their ability to retain and attract appropriate franchisee candidates. The loss of the services of such key personnel or the failure to attract such franchisees could have a material adverse effect on the performance of the Fund.

Security of Confidential Consumer Information and Personal Information

BPI, BP Canada LP and Boston Pizza franchisees collect and/or use confidential consumer information related to the electronic processing of credit and debit card transactions, personal information of consumers in connection with Boston Pizza's "MyBP" loyalty platform and personal information of their respective employees. If any of BPI, BP Canada LP or Boston Pizza franchisees experiences a security breach in which any of this type of information is stolen or disclosed, BPI, BP Canada LP or Boston Pizza franchisees may incur unanticipated costs, become subject to claims for purportedly fraudulent transactions arising out of the actual or alleged theft of credit or debit card information, and/or become subject to lawsuits or other proceedings relating to these types of incidents. In addition, most provinces have enacted legislation requiring notification of security breaches involving personal information, including credit and debit card information. Any such claims or proceedings could cause BPI or BP Canada LP to incur significant unplanned expenses, which could have an adverse impact on their financial condition and results of operations. Furthermore, adverse publicity resulting from these allegations may have a material adverse effect on Franchise Sales, Royalty, Distributions and the ability of BP Canada LP to pay Distributions to Holdings LP, or BPI to pay the Royalty to Royalties LP.

Reliance on Technology

BPI, BP Canada LP and Boston Pizza franchisees rely heavily upon information systems, including point-of-sale processing in Boston Pizza Restaurants, for management of their supply chain, payment of obligations, collection of cash, credit and debit card transactions and other processes and procedures, including the taking and sending of orders to Boston Pizza Restaurants. BPI's and BP Canada LP's ability to efficiently and effectively manage their business depends significantly on the reliability and capacity of these systems. BPI's and BP Canada LP's operations depend upon their ability to protect their computer equipment and systems against damage from physical theft, fire, power loss, telecommunications failure or other catastrophic events, as well as from internal and external security breaches, viruses and other disruptive problems. The failure of these systems to operate effectively, maintenance problems, upgrading or transitioning to new platforms, expanding BPI's and BP Canada LP's systems as they grow or a breach in security of these systems could result in delays in customer service and reduced efficiency in BPI's and BP Canada LP's operations. Remediation of such problems could result in significant, unplanned capital investments.

Leverage: Restrictive Covenants

BPI has third-party debt service obligations under the Amended and Extended Credit Facilities with the Bank. The degree to which BPI is leveraged could have important consequences to Unitholders, including: (i) a portion of BPI's cash flow from operations could be dedicated to the payment of the principal of and interest on BPI's indebtedness, thereby reducing funds available for payment of the Royalty; and (ii) certain of BPI's borrowings are at variable rates of interest, which exposes them to the risk of increased interest rates. The Amended and Extended Credit Facilities are due on January 24, 2025, at which time BPI will need to refinance such loans. There can be no assurance that refinancing of this indebtedness will be available to BPI, or available to BPI on acceptable terms. If BPI cannot refinance this indebtedness on acceptable terms upon maturity, it will negatively impact the ability of BPI to pay Royalty. Given the Fund's dependence upon BPI, this will negatively impact the Fund's distributable cash and the Fund's ability to make distributions on Fund Units. BPI's ability to make scheduled payments of principal or interest on, or to refinance, its indebtedness depends on future cash flows, which is dependent on the success of Boston Pizza Restaurants, prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond its control.

The Amended and Extended Credit Facilities contain numerous restrictive covenants that limit the discretion of BPI's management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of BPI to incur additional indebtedness, to create liens or other encumbrances, to pay distributions or make certain other payments, investments, loans and guarantees, to sell or otherwise dispose of assets, to allow a change of control, and to merge or consolidate with another entity.

A failure by BPI to comply with the obligations in the Amended and Extended Credit Facilities could result in an event of default which, if not cured or waived, could result in the acceleration of the relevant indebtedness. If the indebtedness under the Amended and Extended Credit Facilities were to be accelerated, there can be no assurance

that BPI's assets would be sufficient to repay that indebtedness. If BPI were unable to repay that indebtedness, it would adversely affect BPI's ability to pay the Royalty, and thereby negatively impacting the Fund's distributable cash and the Fund's ability to make distributions on Fund Units.

ADDITIONAL INFORMATION

Additional information relating to BPI, the Fund, Royalties LP, Boston Pizza GP Inc., BPCHP, Boston Pizza Holdings Trust, Holdings LP, Boston Pizza Holdings GP Inc. and BP Canada LP, including the Fund's Annual Information Form dated February 12, 2020, is available on SEDAR at www.sedar.com and on the Fund's website at www.bpincomefund.com.

NOTE REGARDING FORWARD-LOOKING INFORMATION

Certain information in this MD&A constitutes "forward-looking information" that involves known and unknown risks, uncertainties, future expectations and other factors which may cause the actual results, performance or achievements of BPI, the Fund, Boston Pizza Holdings Trust, Royalties LP, Holdings LP, Boston Pizza Holdings GP Inc., Boston Pizza GP Inc., BPCHP, BP Canada LP, Boston Pizza Restaurants, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking information. When used in this MD&A, forward-looking information may include words such as "anticipate", "estimate", "may", "will", "should", "expect", "believe", "plan", "forecast" and other similar terminology. This information reflects current expectations regarding future events and operating performance and speaks only as of the date of this MD&A.

All statements, other than statements of historical facts, included herein that address events or developments that management of BPI expects or anticipates will or may occur in the future are forward-looking information. Forward-looking information in this MD&A includes, but is not limited to, such things as:

- Boston Pizza being well positioned for long term future expansion;
- Boston Pizza being well positioned to attract guests, achieve positive SRS over the long term and continue to strengthen its position as the number one casual dining brand in Canada;
- Boston Pizza Restaurants will close for two to three weeks to complete a renovation and experience an incremental sales increase in the year following the re-opening;
- impact of seasonality on Franchise Sales;
- the "Four Pillars" strategy will continue to focus BPI's and BP Canada LP's efforts to develop new markets and strengthen Boston Pizza's position as Canada's number one casual dining brand;
- estimates relating to the amount and timing to cash flows related to BPI's contractual obligations and commercial commitments;
- adjustments to Additional Entitlements that are to occur in the future and when such adjustments will occur;
- belief that BPI has sufficient cash and capital resources for 2020, and that its current sources of liquidity are sufficient to cover known short and long-term obligations;
- BPI constantly monitoring its operations and cash flows to ensure that current and future obligations will be met;
- BPI and BP Canada LP aggressively promoting to enhance the Boston Pizza brand;
- BPI aggressively implementing various initiatives to mitigate the effects current industry challenges are having on Boston Pizza's results;
- the persistence of industry challenges negatively affecting SRS;
- BPI's and BP Canada LP's strategies to drive higher guest traffic and higher average guest cheques;
- that increased average cheque level will be achieved through a combination of culinary innovation and periodic menu re-pricing;
- anticipated impact on financial performance of the adoption of new accounting policies;
- an expected increase in net Franchise Sales from Net New Restaurants added to the Royalty Pool; and
- estimated 2020 annual Franchise Sales, Royalty and Distributions to be generated by Net New Restaurants.

The forward-looking information disclosed herein is based on a number of assumptions including, among other things:

- absence of amendments to material contracts;
- no strategic changes of direction occurring;
- absence of changes in law;
- protection of BP Rights;
- pace of commercial real estate development;
- franchisees' access to financing;
- franchisees duly paying franchise fees and other amounts;
- there will be no closures of Boston Pizza Restaurants that materially affect the amount of Royalty paid by BPI to Royalties LP or the amount of Distributions paid by BP Canada LP to Holdings LP;
- future results being similar to historical results;
- expectations related to future general economic conditions;
- management of BPI and BP Canada LP maintaining current strategies to drive higher guest traffic and higher average guest cheques;
- Boston Pizza Restaurants maintaining operational excellence;
- culinary innovation and menu re-pricing;
- continuing operations of key suppliers;
- availability of experienced management and hourly employees;
- ability to obtain qualified franchisees;
- ability to open sufficient new Boston Pizza Restaurants to replace Franchise Sales of closed Boston Pizza Restaurants;
- ability to comply with disclosure obligations under franchise laws and regulations;
- ability to obtain adequate insurance coverage;
- ability to enter into arrangements with suppliers and distributors to generate competitive pricing for franchisees and revenue for BP Canada LP;
- ability to cover forecasted expenditures, capital requirements, commitments and repayments for 2020; and
- current sources of liquidity are sufficient to cover currently known short and long term obligations.

This forward-looking information involves a number of risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from any results, performance or achievements expressed or implied by the forward looking information contained herein including, but not limited to:

- competition;
- consumer spending habits;
- consumer confidence in the retail sector;
- household debt;
- weather;
- pricing;
- changes in demographic trends;
- changes in consumer preferences and discretionary spending patterns;
- changes in national and local business and economic conditions;
- legislation and government regulation;
- cash distributions are not guaranteed;
- accounting policies and practices;
- the results of operations and financial conditions of BPI and the Fund;
- inflation;
- publicity from any food borne illness;
- increase in food, labour or benefits costs;
- Boston Pizza Restaurant closures;
- successful challenge of the BP Rights;
- increases in sales tax;

- litigation against franchisees; and
- data security breaches.

The foregoing list of factors is not exhaustive and should be considered in conjunction with the risks and uncertainties set out in this MD&A and the MD&A of the Fund for the period and year ended December 31, 2019.

This MD&A discusses some of the factors that could cause actual results to differ materially from those expressed in or underlying such forward-looking information. Forward-looking information is provided as of the date hereof and, except as required by law, BPI assumes no obligation to update or revise forward-looking information to reflect new events or circumstances.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Boston Pizza International Inc.

Opinion

We have audited the consolidated financial statements of Boston Pizza International Inc. ("BPI"), which comprise:

- the consolidated statements of financial position as at December 31, 2019 and December 31, 2018
- the consolidated statements of comprehensive income for the years then ended
- the consolidated statements of shareholder's deficiency for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of BPI as at end of December 31, 2019 and December 31, 2018 and its consolidated financial performance, and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of BPI in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. Other information comprises:

- the information, included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Glossy Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information, included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Glossy Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

In preparing the financial statements, management is responsible for assessing BPI's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate BPI or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing BPI's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 BPI's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on BPI's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause BPI to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this auditors' report is Konstantin Polyakov.

KPMG LLP

Chartered Professional Accountants
February 12, 2020
Vancouver, Canada

BOSTON PIZZA INTERNATIONAL INC.
Consolidated Statements of Financial Position
(Expressed in thousands of Canadian dollars)

	December 31, 2019	December 31, 2018 *(Recasted, note 18)*
Assets		
Current assets		
Cash	$ 2,326	$ 886
Accounts receivable (note 5(a))	9,077	10,122
Prepaid expenses and other current assets	843	1,021
Income tax receivable (note 13)	460	37
Advertising fund restricted assets (note 3(n))	9,167	10,034
Interest receivable from Boston Pizza Royalties Limited Partnership	337	298
	22,210	22,398
Long-term receivables (note 5(a))	760	728
Receivable from Boston Pizza Royalties Limited Partnership (note 5(b))	800	400
Investment in Boston Pizza Royalties Limited Partnership (note 6)	32,344	32,912
Property and equipment (note 4 and 7)	16,226	9,861
Intangible assets (note 8)	6,780	6,998
Deferred income taxes (note 13)	68,444	66,982
Total assets	$ 147,564	$ 140,279
Liabilities and Shareholder Deficiency		
Current liabilities		
Bank indebtedness (note 9)	$ 801	$ 634
Accounts payable and accrued liabilities (note 18)	12,179	14,718
Current portion of deferred revenue	2,074	1,538
Current portion of long-term debt (note 9)	3,485	2,842
Current portion of lease obligation (note 4 and 10)	1,700	-
Current portion of shareholder loan payable (note 16)	303	800
Advertising fund restricted liabilities (note 3(n))	12,859	13,489
	33,401	34,021
Deferred revenue	5,682	2,545
Long-term debt (note 9)	33,881	36,561
Long-term portion of lease obligation (note 4 and 10)	6,855	48
Shareholder loan payable (note 16)	-	303
Long-term portion of advertising fund restricted liabilities (note 3(n))	3,639	3,633
Other long-term liabilities	250	1,561
Boston Pizza Canada Limited Partnership units liability (note 11)	106,749	115,751
Deferred gain (note 12)	230,135	229,406
Shareholder deficiency		
Share capital	28,248	28,248
Accumulated deficit	(301,276)	(311,798)
	(273,028)	(283,550)
Organization and nature of operations (note 1)		
Subsequent events (note 22)		
Total liabilities and shareholder deficiency	$ 147,564	$ 140,279

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

Approved on behalf of the Board:

James Treliving, Director

BOSTON PIZZA INTERNATIONAL INC.
Consolidated Statements of Comprehensive Income
For the years ended December 31, 2019 and 2018
(Expressed in thousands of Canadian dollars, except per share data)

		2019		2018 *(Recasted, note 18)*
Revenue				
Franchise, restaurant and other	$	99,394	$	100,140
Advertising fund revenue		26,143		26,788
		125,537		126,928
Royalty expense (note 16)		34,149		34,204
Distribution expense (note 11 and 16)		11,246		11,407
Restaurant operating costs		14,153		16,242
Compensation expense (note 16)		20,268		19,562
Advertising fund expense		26,355		26,859
Other expenses (note 15 and 18)		10,078		11,902
Depreciation and amortization (note 4,7 and 8)		5,664		3,737
Management fee (note 16)		1,965		300
Amortization of deferred gain (note 12)		(2,823)		(2,784)
Operating expenses		121,055		121,429
Earnings before interest, fair value loss (gain) on financial instruments, and taxes		4,482		5,499
Interest income from Boston Pizza Royalties Limited Partnership		(4,133)		(3,722)
Interest on long-term debt and financing costs		2,206		2,184
Interest on lease obligations (note 4 and 10)		445		-
Net interest income		(1,482)		(1,538)
Fair value loss on investment in Boston Pizza Royalties Limited Partnership (note 6)		4,120		14,814
Fair value gain on Boston Pizza Canada Limited Partnership units liability (note 11)		(9,002)		(37,099)
Total fair value adjustments		(4,882)		(22,285)
Earnings before income taxes		10,846		29,322
Current income tax expense (note 13)		1,786		133
Deferred income tax recovery (note 13)		(1,462)		(480)
Total tax expense (recovery)		324		(347)
Net and comprehensive income	$	10,522	$	29,669
Basic and diluted earnings per share	$	107.27	$	302.48

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

BOSTON PIZZA INTERNATIONAL INC.
Consolidated Statements of Changes in Shareholder Deficiency
(Expressed in thousands of Canadian dollars)

		Share Capital		Accumulated Deficit		Total Deficiency
Balance – December 31, 2018, as previously reported	$	28,248	$	(310,982)	$	(282,734)
Prior period adjustment (note 18)		-		(816)		(816)
Balance – January 1, 2019, recasted		28,248		(311,798)		(283,550)
Net and comprehensive income for the year		-		10,522		10,522
Balance – December 31, 2019	$	28,248	$	(301,276)	$	(273,028)
Balance – December 31, 2017, as previously reported	$	28,248	$	(340,872)	$	(312,624)
Prior period adjustment (note 18)		-		(595)		(595)
Balance – January 1, 2018, recasted		28,248		(341,467)		(313,219)
Net and comprehensive income for the year, recasted		-		29,669		29,669
Balance – December 31, 2018, recasted	$	28,248	$	(311,798)	$	(283,550)

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

BOSTON PIZZA INTERNATIONAL INC.
Consolidated Statements of Cash Flows
For the years ended December 31, 2019 and 2018
(Expressed in thousands of Canadian dollars)

	2019	2018, *(Recasted, note 18)*
Cash flows generated from (used in)		
Operating activities		
Net and comprehensive income	$ 10,522	$ 29,669
Adjustments for:		
Depreciation and amortization (note 4,7 and 8)	5,664	3,737
Current income tax expense (note 13)	1,786	133
Deferred income tax recovery (note 13)	(1,462)	(480)
Amortization of deferred gain (note 12)	(2,823)	(2,784)
Fair value loss on investment in Boston Pizza Royalties Limited Partnership (note 6)	4,120	14,814
Fair value gain on Boston Pizza Canada Limited Partnership units liability (note 11)	(9,002)	(37,099)
Interest income from Boston Pizza Royalties Limited Partnership	(4,133)	(3,722)
Interest on long-term debt and financing costs	2,206	2,184
Gain on sale of corporate restaurant (note 19)	-	(134)
Interest on lease obligations	445	-
Change in non-cash operating items (note 17(a))	1,123	(2,696)
Income tax paid	(2,351)	(489)
Income tax received	142	69
Net cash generated from operating activities	6,237	3,202
Financing activities		
Repayment of long-term debt	(2,275)	(3,041)
Proceeds from line of credit (note 9)	167	634
Repayment of shareholder loan payable	(800)	(800)
Interest paid	(2,394)	(1,960)
Payment of lease obligations (note 4 and 10)	(1,606)	-
Net cash used in financing activities	(6,908)	(5,167)
Investing activities		
Interest received from investment in Boston Pizza Royalties Limited Partnership	4,094	3,757
Purchase of property and equipment, net (note 17(b))	(563)	(1,738)
Purchase of intangible assets, net (note 17(b))	(1,420)	(1,175)
Proceeds from sale of corporate restaurant (note 19)	-	393
Acquisition of franchised restaurant (note 19)	-	(2,045)
Net cash used in investing activities	2,111	(808)
Increase (decrease) in cash	1,440	(2,773)
Cash – beginning of period	886	3,659
Cash – end of period	$ 2,326	$ 886

Supplemental cash flow information (note 17)
The accompanying notes are an integral part of these consolidated financial statements.

1. Organization and nature of operations:

Boston Pizza International Inc. was incorporated on May 26, 1982 under the laws of British Columbia and continued under the *Canada Business Corporations Act* on August 26, 2002. These consolidated financial statements include the accounts of Boston Pizza International Inc., its wholly-owned subsidiaries Lansdowne Holdings Ltd., Winston Churchill Pizza Ltd., Laval Corporate Training Centre Inc., Front & John Pizza Ltd., Stadium District Pizza Ltd., Theatre District Pizza Ltd., Boston Pizza Canada Holdings Partnership ("**BPCHP**") and Boston Pizza Canada Holdings Inc. ("**BPCHI**"), and the accounts of Boston Pizza Canada Limited Partnership ("**BP Canada LP**"), collectively the "**Company**" or "**BPI**". On September 30, 2017, BPI completed an internal reorganization (the "**Reorganization**") that resulted in the amalgamation of the then parent company and an entity controlled by Mr. Treliving ("**JTHL**") acquiring the 50% interest in BPI from the entity controlled by Mr. Melville ("**GMHL**"), resulting in JTHL owing 100% of BPI.

BPI pays Boston Pizza Royalties Income Fund (the "**Fund**") a royalty of 4.0% of Franchise Sales (defined below) of Boston Pizza Restaurants in the Royalty Pool (the "**Royalty**"). The Fund, through its indirect investment in BP Canada LP completed in 2015 (the "**Transaction**"), is entitled to receive a distribution (the "**Distribution**") equal to 1.5% of Franchise Sales of Boston Pizza Restaurants in the Royalty Pool (the "**Franchise Sales Participation**") less the pro rata portion payable to BPI in respect of its retained interest in the Fund. As a result of the Transaction, BP Canada LP, a British Columbia limited partnership controlled and operated by BPI, became the exclusive franchisor of the Boston Pizza concept in Canada.

The Company's principal business activity is the operation and franchising of Boston Pizza restaurants in Canada. The principal business office is located at 10760 Shellbridge Way, Richmond, BC. As at December 31, 2019, 395 Boston Pizza restaurants were in operation (December 31, 2018 – 396).

2. Basis of preparation:

(a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**"). These consolidated financial statements were approved by the Director for issue on February 12, 2020.

(b) Functional and presentation currency:

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand.

(c) Use of estimates and judgments:

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods

2. Basis of preparation (continued):

(c) Use of estimates and judgments (continued):

affected. Significant areas requiring the use of management estimates and judgment are as follows:

Estimates:

- **Investment in Boston Pizza Royalties Limited Partnership ("Royalties LP")**

The investment in Royalties LP is principally comprised of Class B general partner units ("**Class B Units**") and, prior to the Reorganization, Class C general partner units ("**Class C Units**"). The value of additional Boston Pizza restaurants rolled into the Royalty Pool (defined below) is also recognized within the Company's investment in Royalties LP through the additional entitlement of Class B Units. Annually, on January 1 (each, an "**Adjustment Date**"), the number of Boston Pizza restaurants in the Royalty Pool on which the Company pays a royalty to the Fund are adjusted to include the sales subject to royalty fees ("**Franchise Sales**") from new Boston Pizza restaurants opened on or before December 31 of the prior year, less Franchise Sales from any Boston Pizza restaurants that have permanently closed during the year. In return for adding this net Franchise Sales to the Royalty Pool, Boston Pizza receives the right to indirectly acquire additional units of the Fund ("**Fund Units**") in respect of its Class B Units (the "**Class B Additional Entitlements**"). BPI receives 80% of the estimated Class B Additional Entitlements on the Adjustment Date with the balance (the "**Class B Holdback**") received once the performance of the new Boston Pizza restaurants and actual effective tax rate of the Fund are known with certainty. As such, the calculation is dependent on a number of variables including the estimated long-term sales of the new Boston Pizza restaurants and a discount rate. The value of the Class B Additional Entitlements as a result of adding new Boston Pizza restaurants to the Royalty Pool could differ from actual results.

- **Class B Unit Fair Value Adjustment**

The Company has elected under IFRS to measure the Class B Units as a financial asset at fair value through profit and loss. The fair value of the Class B Unit asset for the Company mirrors the fair value of the Class B Unit liability recorded by the Fund for any particular period. The Class B Units are exchangeable into Fund Units, and thus, it is estimated that their fair values approximate each other. The Company estimates the fair value of the Class B Units by multiplying the total number of Fund Units into which the Class B Units are exchangeable (including Class B Holdback) at the end of the period by the closing price of a Fund Unit on the last business day of the period. This valuation technique may not represent the actual value of the financial asset should such Class B Units be exchanged.

- **BP Canada LP Units Liability and Fair Value Adjustment**

The Company has elected under IFRS to measure the Class 1 limited partnership units ("**Class 1 LP Units**") and Class 2 limited partnership units ("**Class 2 LP Units**") of BP Canada LP as financial liabilities at fair value through profit and loss because the entitlements to distributions are considered embedded derivatives to the Class 1 LP Units and Class 2 LP Units. The fair value of the Class 1 LP Units and Class 2 LP Units liability for the Company mirrors the fair value of the investment in units of BP Canada LP asset recorded by the Fund for any particular period. The

2. Basis of preparation (continued):

(c) Use of estimates and judgments (continued):

Estimates (continued):

- **BP Canada LP Units Liability and Fair Value Adjustment (continued)**

Class 1 LP Units are entitled to distributions with respect to the interest cost incurred on a certain credit facility held by the Fund. Thus, the fair value of the Class 1 LP Units is estimated using a market-corroborated input (interest rate on the credit facility). The Company estimates the fair value of Class 1 LP Units at carrying value adjusted for interest rate risk. The fair value of the Class 2 LP Units is determined using a market approach, which involves using observable market prices for similar instruments. The Class 2 LP Units have provisions similar to the Class 2 general partnership units ("**Class 2 GP Units**"), which are exchangeable into Fund Units. The fair value of the Class 2 LP Units is determined by multiplying the issued and outstanding Class 2 LP Units held by the Fund at the end of the period by the closing price of a Fund Unit on the last business day of the period. This valuation technique may not represent the actual value of the financial liability. Refer to note 11 for further information.

- **Accounts Receivable**

The Company provides an allowance for uncollectable trade receivables based on a customer-by-customer basis using estimates for past and current performance, aging, arrears status, the level of allowance already in place, and management's interpretation of economic conditions specific to the Company's customer base. If certain estimates prove to be inaccurate, BPI's results of operations and financial position may be impacted.

Judgment:

- **Consolidation**

Applying the criteria outlined in IFRS 10, judgment is required in determining whether BPI controls Royalties LP. Making this judgment involves taking into consideration the concepts of power over Royalties LP, exposure and rights to variable returns, and the ability to use power to direct the relevant activities of Royalties LP so as to generate economic returns. Using these criteria, management has determined that BPI does not ultimately control Royalties LP.

Applying the criteria outlined in IFRS 10, judgment is required in determining whether BPI controls BP Canada LP. Making this judgment involves taking into consideration the concepts of power over BP Canada LP, exposure and rights to variable returns, and the ability to use power to direct the relevant activities of BP Canada LP so as to generate economic returns. Using these criteria, management has determined that BPI ultimately controls BP Canada LP through its ability to direct relevant activities to generate economic returns from BP Canada LP and its governance as general partner of BP Canada LP.

3. Significant accounting policies:

The significant accounting policies used in the preparation of these consolidated financial statements are described below.

(a) Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis except for derivative financial instruments and financial instruments which are measured at fair value through profit or loss. The Company has the following items measured at fair value:

- Investment in Boston Pizza Royalties Limited Partnership relating to the Class B Units (note 6)
- BP Canada LP units liability (note 11)
- Receivable from Boston Pizza Royalties Limited Partnership (note 5(b))

(b) Consolidation:

These consolidated financial statements include the accounts of the following operating entities:

Boston Pizza International Inc. and subsidiaries:	
Lansdowne Holdings Ltd.	100%
Winston Churchill Pizza Ltd.	100%
Laval Corporate Training Centre Inc.	100%
Front & John Pizza Ltd.	100%
Stadium District Pizza Ltd.	100%
Theatre District Pizza Ltd.	100%
Boston Pizza Canada Holdings Partnership	100%
Boston Pizza Canada Holdings Inc.	100%
Boston Pizza Canada Limited Partnership	100%

The parent company of BPI is James Treliving Holdings Ltd.

All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation.

Subsidiaries are those entities (including special purpose entities) which the Company controls by having the power to govern the financial and operating policies of such entities so as to obtain economic benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity.

(c) Investment in Boston Pizza Royalties Limited Partnership:

The investment in Royalties LP is principally comprised of Class B Units. The Class B Units are accounted for as a financial asset which is measured each reporting date at fair value. The statement of comprehensive income (loss) includes interest revenue as earned, and the impact of the fair value adjustments on the Class B Units. The fair value of the Class B Units is determined by multiplying the total number of Fund Units into which the Class B Units are exchangeable

3. Significant accounting policies (continued):

(c) Investment in Boston Pizza Royalties Limited Partnership (continued):

(including Class B Holdback) at the end of the period by the closing price of a Fund Unit on the last business day of the period. Royalties LP was established to hold the trademarks and trade names used in connection with the operation of Boston Pizza restaurants in Canada (collectively, the "**BP Rights**"). Royalties LP and the Company also entered into a license and royalty agreement to allow the Company the use of the BP Rights for a term of 99 years commencing in 2002, for which the Company pays Royalties LP a Royalty expense, being 4% of the franchise sales of certain restaurants located in Canada (the "**Royalty Pool**").

(d) Boston Pizza Canada Limited Partnership units liability:

The BP Canada LP units liability is classified as a financial liability measured at fair value through profit or loss because the entitlements to distributions are considered embedded derivatives to the limited partnership units. The Company measures BP Canada LP units liability at fair value using level 2 inputs which may result in a fair value adjustment on BP Canada LP units liability in the statement of comprehensive income (loss). Refer to note 11 for further information.

(e) Cash:

Cash consists of cash on hand and balances with banks.

(f) Property and equipment:

Property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the costs can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to the statement of comprehensive income (loss) during the period in which they are incurred.

The Company allocates the amount initially recognized in respect of property and equipment to its significant parts and depreciates each such part. Residual values, methods of depreciation and useful lives of the assets are reviewed annually and adjusted if appropriate.

Gains and losses on disposals of property and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included as other expense in the statement of comprehensive income (loss).

3. Significant accounting policies (continued):

(g) Depreciation and amortization:

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

The Company provides for depreciation of property and equipment over their estimated useful lives as follows:

Assets	Basis	Rate
Office furniture and equipment	Declining balance	20 – 30%
Right-of-use assets	Straight-line	term of lease
Leasehold improvements	Straight-line	shorter of term of the lease or useful life

(h) Intangible assets:

Intangible assets include computer software costs which are amortized on a declining balance basis at a rate of 30% per year and reacquired franchise rights which are amortized over the term of the franchise agreement. Amortization of intangible assets is charged to depreciation and amortization on the statement of comprehensive income (loss).

(i) Revenue recognition and deferred revenue:

(i) Franchise revenues:

Monthly franchise fee:

Monthly franchise fees are recorded as they are earned.

Franchise fee deposits:

Franchise fee deposits are deferred and recorded net of expenses incurred relating to the sale of the franchise. When the franchise commences operations, the franchise deposits are recorded as franchise revenue and the related costs are included as an expense.

Franchisee renewal fees:

Franchisee renewal fees related to the franchise agreement are deferred and recognized as revenue over the period of the renewal term.

(ii) Advertising fund revenue:

Monthly advertising fees:

Monthly advertising fund contributions are recorded as they are earned.

Gift card breakage income:

Gift card breakage income is recorded when the likelihood of the gift card being redeemed is remote.

3. Significant accounting policies (continued):

(i) Revenue recognition and deferred revenue (continued):

(iii) Corporately owned restaurant revenues:

Corporately owned restaurant revenues are recognized at the time of sale and when services are rendered.

(iv) Supplier contributions:

The Company receives supplier contributions from franchisee suppliers to be used for various franchise activities. Supplier contributions are recorded as other revenue as they are earned.

(j) Earnings per share:

The Company presents basic and diluted earnings per share (EPS) data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to the common shareholder of the Company by the weighted average number of common shares outstanding during the period.

Diluted EPS is determined by adjusting the profit or loss attributable to the common shareholder and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares. There are no dilutive factors affecting EPS for the Company.

(k) Income taxes:

Income tax comprises current and deferred tax. Current tax is the expected tax payable on taxable income for the period, using tax rates enacted, or substantively enacted, at the end of the reporting period, and any adjustments in respect of previous periods.

In general, deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered.

Deferred income tax is primarily provided on temporary differences arising on the investment in Royalties LP, the deferred gain, subsequent additional entitlements, unit sales and non-capital losses.

Deferred income tax assets and liabilities are netted and presented as non-current.

In determining the amount of current and deferred tax the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Company believes that its accruals for tax liabilities are adequate based on many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities would impact tax expenses in the period that such a determination is made.

3. Significant accounting policies (continued):

(l) Deferred gain:

The gain realized on the sale of the BP Rights is being deferred and amortized over the 99 year term of the license and royalty agreement. Amortization of the gain on BP Rights is charged to amortization of deferred gain on the statement of comprehensive income (loss). Annually, on January 1, the number of Boston Pizza restaurants in the Royalty Pool on which the Company pays a Royalty to the Fund are adjusted to include Franchise Sales from new Boston Pizza restaurants opened on or before December 31 of the prior year, less Franchise Sales from any Boston Pizza restaurants that have permanently closed during the year. In return for adding this net Franchise Sales to the Royalty Pool, Boston Pizza receives Class B Additional Entitlements and Class 2 Additional Entitlements (defined below). The Class B Additional Entitlements are included in the deferred gain.

(m) Gift cards:

The Company operates a gift card program (the "**Gift Card Program**") which allows customers to prepay for future purchases at participating Boston Pizza restaurants by loading a dollar value onto their gift card through cash or credit card, when and as needed.

The purpose of the Gift Card Program is to expand the Boston Pizza brand through increased exposure, as well as to increase Franchise Sales. The restricted cash related to the gift cards recorded in Advertising Fund (defined below) restricted assets represents the prepaid amounts not yet redeemed by customers. These cash balances as well as the outstanding customer obligations for these gift cards are recorded as Advertising Fund restricted assets and liabilities on the consolidated statement of financial position.

When a customer uses a gift card to purchase product at a corporately owned and operated Boston Pizza restaurant, the restaurant recognizes the revenue from the sale of the product.

When a customer uses a gift card at a franchised restaurant, the Company recognizes revenues, in the form of franchise fees, arising from the sale of the product.

The Advertising Fund recognizes income on unredeemed gift cards ("**Gift Card Breakage**") when it can determine that the likelihood of the gift card being redeemed is remote and that there is no legal obligation to remit the unredeemed gift card value to relevant jurisdictions. The Company determines Gift Card Breakage based on historical redemption patterns. Based on historical information, the likelihood of a gift card remaining unredeemed can be determined 24 months after the gift card is issued. At that time, breakage income is recognized by the Advertising Fund.

(n) Advertising Fund:

The Company operates an Advertising Fund (the "**Advertising Fund**") established to collect and administer funds contributed for use in advertising and promotional programs designed to increase sales and enhance the reputation of the Company and its franchisees. The Company collects 3% of Franchise Sales from franchisees and Company-operated restaurants for contribution to the Advertising Fund. These contributions are used for local, regional and national advertising and research, menu development, promotional and loyalty programs, brand protection, administration of the Gift Card Program, and other administration costs.

3. Significant accounting policies (continued):

(n) Advertising Fund (continued):

In accordance with IFRS 15 – Revenue from Contracts with Customers, the Company reports contributions and expenditures on a gross basis on the Company's statement of comprehensive income (loss). Advertising Fund contributions received may not equal advertising expenditures for the period due to timing of promotions and this difference is recorded to retained earnings. To the extent that cumulative advertising contributions temporarily exceed Advertising Fund expenditures, the difference is recorded as an accrual owed by the Advertising Fund. The assets and liabilities held by the Advertising Fund are considered restricted and are recorded as such on the Company's statement of financial position.

(o) Financial instruments:

(i) Recognition, classification and measurement:

All financial assets are initially recorded at fair value and subsequently classified as measured at amortized cost, fair value through other comprehensive income (FVOCI), or fair value through profit and loss (FVTPL).

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as FVTPL:

- the asset is held within a business model whose objective is to hold the asset to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt security is measured at FVOCI only if it meets both of the following conditions and is not designated as FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity instrument that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis. All other financial assets are classified as measured at FVTPL.

All financial liabilities are initially recorded at fair value and subsequently classified as measured at amortized cost or FVTPL. On initial recognition, the Company may irrevocably designate a financial liability at FVTPL when doing so results in more relevant information, because either:

- the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases; or
- a group of financial liabilities or financial assets and financial liabilities is managed with its performance evaluated on a fair value basis, in accordance with a documented risk

3. Significant accounting policies (continued):

(o) Financial instruments (continued):

management or investment strategy, and information about the group is provided internally on that basis to key management personnel.

For financial assets classified as measured at FVTPL or designated at FVTPL, changes in fair value are recognized in the consolidated statement of comprehensive income. For financial assets classified as measured at FVOCI or an irrevocable election has been made, changes in fair value are recognized in the consolidated statement of comprehensive loss. For financial assets and other financial liabilities measured at amortized cost, interest income and interest expense is calculated using the effective interest method and is recognized in the consolidated statement of income.

(ii) Business model assessment:

The Company makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the asset is managed and information is provided to management. The information considered includes:

- how the performance of the portfolio is evaluated and reported to management;
- how managers of the business are compensated;
- whether the assets are held for trading purposes;
- the risks that affect the performance of the financial assets held within the business model and how those risks are managed; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sale activity.

(iii) Contractual cash flow characteristics assessment:

In assessing whether the contractual cash flows are solely payments of principal and interest, ‘principal’ is defined as the fair value of the financial asset on initial recognition and ‘interest’ is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

The Company considers the contractual terms of the financial asset and whether the asset contains contractual terms that could change the timing or amount of cash flows such that it would not meet the condition of principal and interest. Contractual terms considered in this assessment include contingent events that would change the amount and timing of cash flows, leverage features, prepayment and extension terms, terms that limit the claim to cash flows from specified assets, and features that modify the consideration from time value of money.

The Company must classify fair value measurements according to a hierarchy that reflects the significance of the inputs used in performing such measurements.

The fair values of the financial instruments carried at fair value have been measured by one of the following valuation methods:

3. Significant accounting policies (continued):

(o) Financial instruments (continued):

- Level 1 – quoted prices (unadjusted) are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – pricing inputs are other than quoted in active markets included in Level 1. Prices in Level 2 are either directly (that is, as prices) or indirectly (that is, derived from prices) observable as of the reporting date.
- Level 3 – valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The fair value of the Class B Units and the BP Canada LP units liability are determined using Level 2 inputs and are measured on a recurring basis. The fair value of the Receivable from Boston Pizza Royalties Limited Partnership is measured using level 3 inputs and is measured on a recurring basis. The methods and assumptions used in estimating the financial asset and the financial liability are described in note 2(c) as well as note 6, 11 and note 5(b) respectively.

The following table shows the carrying values of assets and liabilities for each of these categories at December 31, 2019 and 2018.

(in thousands)	December 31, 2019	December 31, 2018
Financial assets		
Amortized cost:		
Cash	$ 2,326	$ 886
Accounts receivable (note 5(a))	9,077	10,122
Interest receivable from Boston Pizza Royalties Limited Partnership	337	298
Long-term receivables (note 5(a))	760	728
Fair value through profit and loss:		
Receivable from Boston Pizza Royalties Limited Partnership (note 5(b))	800	400
Class B Units investment in Boston Pizza Royalties Limited Partnership (note 6)	32,344	32,912
	$ 45,644	$ 45,346
Financial liabilities		
Amortized cost:		
Bank indebtedness	$ 801	$ 634
Accounts payable and accrued liabilities	12,179	14,718
Long-term debt (note 9)	37,366	39,403
Lease obligation (note 10)	8,555	48
Other long-term liabilities	250	1,561
Shareholder loan payable (note 16)	303	1,103
Fair value through profit or loss:		
Class 1 Boston Pizza Canada Limited Partnership units liability (note 11)	33,314	33,314
Class 2 Boston Pizza Canada Limited Partnership units liability (note 11)	73,435	82,437
	$ 166,203	$ 173,218

3. Significant accounting policies (continued):

(o) Financial instruments (continued):

The carrying value of current financial assets and liabilities approximate their fair value due to their short-term nature. The carrying value of long-term receivables approximates fair value as there are no significant changes in credit risk associated with the receivables since recognition. The long-term debt approximates fair value based on prevailing market interest rates in effect.

(p) Impairment of financial assets:

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortized cost are credit impaired. A financial asset is 'credit impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amounts of the assets.

Financial instruments and contract assets

The Company recognizes loss allowances for expected credit losses (ECL) on:

- financial assets measured at amortized cost;
- debt investments measured at fair value through other comprehensive income; and
- contracted assets.

The Company measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which the credit risk has not increased significantly since initial recognition.

Loss allowances for trade receivables are measured at an amount equal to lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. ECLs are probability-weighted estimate of credit losses, and credit losses are measured as the present value of cash shortfalls from a financial asset.

The Company determines whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating lifetime ECLs, by considering reasonably available quantitative and qualitative information based on the Company's credit risk experience, forward looking information, and other reasonable estimates.

3. Significant accounting policies (continued):

(q) Impairment of non-financial assets:

Property and equipment, intangible assets and Advertising Fund restricted assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Long-lived assets that are not amortized are subject to an annual impairment test. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows. 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 relevant asset). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The Company evaluates impairment losses for potential reversals when events or circumstances warrant such consideration.

(r) Financial risk management:

The Company primarily has exposure to interest rate risk, liquidity risk and credit risk as they relate to the Company's identified financial instruments.

Interest rate risk

Interest rate risk results from the Company's long-term debt and lease obligations. The Company had, prior to the Reorganization, obligations with fixed interest rates, for example the interest-bearing note payable to the Fund, and therefore the Company does not perform interest rate risk management on these obligations to minimize the overall financial interest rate risk. The Company had $38.0 million (2018 – $40.2 million) in floating rate debt and $8.6 million in lease obligations (2018 – nil) as at December 31, 2019. The annual impact for every 1% increase in the variable rate would result in negligible additional interest expense.

Liquidity risk

Liquidity risk results from the Company's potential liability to meet its financial obligations. The Company constantly monitors its operations and cash flows to ensure that current and future obligations will be met. The Company believes that its current sources of liquidity are sufficient to cover its currently known short- and long-term cash obligations.

The maturities of the Company's financial liabilities are as follows:

(in thousands)	December 31, 2019	December 31, 2018	Maturity
Bank indebtedness	$ 801	$ 634	Less than 1 year
Accounts payable and accrued liabilities	12,179	14,718	Less than 1 year
Current portion of long-term debt	3,485	2,842	Less than 1 year
Current portion of shareholder loan payable	303	800	Less than 1 year
Shareholder loan payable	-	303	Less than 1 year
Long-term debt	33,881	36,561	2019 - 2022
Lease obligations	8,555	48	2019 - 2030
Other long-term liabilities	250	1,561	2019 - 2021

3. Significant accounting policies (continued):

(r) Financial risk management (continued):

Credit risk

Credit risk is defined as the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's cash, accounts receivable and long-term receivables from companies under common control. The effective monitoring and controlling of credit risk is a core competency of the Company.

Each potential franchisee must complete a thorough interview process and pass mandatory credit evaluations. Cash balances are deposited with a major Canadian banking institution. The Company's maximum exposure to credit risk is the value of its accounts receivable of $9.1 million (2018 – $10.1 million) and long-term trade receivables of $0.8 million (2018 – $0.7 million).

(s) Capital disclosures:

The Company's objectives in managing its liquidity and capital are:

- To safeguard the Company's ability to continue as a going concern
- Provide financial capacity and flexibility to meet its strategic objectives
- To provide an adequate return to shareholders commensurate with the level of risk
- Return excess cash through dividends

(in thousands)	December 31, 2019	December 31, 2018
Liquidity:		
Cash	$ 2,326	$ 886
Undrawn credit facilities	9,199	9,366
Total liquidity	$ 11,525	$ 10,252
Capitalization:		
Long-term debt	$ 37,366	39,403
Shareholder loan payable	303	1,103
Total debt	$ 37,669	$ 40,506
Deferred gain	$ 230,135	$ 229,406
Shareholder deficiency	(273,028)	(283,550)
	$ (42,893)	$ (54,144)

The Company manages its capital mainly through the periodic sales of Class B Units and Class 2 GP Units, accumulated deficit, as well as through the use of short-term financing. The Company maintains formal policies to manage capital. Liquidity and capital structure are managed by adjusting for changes to economic conditions, understanding the underlying risks inherent in its operations and managing the capital requirements to maintain and grow its operations.

The Company is not subject to any statutory capital requirements and has no commitments to sell or otherwise issue common shares.

3. Significant accounting policies (continued):

(s) Capital disclosures (continued):

The Company's credit facility includes a $10.0 million secured line of credit which is subject to certain financial covenants.

The Company's long-term debt includes credit facility agreements that are subject to certain financial covenants (note 9).

(t) Accounting standards and amendments adopted as of January 1, 2019:

On January 13, 2016, the IASB published a new standard, IFRS 16 Leases. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance. Lessor accounting remains largely unchanged and the distinction between operating and finance leases is retained. The mandatory effective date of the new standard applies for annual periods beginning on or after January 1, 2019. BPI has adopted IFRS 16 Leases as of January 1, 2019 using the modified retrospective approach. Under this approach, there is no restatement of prior period financial information and any cumulative effect of initially applying the standard is recognized as an adjustment to opening retained earnings at the date of initial application. Furthermore, the impact of the adoption of the new standard is non-cash in nature; as such, there is no material impact on cash flows. Please refer to note 4 for more information.

4. Changes in significant accounting policies:

Effective January 1, 2019, the Company adopted IFRS 16 *Leases*, which specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all major leases.

The Company's accounting policy under IFRS 16 *Leases* is as follows:

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, less any lease incentives received. The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits.

The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. The lease liability is measured at amortized cost using the effective interest method. It is re-measured when there is a change in future lease payments

4. Changes in significant accounting policies (continued):

arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company has elected to apply the practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases is recognized as an expense on a straight-line basis over the lease term.

Impact of transition to IFRS 16 *Leases*

Effective January 1, 2019, the Company adopted IFRS 16 *Leases* using the modified retrospective approach and accordingly, the information presented for 2018 has not been restated in relation to this standard. It remains as previously reported under IAS 17 and related interpretations.

On initial application, the Company has elected to record right-of-use assets based on the corresponding lease liability. Right-of-use assets of $9.0 million, net of a $1.1 million balance of unamortized lease incentives reclassified from liabilities, and lease obligations of $10.1 million were recorded as of January 1, 2019, with no net impact on retained earnings. When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied is 4.75%.

The Company has elected to apply the practical expedient to account for leases for which the lease term ends within 12 months of the date of initial application as short-term leases.

The Company has elected to apply the practical expedient to grandfather the assessment of which transactions are leases on the date of initial application, as previously assessed under IAS 17 *Leases* and IFRIC 4 *Determining Whether an Arrangement Contains a Lease*. The Company applied the definition of a lease under IFRS 16 *Leases* to contracts entered into or changed on or after January 1, 2019.

The Company has elected to apply the practical expedient to exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application.

The following table reconciles the Company's operating lease obligations at December 31, 2018, as previously disclosed in the Company's consolidated financial statements, to the lease obligations recognized on initial application of IFRS 16 *Leases* at January 1, 2019.

(in thousands)		Amount
Operating lease commitments as at December 31, 2018	$	20,570
Discounted using the incremental borrowing rate at January 1, 2019		(3,210)
Variable lease payments not included in lease obligations		(7,254)
Lease obligations recognized as at January 1, 2019	$	10,106

5. Accounts and other receivables:

(a) Current and long-term receivables:

(in thousands)	December 31, 2019	December 31, 2018
Receivables due from related parties (note 16)	$ 540	$ 721
Trade receivables and other (net of allowance)	8,537	9,401
	$ 9,077	$ 10,122
Long-term receivables:		
Long-term receivables due from related parties (note 16) (net of allowance)	411	411
Long-term trade receivables (net of allowance)	349	317
	$ 760	$ 728

Trade receivables from franchisees are classified as long-term when payment is expected to take longer than twelve months. The Company continues to make every effort to collect all long-term receivable balances, including establishing payment plans with existing franchisees.

The aging of trade receivables at the reporting dates is as follows:

(in thousands)	December 31, 2019	December 31, 2018
Current	$ 8,236	$ 9,550
Past due 1-30 days	337	352
Past due 31-60 days	457	314
Past due 61-90 days	213	194
Past due over 90 days	594	440
	$ 9,837	$ 10,850

The allowance for doubtful accounts was $2.0 million as at December 31, 2019 (December 31, 2018 – $1.8 million) with $0.7 million (December 31, 2018 – $0.5 million) applied against short-term trade receivables and $1.3 million against long-term trade receivables (December 31, 2018 – $1.3 million). The Company's collections policy is to first apply cash receipts against the oldest outstanding invoices.

(b) Receivable from Boston Pizza Royalties Limited Partnership:

The Fund and BPI have agreed that for 2018 and 2019, BPI will charge the Fund $0.4 million of annual out-of-pocket expenses for which it is entitled to be reimbursed but the Fund will defer payment of such amount to BPI (for 2018 being $0.4 million, the "**Deferred Amount**"). The Deferred Amount will not bear interest and will become payable to BPI when the Fund's cash and cash equivalents is greater than 7% of Royalty and Distribution Income. The receivable is measured at fair value using the income approach to present value future expected cash flows to a present amount using a discount rate.

6. Investment in Boston Pizza Royalties Limited Partnership:

The investment in Royalties LP is principally comprised of Class B Units and, prior to the Reorganization, Class C Units of Royalties LP. The value of additional Boston Pizza restaurants rolled into the Royalty Pool (as defined in the License and Royalty Agreement between Royalties LP and BPI (the "**License and Royalty Agreement**")) is also recognized within the Company's investment in Royalties LP through the additional entitlement of Class B Units. Annually, on the Adjustment Date, an adjustment is made to add to the Royalty Pool new Boston Pizza restaurants that opened and to remove any Boston Pizza restaurants that permanently closed since the previous Adjustment Date. In return for adding net additional Royalty (as defined in the License and Royalty Agreement) revenue to the Fund, BPI receives Class B Additional Entitlements to indirectly acquire additional units of Fund Units. BPI receives the Class B Holdback once the performance of the new Boston Pizza restaurants and the actual effective tax rate paid by the Fund are known for certain.

The investment in Royalties LP is considered an equity interest. The Fund controls the relevant activities of Royalties LP and thus consolidates its financial results. The value of the investment has exposure to variability as it relates to the Company's ownership of the Class B Units measured at fair value using the closing price of a Fund Unit.

As at December 31, 2019, the closing price of a Fund Unit was $13.46 (December 31, 2018 – $15.11 per Unit) while the number of Fund Units BPI would be entitled to receive if it exchanged all of its Class B Units (including Class B Holdback) was 2,402,966 (2018 – 2,178,166) resulting in a Class B Unit valuation of $32.3 million (2018 – $32.9 million).

6. Investment in Boston Pizza Royalties Limited Partnership (continued):

The Class B Units are comprised of the following:

(in thousands, except unit data)	Issued and outstanding Additional Entitlements	Issued and outstanding Additional Entitlements including Holdback	Class B Unit Entitlement
Opening – January 1, 2018	1,792,084	1,867,580	$ 40,919
Class B Additional Entitlements for addition of 8 net new restaurants opened in 2017 and added to the Royalty Pool in 2018 – granted January 1, 2018	216,754	270,943	5,909
Adjustment to prior year Class B Additional Entitlements for actual performance of new restaurants opened in 2016 and added to Royalty Pool in 2017, as well as actual effective tax rate paid by the Fund	115,139	39,643	898
Fair value gain on Class B Units	-	-	(14,814)
Ending - December 31, 2018	2,123,977	2,178,166	$ 32,912
Class B Additional Entitlements for addition of 5 net new restaurants opened in 2018 and added to the Royalty Pool in 2019 – granted January 1, 2019	185,469	231,836	3,705
Adjustment to prior year Class B Additional Entitlements for actual performance of new restaurants opened in 2017 and added to Royalty Pool in 2018, as well as actual effective tax rate paid by the Fund	47,153	(7,036)	(153)
Fair value gain on Class B Units	-	-	(4,120)
Ending - December 31, 2019	2,356,599	2,402,966	$ 32,344

Refer to note 3(o) for further details on the fair value methodology. Refer to note 12 for details on the Class B Additional Entitlements.

7. Property and equipment:

Cost (in thousands)	Office furniture and equipment	Right-of-use assets (note 4)	Leasehold improvements	Total
Opening - January 1, 2018	$ 11,271	$ 2,889	$ 13,196	$ 27,356
Net additions for the year	1,004	40	61	1,105
Ending - December 31, 2018	12,275	2,929	13,257	28,461
IFRS 16 adoption adjustments	-	8,978	-	8,978
Net additions for the year	315	20	428	763
Ending - December 31, 2019	$ 12,590	$ 11,927	$ 13,685	$ 38,202

Accumulated Depreciation (in thousands)	Office furniture and equipment	Right-of-use assets (note 4)	Leasehold improvements	Total
Opening - January 1, 2018	$ 9,216	$ 2,877	$ 7,182	$ 19,275
Depreciation for the year	332	18	(1,025)	(675)
Ending - December 31, 2018	9,548	2,895	6,157	18,600
Depreciation for the year	638	1,582	1,156	3,376
Ending - December 31, 2019	$ 10,186	$ 4,477	$ 7,313	$ 21,976

Net book Value (in thousands)	Office furniture and equipment	Right-of-use assets (note 4)	Leasehold improvements	Total
At December 31, 2018	$ 2,727	$ 34	$ 7,100	$ 9,861
At December 31, 2019	2,404	7,450	6,372	16,226

As of January 1, 2019, BPI adopted IFRS 16 *Leases* and recognized right-of-use assets of $10.1 million, offset by a balance of $1.1 million in lease incentives. See note 4 for further details. As at December 31, 2019, the right-of-use assets include a balance of $0.8 million in lease incentives which is being amortized over the terms of the leases.

Net additions for the year ended December 31, 2018 include $0.7 million related to the acquisition of corporate restaurants (note 19) and a $2.5 million disposal of capital assets related to the sale of a corporate restaurant (note 19). Depreciation for the year ended December 31, 2018 includes a $2.3 million decrease in accumulated depreciation on the disposal of capital assets related to the sale of a corporate restaurant (note 19).

8. Intangible assets:

Cost (in thousands)		Computer Software and other		Reacquired Franchise Rights		Total
Opening - January 1, 2018	$	16,987	$	1,350	$	18,337
Net additions for the year		1,879		1,297		3,176
Ending - December 31, 2018		18,866		2,647		21,513
Net additions for the year		2,070		-		2,070
Ending - December 31, 2019	$	20,936	$	2,647	$	23,583

Accumulated Amortization (in thousands)		Computer software and other	Reacquired Franchise Rights	Total
Opening - January 1, 2018	$	11,920	413	12,333
Amortization for the year		1,776	406	2,182
Ending - December 31, 2018		13,696	819	14,515
Amortization for the year		1,820	468	2,288
Ending - December 31, 2019	$	15,516	1,287	16,803

Net book value (in thousands)		Computer software and other	Reacquired Franchise Rights	Total
At December 31, 2018	$	5,170	1,828	6,998
At December 31, 2019		5,420	1,360	6,780

Net additions for the year ended December 31, 2018 include $1.3 million related to the acquisition of corporate restaurants (note 19).

9. Credit facilities:

The Company currently has credit facilities with the bank in the amount of up to $50 million and with a maturity date of September 27, 2022 (the "**Credit Facilities**"), comprised of: (i) a $10 million committed revolving facility to cover BPI's day-to-day operating requirements if needed (the "**Operating Line**"); and (ii) a $40 million committed non-revolving term facility to finance the Reorganization (the "**Term Loan**"). The credit facilities bear interest at variable interest rates, comprised of a combination of the bank's bankers' acceptance rates plus between 1.00% and 2.50% or the bank's prime rate plus between 0.00% and 1.00%, depending upon debt to EBITDA ratios, and interest is payable monthly in arrears. The principal amount drawn on both the credit facilities are due and payable upon maturity. The Term Loan and the principal amount drawn on the Term Loan must be reduced by quarterly payments amortized over 15 years. The Term Loan was fully drawn down on September 29, 2017 and the proceeds were used to finance the Reorganization. As of December 31, 2019, $0.8 million (December 31, 2018 - $0.6 million) was drawn on the Operating Line and $34.7 million was outstanding on the Term Loan (December 31, 2018 - $36.7 million).

The Credit Facilities are guaranteed by BPI's wholly-owned subsidiaries, all of whom have granted security for their obligations under those guarantees. No security has been given by BP Canada LP in respect of the Credit Facilities.

BPI was in compliance with all of its financial covenants and financial condition tests as of the end of the Period.

On January 24, 2020, BPI entered into amended and restated credit agreements for the term loans below. See note 22 (c) and (d) for more details.

The Company's long-term debt consists of:

(in thousands)	December 31, 2019	December 31, 2018
BMO term loan bearing variable interest at prime plus 1.00% per annum and due in 2021 secured by certain assets of BPI	$ 3,313	$ 3,574
BMO Term Loan bearing variable interest at bankers' acceptance plus between 1.00% and 2.50% per annum and due in 2022 secured by certain assets of BPI	34,667	36,667
Deferred financing costs arising from the Reorganization	(614)	(838)
	37,366	39,403
Current portion of long-term debt	3,709	3,066
Current portion of deferred financing costs	(224)	(224)
	$ 33,881	$ 36,561

The fair value of the Company's long-term debt was $38.0 million (December 31, 2018 – $40.2 million) based on prevailing market rates that approximate the rate on the Company's debt. The impact of a 1% increase in the variable rate would result in a minimal impact on the fair market value and the statement of comprehensive income.

9. Credit facilities (continued):

Principal repayments on long-term debt are as follows:

(in thousands)		December 31, 2019
Long-term debt:		
2020	$	3,709
2021		5,604
2022 and thereafter		28,667
	$	37,980

10. Lease obligations:

The Company's lease obligations are initially measured at the present value of the lease payments that are not paid at the commencement date using the Company's incremental borrowing rate. After initial recognition, the lease liabilities are measured at amortized cost using the effective interest method. The Company's lease obligations consist of:

(in thousands)		December 31, 2019		December 31, 2018
IFRS 16 adoption adjustment (note 4)	$	10,106	$	-
Net additions during the year		55		-
Principal payments		(1,606)		-
Total lease obligations		8,555		-
Current portion of lease obligations		1,700		-
Long-term portion of lease obligations	$	6,855	$	-

Interest expense on lease obligations for the year ended December 31, 2019 was $0.4 million. The expense relating to variable lease payments, which consists of operating costs and property taxes, not included in the measurement of lease obligations was $1.6 million. Total cash outflow for leases was $3.6 million which includes $1.6 million of principal payments and $0.4 million of interest for lease obligations. Expenses for leases of low-dollar value items are not material. All extension options have been included in the measurement of lease obligations where applicable.

The annual lease obligations for the next five years and thereafter are as follows:

(in thousands)		December 31, 2019
Less than one year	$	2,069
One years		1,716
Two years		1,528
Three years		994
Four years		873
Five years and thereafter		2,921
Total undiscounted lease obligations	$	10,101

11. Boston Pizza Canada Limited Partnership units liability:

The Class 1 LP Units entitle the Fund to a cash distribution equal to the interest payable on the Fund's Credit Facility D plus 0.05% to a maximum amount of 1.5% of Franchise Sales. The Class 2 LP Units entitle the Fund to a cash distribution equal to 1.5% of Franchise Sales less the Class 1 LP Units distribution amount, less BPI's proportionate share. BPI classifies the Class 1 LP Units and Class 2 LP Units as financial liabilities through profit or loss because the entitlements to distributions are considered embedded derivatives to the Class 1 and Class 2 LP Unit liabilities. BPI measures the Class 1 LP Units and Class 2 LP Units at fair value using level 2 inputs. BPI estimated the Class 1 LP Units liability to be $33.3 million as at December 31, 2019, which is the same value as at acquisition on May 6, 2015, resulting in no fair value adjustment for the year. As at December 31, 2019, the closing price of a Fund Unit was $13.46 (December 31, 2018 - $15.11 per Fund Unit), resulting in a fair value adjustment in the Class 2 LP Units liability for the year of $9.0 million (2018 – $37.1 million). Refer to note 2(c) for further details on the fair value methodology.

The BP Canada LP units liability is comprised of:

	Issued and outstanding LP Units		BP Canada LP Units Liability
Class 1 LP Units			
Issued and outstanding Class 1 LP Units upon closing of the Transaction on May 6, 2015	1,000	$	33,314
Class 1 LP Units Balance at December 31, 2019	1,000	$	33,314
Class 2 LP Units			
Issued and outstanding Class 2 LP Units upon closing of the Transaction on May 6, 2015	5,047,613	$	105,373
Exchange of Class 2 GP Units for Fund Units and issuance of Class 2 LP Units on September 26, 2017	408,149		8,740
Fair value gain on Class 2 LP Units since inception			(31,676)
Balance at December 31, 2018	5,455,762	$	82,437
Fair value gain on Class 2 LP Units			(9,002)
Class 2 LP Units Balance at December 31, 2019	5,455,762	$	73,435
Total LP Units Balance at December 31, 2019		$	106,749

On September 26, 2017, in connection with the Reorganization, BPI exchanged 40,815,839 Class 2 GP Units of BP Canada LP for 408,149 Fund Units at a price of approximately $21.41 per Fund Unit. As the Class 2 LP Units are carried at fair value through profit and loss, no gain or loss was recognized on the exchange as the value of the Class 2 LP Units and Fund Units was equal.

11. Boston Pizza Canada Limited Partnership units liability (continued):

BPI receives its proportionate share of the incremental 1.5% of Franchise Sales through distributions on Class 2 GP Units of BP Canada LP that were exchangeable for 591,828 Fund Units as at December 31, 2017. The Company will continue to pay the Fund the balance of the Franchise Sales Participation in the form of Royalty fees. The number of Fund Units that the Company is entitled to receive in exchange for its Class 2 GP Units is adjusted periodically to reflect the addition of new Boston Pizza Restaurants to the Royalty Pool (the "**Class 2 Additional Entitlements**", and together with the Class B Additional Entitlements, the "**Additional Entitlements**"), with 80% of the estimated Class 2 Additional Entitlements being received on the Adjustment Date with the balance (the "**Class 2 Holdback**", and together with the Class B Holdback, the "**Holdback**") being received once the performance of the new restaurants and the actual effective tax rate of the Fund are known for certain, similar to adjustments to the Class B Units that the Company holds. BPI also has the right to further increase the Fund's Franchise Sales participation by up to an additional 1.5% of Franchise Sales (in 0.5% increments) upon meeting certain financial thresholds designed to ensure that the additional Franchise Sales Participation is accretive to the Fund and that BPI retains the financial capacity to satisfy its obligations to the Fund.

As at December 31, 2019, the Company had the right to receive 803,520 (December 31, 2018 - 716,287) Fund Units when it exercises its rights to exchange its Class 2 GP Units into Fund Units.

	Issued and outstanding Class 2 Additional Entitlements	Issued and outstanding Class 2 Additional Entitlements including Class 2 Holdback
Balance at December 31, 2018	716,287	736,608
Class 2 Additional Entitlements for addition of 5 net new restaurants opened in 2018 and added to the Royalty Pool in 2019 – granted January 1, 2019	69,550	86,938
Adjustment to prior year Class 2 Additional Entitlements for actual performance of new restaurants opened in 2017 and added to Royalty Pool in 2018 and actual effective tax rate paid by the Fund	17,683	(2,638)
Balance at December 31, 2019	803,520	820,908

12. Deferred gain:

(in thousands)	December 31, 2019	December 31, 2018
Balance, beginning of year	$ 229,406	$ 225,383
Additional Entitlements	3,552	6,807
Amortization of deferred gain	(2,823)	(2,784)
Balance, end of year	$ 230,135	$ 229,406

The Class B Additional Entitlements are calculated as 92.5% of the net Franchise Sales added to the Royalty Pool from the net new Boston Pizza Restaurants, multiplied by 4% (being the Royalty that is payable on such net Franchise Sales), multiplied by one minus the effective average tax rate to be paid by the Fund, divided by the yield of the Fund, divided by the weighted average price of a Fund Unit over a specified period.

The Company receives 80% of the estimated Class B Additional Entitlements initially with the balance received when the actual full year performance of the new restaurants and the actual effective tax rate of the Fund is known with certainty. Monthly distributions from the Fund are based on full Class B Additional Entitlements and are subject to adjustment early in the next fiscal year when full performance of the restaurants and actual effective tax rate of the Fund is known with certainty.

On January 1, 2019, 10 new Boston Pizza Restaurants that opened during the period from January 1, 2018 to December 31, 2018 were added to the Royalty Pool while five Boston Pizza Restaurants that closed during 2018 were removed. The Franchise Sales of these five net new Boston Pizza Restaurants was estimated at $11.8 million. The total number of Boston Pizza Restaurants in the Royalty Pool was increased to 396. As a result of the contribution of the additional net Franchise Sales to the Royalty Pool, BPI received Class B Additional Entitlements (including the Class B Holdback) equivalent to 231,836 (2018 – 270,943) Fund Units.

The Company also received a proportionate increase in monthly distributions from Royalties LP. Of the Class B Additional Entitlements, 20% (2019 – 46,367 Class B Holdback; 2018 – 54,189 Class B Holdback) remained unissued and are not eligible for conversion into Fund Units until January 1, 2020 (2018 units – January 1, 2019) based on the actual performance of the new Boston Pizza Restaurants and the actual effective tax rate paid by the Fund.

In early 2019, adjustments to Royalty payments and Class B Additional Entitlements were made based on the actual performance of eight net new additional Boston Pizza Restaurants added to the Royalty Pool on January 1, 2018 and the actual effective tax rate paid by the Fund in 2018. Based on these adjustments, BPI received 47,153 Class B Additional Entitlements.

13. Income taxes:

Income tax expense as reported differs from the amount that would be computed by applying the combined Federal and Provincial statutory income tax rates to earnings before income taxes. The reasons for the differences are as follows:

(in thousands)		2019		2018
Earnings before income taxes	$	10,846	$	29,322
Combined Canadian federal and provincial tax rates		26.8%		26.8%
Computed expected tax expense		2,907		7,858
Increased (reduced) by:				
Permanent differences		111		271
Fair value adjustment on BP Canada LP units liability		(2,412)		(9,946)
Differences from changes in statutory rates and other		(484)		254
Differences due to the Reorganization		202		1,216
Income tax expense (recovery)	$	324	$	(347)

BPI's deferred income tax recovery is primarily comprised of temporary differences related to the following:

(in thousands)		2019		2018
Temporary differences:				
Fair value adjustment on investment in Boston Pizza Royalties Limited Partnership	$	(970)	$	(3,694)
Tax attributes resulting from the Reorganization		290		2,096
Other		(782)		1,118
Deferred income tax recovery	$	(1,462)	$	(480)

The tax effects of temporary differences that give rise to significant portions of the deferred income tax assets and liabilities are:

(in thousands)		December 31, 2019		December 31, 2018
Future income tax assets:				
Investment in Boston Pizza Royalties Limited Partnership	$	1,539	$	1,466
Deferred gain		61,654		61,489
Deferred revenue		1,858		876
Tax attributes resulting from the Reorganization		204		479
Other		3,189		2,672
Deferred income tax asset	$	68,444	$	66,982

14. Share capital:

The Company has an unlimited number of Common Shares without par value authorized of which 98,087 were issued and outstanding as at December 31, 2019.

15. Other expenses:

The following are the components of other expenses:

(in thousands)	December 31, 2019	December 31, 2018 *(Recasted, note 18)*
Marketing and advertising	$ 2,838	$ 3,193
Travel	2,373	2,588
Office, rent and utilities	1,543	2,275
Research and development	904	1,131
Professional fees	467	507
Other	1,953	2,208
	$ 10,078	$ 11,902

16. Related party and subsidiary transactions:

The Company earned revenues of $3.2 million (2018 – $3.1 million) from a company under common control.

Included in compensation expense costs are management fees of $2.0 million (2018 – $0.9 million) to companies under common control. Additionally included in management fees is $1.0 million (2018 – $0.3 million) paid to the Company's parent company for services rendered.

Key management personnel include the senior management team that oversees the strategic direction and operations of the Company. Key management personnel compensation consisting of salaries, incentive plans and other benefits was $3.1 million for the year ended December 31, 2019 (2018 – $5.3 million).

At December 31, 2019, included in accounts payable is $0.7 million (2018 – nil) due to associated companies through common ownership. Included in accounts receivable is $1.0 million (2018 – $1.1 million) due from associated companies through common ownership, and nil (2018 – $0.2 million) due from its parent company.

The Company incurred Royalty expenses of $34.1 million (2018 – $34.2 million) to the Fund. The Company incurred distribution expense of $11.2 million (2018 – $11.4 million) to the Fund equal in aggregate to 1.5% of Franchise Sales, less the pro rata portion payable to the Company in respect of its Class 2 GP Units.

As at December 31, 2019, the Company owed $0.3 million (December 31, 2018 – $1.1 million) in shareholder loan payable to its parent company.

17. Supplemental cash flow information:

(a) Change in non-cash operating items:

(in thousands)	2019	2018 *(Recasted, note 18)*
Accounts receivable	$ 1,045	$ 488
Prepaid expenses and other current assets	178	311
Advertising fund restricted assets	867	751
Accounts payable and accrued liabilities	(3,101)	(1,974)
Advertising fund restricted liabilities	(624)	(682)
Deferred revenue	3,673	(509)
Long-term receivables	(432)	(238)
Other long-term liabilities	(483)	(843)
	$ 1,123	$ (2,696)

(b) Supplementary information:

(in thousands)	2019	2018
Non-cash transactions:		
Property & equipment additions included in accounts payable	(180)	(1,160)
Intangible asset additions included in accounts payable	(650)	(703)
Amortization of deferred financing costs, which are netted against long-term debt	(224)	(224)
IFRS 16 *Leases* non-cash adjustments	1,096	-
Class B Additional Entitlements received from Royalties LP	3,552	6,807

18. Prior period adjustment:

In 2019, the Company identified certain immaterial additional required government remittances relating to prior years which were not remitted. The total liability amounted to $0.8 million, of which $0.2 million related to 2018 and $0.6 million related to years prior to 2018. As a result, the Company has recasted its 2018 comparative figures for those immaterial remittances. The Company has increased its January 1, 2018 opening Shareholder Deficiency by $0.6 million on the Consolidated Statements of Changes in Shareholder Deficiency, increased Other expenses by $0.2 million on its 2018 comparative figures in the Consolidated Statements of Comprehensive Income, increased Accounts payable and accrued liabilities by $0.8 million in its Consolidated Statements of Financial Position as at December 31, 2018, and decreased the Change in non-cash operating items by $0.2 million on its Consolidated Statements of Cash Flows in its 2018 comparative figures.

19. Acquisition and divestiture of franchised restaurants:

On April 20, 2018, BPI indirectly, through newly incorporated subsidiaries, acquired two of its franchised restaurants for a total purchase price of $2.0 million. This asset purchase was considered to be a business combination and was accounted for under IFRS 3. As required by IFRS, this acquisition resulted in new intangible assets or "reacquired franchise rights" being recorded on BPI's statement of financial position with a total value of $1.3 million. These intangible assets are being amortized on a straight-line basis to the end of each franchise agreement. In addition, $0.6 million of property and equipment and $0.1 million of inventory and prepaid rent were also acquired as part of this transaction. There was no goodwill recorded as part of this transaction. This acquisition was funded by BPI drawing from the Operating Line. If the acquisition had occurred on January 1, 2018, BPI's franchise, restaurant and other revenue would have been approximately $1.3 million higher and restaurant operating costs would have been approximately $1.3 million higher.

On October 16, 2018, the Company sold the Boston Pizza restaurant owned by Winston Churchill Pizza Ltd., a wholly-owned subsidiary of the Company, to a franchisee of BP Canada LP for $0.4 million.

20. Seasonality:

Boston Pizza Restaurants experience seasonal fluctuations in Franchise Sales, which are inherent in the full service restaurant industry in Canada. Seasonal factors such as tourism and better weather allow Boston Pizza Restaurants to open their patios and generally increase Franchise Sales in the second and third quarters compared to the first and fourth quarters.

21. Comparative figures

Certain of the comparative figures have been reclassified to conform to the financial statement presentation adopted in current year.

22. Subsequent events:

(a) On January 1, 2020, five new Boston Pizza Restaurants that opened across Canada between January 1, 2019 and December 31, 2019 were added to the Royalty Pool and the five restaurants and one quick express restaurant that permanently closed during 2019 were removed from the Royalty Pool. The total number of restaurants in the Royalty Pool decreased to 395 from 396. In return for adding additional Royalty and Distribution from the five new Boston Restaurants less the six Boston Pizza restaurants that permanently closed added to the Royalty Pool, BPI received 35,720 Additional Entitlements (representing 80% of the total Additional Entitlements), comprised of 25,978 Class B Additional Entitlements and 9,742 Class 2 Additional Entitlements, and the Holdback was 8,930 Additional Entitlements (representing 20% of the total Additional Entitlements), comprised of 6,495 Class B Holdback and 2,435 Class 2 Holdback. The Holdback remains unissued and is not eligible for conversion to Fund Units until the first quarter of 2021. BPI receives an increase in monthly distributions based on 100% of the Additional Entitlements, subject to a reconciliation of the distributions paid to BPI in respect of these Additional Entitlements that will occur once the actual performance of these five net new restaurants and the actual effective tax rate paid by the Fund for 2020 are known.

22. Subsequent events (continued):

(b) In the first quarter of 2020, adjustments to Royalty and Distribution payments and Class B Additional Entitlements and Class 2 Additional Entitlements were made based on the actual performance of five net new additional Boston Pizza Restaurants added to the Royalty Pool on January 1, 2019 and the effective tax rate paid by the Fund in 2019. Based on these adjustments, BPI received 41,309 Class B Additional Entitlements and 15,491 Class 2 Additional Entitlements.

(c) On January 24, 2020, BPI entered into the Amended and Restated Credit Agreement with a Canadian chartered bank (the "**Bank**") pursuant to which the Credit Facilities were amended and extended (the "**Amended and Extended Credit Facilities**") as follows:

i. The maturity date was extended from September 27, 2022 to January 24, 2025;

ii. The total amount of credit available was decreased $6.0 million, from $50.0 million to $44.0 million, by decreasing the size of the Term Loan from $40.0 million to $34.0 million to reflect repayments of principal that BPI previously paid the Bank;

iii. The availment options for the Operating Line were changed to include, among others, availment by way of (i) Canadian dollar prime rate loans, (ii) bankers' acceptances with a maturity between 30 and 182 days, (iii) Canadian dollar offered rate loans with terms of one (1) month or three (3) months, and (iv) letter of credit advances;

iv. The interest rates (or margins, as applicable) applicable to Canadian dollar prime rate loans, bankers' acceptances and Canadian dollar offered rate loans were reduced. In the case of Canadian prime rate loans, the interest rate is now equal to the Bank's prime rate plus between 0.00% and 1.50% (depending on the total funded net debt to EBITDA ratio) and, in the case of bankers' acceptances and Canadian dollar offered rate loans, the interest rate is equal to a variable interest rate based on the Bank's bankers' acceptance rates or Canadian dollar offered rates plus between 1.00% and 2.50% (depending on the total funded net debt to EBITDA ratio). The fees applicable to Letter of Credit advances are equal to the maximum amount that the lender may be called upon to disburse under a Letter of Credit multiplied by the applicable margin between 1.00% and 2.50% (depending on the total funded net debt to EBITDA ratio) multiplied by the number of days in which the Letter of Credit advances were outstanding in the given fiscal quarter;

v. Certain financial covenants and other provisions were modified;

The guarantees and security supporting BPI's Amended and Extended Credit Facilities remain unchanged from those provided in respect of BPI's prior credit facilities.

(d) On January 24, 2020, BPI amended and extended a term loan related to one of its subsidiaries. The total available credit under this amended credit facility is $3.4 million, it bears interest at the Bank's prime rate plus 1.0%, it is repayable on January 24, 2025, but is subject to reductions in principal based upon monthly payments of blended interest and principal over 15 years. In addition, certain financial covenants and other provisions were modified.

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BOSTON PIZZA ROYALTIES INCOME FUND

UNITHOLDER INFORMATION

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