BOSTON PIZZA INTERNATIONAL INC.

Annual Financial Statements

for the period

September 1, 2001 to August 31, 2002

Provided as a supplement to the financial statements of the

Boston Pizza Royalties Income Fund

Boston Pizza

FINANCIAL HIGHLIGHTS

The following table sets out selected historical information and other data of Boston Pizza International Inc. ("BPI"), which should be read in conjunction with the attached year-end consolidated financial statements of BPI.

	Years ended August 31, 2002	Years ended August 31, 2001
	(in thousand of dollars)	
Other Data		
Restaurant System Franchise Sales [(1)]	$ 261,501	$ 225,253
Income Statement Data		
Franchise Fee Income	$ 17,391	$ 15,079
Sales - company restaurants [(2)]	4,278	4,173
Equity income [(3)]	507	-
Other	102	75
	22,278	19,327
Royalty expense	1,451	-
Administrative expenses and restaurant operating costs	14,660	12,866
Earnings before undernoted	$ 6,167	$ 6,461
U.S. territorial development expense	4,211	3,366
Depreciation and amortization	666	603
Management fees	1,933	2,591
Amortization of deferred gain	(71)	-
Interest on loan from Boston Pizza Royalty Income Fund	223	-
Interest on long-term debt	275	230
Loss before income taxes	(1,070)	(329)

Notes:

(1) Represents the Franchise Sales of all restaurants owned by BPI and the Franchise Sales reported to BPI by franchised Boston Pizza restaurants without audit where Franchise Sales are Gross Sales after deducting revenue from the sale of liquor, beer, wine and tobacco and revenue from BPI approved national promotions & discounts.

(2) Includes Gross Sales for all restaurants owned by BPI.

(3) Represents the equity income from BPI's investment in The Boston Pizza Royalties Limited Partnership and its effective 20% interest in The Boston Pizza Royalties Income Fund, which began on July 17, 2002.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

Boston Pizza International ("BPI" or the "Company") is the franchisor of the Boston Pizza concept in Canada. The Company competes in the casual-dining sector of the restaurant industry. BPI's revenue is derived from royalty income from franchised Boston Pizza restaurants, sales in corporately owned restaurants, initial franchise fees, and franchise renewal fees. Revenue is affected by the sales generated by franchised Boston Pizza restaurants, the sales generated by two corporately owned restaurants, and the number of restaurants opened during the year.

Administrative and operating expenses include salary and administrative costs associated with: the services provided to franchised Boston Pizza restaurants, the operation of the two corporately owned restaurants, new franchise sales, and development activities.

On July 17, 2002 BPI sold the Canadian Boston Pizza trademarks and other associated intellectual property (collectively the "BP Rights") to the Boston Pizza Royalties Limited Partnership ("the Partnership"), a subsidiary of the Boston Pizza Royalties Income Fund (the "Fund"). The Partnership in turn licensed the use of the BP Rights to BPI for a term of 99-years pursuant to a license and royalty agreement (the "License and Royalty Agreement"). Under the License and Royalty Agreement, BPI pays the Partnership a royalty of 4% of Franchise Sales, from the 154 Boston Pizza restaurants in Canada that were open as of April 30, 2002 (the "Royalty Pool"). The Royalty Pool is made up of 152 franchised and 2 company owned restaurants. The Royalty Pool will be adjusted once per year for additional restaurants that have opened. In return for including additional restaurants in the Royalty Pool, BPI will receive additional unit entitlements from the Partnership based on a formula set out in the License and Royalty Agreement. The License and Royalty Agreement also includes a make whole provision obliging BPI to replace the initial amount of royalty earned in the event of closure of a Boston Pizza Restaurant that was part of the Royalty Pool.

The sale of the BP Rights was completed for a total purchase price of $109,348,900 of which $51,296,000 was paid in cash, $16,052,900 by the issue of Class A Units in the Partnership, $18,000,000 by the issue of Class B Units in the Partnership, $24,000,000 by the issue of Class C Units in the Partnership. The net gain of $57,256,147 on the sale has been deferred and will be amortized to earnings over the course of the 99-year License and Royalty Agreement. BPI's 20% indirect interest in the Fund is maintained through its ownership in the Partnership units. Furthermore, BPI has committed to maintain a minimum 20% effective interest until there are at least 275 Boston Pizza restaurants in the Royalty Pool.

OPERATING RESULTS

This past year has been one of the most challenging of the last ten years for the food services industry. Yet despite these challenges, Boston Pizza has seen healthy and robust growth, relative to industry performance. Over the past nine years, Boston Pizza has produced annual Franchise Sales growth of approximately 16% and, in Fiscal 2002; growth in Franchise Sales was consistent with the organization's previous 9-year history. Total Franchise Sales for the 12-month period ending August 31, 2002 were $261,500,690 compared to $225,252,505 for the 12-month period ending August 31, 2001, also an increase of 16%.

Boston Pizza continued to open restaurants, opening 14 with no closures during the 2002 fiscal year. The new 14 Boston Pizza restaurants opened brought the total number of locations open during the 12-month period in Canada as of August 31, 2002 to 162.

Furthermore, Boston Pizza restaurants showed a same store sales growth ("SSSG")[1] rate of 4.4% for this period. This can be attributed to a combination of menu enhancements, successful marketing programs, increased brand awareness, and an aggressive renovation program to modernize Boston Pizza restaurants.

BPI's revenues for 12-month period ending August 31, 2002 were $22,277,225 compared to $19,326,222 for the 12-month period ending August 31, 2001. This increase is mainly attributable to the increase in royalties from the 14 stores that opened during this period and the SSSG that was realized from existing locations.

Operating expenses increased from $12,865,155 in 2001 to $14,659,546 for the 12-month period ending August 31, 2002. Operating expenses increased by 14%. This increase was substantially due to various one-time charges arising from the July 17, 2002 Fund transaction.

For the period of July 17, 2002 to August 31, 2002, BPI earned income from the Partnership totaling $506,650 as a result of BPI's indirect interest in the Fund, and incurred a royalty expense of $1,451,098 for the use of the BP Rights.

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[1] BPI calculates SSSG based on the rate of increase in Gross Sales of restaurants that have been open for a minimum of 24 months.

After taking into account the Fund royalty expense, equity income, one-time charges associated with the Fund, recognition of the deferred gain associated with the sale of the BP Rights and other income adjustments arising out of the Fund, Earnings Before Undernoted decreased from $6,461,067 in fiscal 2001 to $6,166,581 fiscal 2002, a decrease of 5%. This decrease is a result of the royalty expense, net of equity earnings in the Partnership ($944,448) offset by increases from franchised and company restaurant operations.

Until August 31, 2002 BPI owned a 96.5% interest in the Boston Pizza Restaurants, LP (the "LP") The LP is developing *Boston's - the Gourmet Pizza* brand in the United States. BPI's territorial development expense associated with this investment increased from $3,365,714 in 2001 to $4,211,365 for the 12-month period ending August 31, 2002. Effective September 1, 2002 BPI transferred its interest in the LP to an affiliated entity and will no longer incur this expense. The affiliate has been separately capitalized by BPI in the amount of $14,000,000, to fund the continuing financial requirements of the LP, until the business achieves operational break-even.

Management Bonuses for the 12-month period ending August 31, 2002 were $1,933,390 compared to $2,591,194 for the 12-month period ending August 31, 2001. This is a discretionary expense, which is applicable to certain management who are also shareholders of the Company and is based on several criteria including the profitability of the Company.

Interest on loan from Boston Pizza Royalty Income Fund of $222,750 is for the $24,000,000 loan from the Fund and is for the period of July 17, 2002 to August 31, 2002.

Interest on long-term debt of $275,280 is expected to decline as BPI does not anticipate additional borrowings and considering scheduled principal repayment of existing financing.

Given the combined effects of the above-noted factors, BPI produced a net loss before income taxes of $1,070,202 for the 12-month period ending August 31, 2002 compared to a net loss of $329,052 for the previous 12-month period ending August 31, 2001.

LIQUIDITY & CAPITAL RESOURCES

During the year, BPI received $51,296,000 in cash from the sale of the BP Rights to the Partnership and an additional $24,000,000 loan from the Fund. The cash was used as follows:

	($,000's)
Dividends	$ 45,104
Income taxes, net of tax refunded on payment of dividends	5,494
Retire existing long term debt with a Canadian chartered bank	4,889
Loaned to affiliates for U.S. expansion	14,000
Working capital retained within the related group of companies	5,809
Total	$ 75,296

After the receipt of $51,296,000 in cash proceeds from the sale of the BP Rights, BPI paid gross dividends of $45,103,990, before the dividend refund to the Company that arose upon the payment of these dividends. The deficit of $38,047,163 arose since the payment of dividends described above was recorded as a reduction of retained earnings while the proceeds received on the sale of the partnership has been deferred and initially excluded from earnings (and retained earnings (deficit)). The deferred gain remaining of $57,184,869 will be amortized into income (and retained earnings (deficit)) over the 99 year term of the License and Royalty agreement effectively eliminating the current deficit.

BPI is entirely a franchised business except for the two corporate restaurants. Therefore, capital requirements are limited to the upgrading of these two restaurants and the head office building and equipment requirements. This cost is estimated at $250,000 for the next year. Currently available working capital of $3,040,519 is more than sufficient to meet capital requirements.

OUTLOOK

For the period of September 1, 2001 to August 31, 2002, a total of 14 new full-service Boston Pizza restaurants were opened throughout Canada with no closures. The new store-opening rate achieved in fiscal 2002 puts BPI on track to open 70-80 new restaurants across Canada over the next five years. With no closures in fiscal 2002, the Boston Pizza concept has continued to outperform the Canadian food-service industry store closure rate of 2.2%. The exceptionally low closure rate provides BPI with excellent revenue stability.

During fiscal 2002, 12 locations were renovated. The Boston Pizza franchise agreement requires franchisees to renovate their locations once every seven years. This is a strong strategic positioning advantage of BPI. Renovated Boston Pizza restaurants typically experience strong post-renovation SSSG in the range of 10% to 15% in the year following completion of the renovation

During the year BPI completed numerous marketing initiatives. In 2002 BPI retained celebrity spokesperson Howie Mandel and produced media spots showcasing the Boston Pizza brand and his talents. Management believes that Mr. Mandel's celebrity status and image will reinforce and increase awareness of the brand and have a positive effect on sales. Another highlight in the marketing program was the very successful "Spaghetti Western" promotion, which ran in the spring of 2002, and subsequent to these statements a very successful "Rib-Rageous" promotion.

Boston Pizza continues to strengthen its position as the number one casual dining brand in Canada. With 162 restaurants stretching from Victoria to Halifax, Boston Pizza has more locations and serves more customers annually than any other casual dining concept in Canada. While industry sales have been flat for the first half of 2002, Boston Pizza has continued to add new stores and increase same store sales. Management expects that Boston Pizza will continue to outperform the industry sales growth by opening new stores, and achieving exceptional same store sales growth.

FORWARD LOOKING STATEMENTS

Certain statements in this annual report may constitute “forward-looking” statements which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this annual report such statements are such words as “may”, “will”, “expect”, “believe”, “plan”, and other similar terminology. These statements reflect management’s current expectations regarding future events and operating performance and speak only as of the date of this annual report. These forward-looking statements involve a number of risks and uncertainties. The following are some factors that could cause actual results to differ materially from those expressed in or underlying such forward-looking statements: competition; changes in demographic trends; changing consumer preferences and discretionary spending patterns; changes in national and local business and economic conditions; legislation and governmental regulation; accounting policies and practices; and the results of operations and financial condition of BPI. The foregoing list of factors is not exhaustive.

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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Boston Pizza International Inc. as at August 31, 2002 and 2001 and the consolidated statements of operations and retained earnings (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2002 and 2001 the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP (signed)

Chartered Accountants

Vancouver, Canada

November 15, 2002

BOSTON PIZZA INTERNATIONAL INC.

Consolidated Balance Sheets

August 31, 2002 and 2001

	2002	2001
Assets		
Current assets:		
Cash	$ 7,443,342	$ 107,204
Accounts receivable	4,482,658	3,067,057
Income taxes receivable	-	325,545
Prepaid expenses	433,450	451,831
Current portion of long-term receivables	3,254,978	318,239
Future income taxes	131,518	98,222
	15,745,946	4,368,098
Long-term receivables (note 5)	22,194,334	4,671,614
Investment in Boston Pizza Royalties Limited Partnership (note 4)	6,250,729	-
Capital assets (note 6)	2,725,553	2,754,426
Deferred charges (note 7)	236,115	361,935
Future income taxes (note 9)	12,573,864	346,309
	$ 59,726,541	$ 12,502,382
Liabilities and Shareholders' Equity (Deficiency)		
Current liabilities:		
Bank indebtedness	$ -	$ 3,811,889
Accounts payable and accrued liabilities (note 13)	5,519,534	3,369,795
Income taxes payable	5,510,686	-
Current portion of deferred revenue	1,375,908	884,497
Current portion of long-term debt	299,299	714,889
	12,705,427	8,781,070
Long-term debt (note 8)	1,142,491	986,295
Deferred revenue	2,709,436	1,341,931
Loan from the Boston Pizza Royalties Income Fund (note 3)	24,000,000	-
Deferred gain on disposition of intangible assets (note 3)	57,184,869	-
Future income taxes	31,381	23,223
Shareholders' equity (deficiency):		
Share capital (note 10)	100	100
Retained earnings (deficit)	(38,047,163)	1,369,763
	(38,047,063)	1,369,863
	$ 59,726,541	$ 12,502,382

Commitments (note 11)
Contingent liabilities (note 12)
Subsequent event (note 15)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board

"George C. Melville" Director **"Michael Cordoba"** Director

BOSTON PIZZA INTERNATIONAL INC.

Consolidated Statements of Operations and Retained Earnings (Deficit)

Years ended August 31, 2002 and 2001

	2002	2001
Franchise fee income	$ 17,390,579	$ 15,078,684
Sales - company restaurants	4,278,166	4,172,958
Equity income (note 4)	506,650	-
Other	101,830	74,580
	22,277,225	19,326,222
Royalty expense (notes 3 and 11(b))	1,451,098	-
Administrative expenses and restaurant operating costs (note 13)	14,659,546	12,865,155
Earnings before undernoted	6,166,581	6,461,067
U.S. territorial development expense (note 2(i))	4,211,365	3,365,714
Depreciation and amortization	665,276	602,980
Management bonus (note 13)	1,933,390	2,591,194
Amortization of deferred gain (note 3)	(71,278)	-
Interest on loan from the Boston Pizza Royalty Income Fund (notes 3 and 13)	222,750	-
Interest on long-term debt	275,280	230,231
Loss before income taxes	(1,070,202)	(329,052)
Income taxes (note 9):		
Current	5,494,237	12,174
Future (recovery)	(5,454,874)	46,856
	39,363	59,030
Loss for the year	(1,109,565)	(388,082)
Dividends paid	(45,103,990)	-
Retained earnings, beginning of year	1,369,763	1,757,845
Refundable dividend tax	6,796,629	-
Retained earnings (deficit), end of year	$ (38,047,163)	$ 1,369,763

See accompanying notes to consolidated financial statements.

BOSTON PIZZA INTERNATIONAL INC.

Consolidated Statements of Cash Flows

Years ended August 31, 2002 and 2001

	2002	2001
Cash provided by (used in):		
Operations:		
Loss for the year	$ (1,109,565)	$ (388,082)
Items not affecting cash:		
Depreciation	479,436	406,790
Future income taxes	(5,456,064)	46,856
Amortization of deferred charges	185,840	196,190
Amortization of deferred gain on disposition of intangible assets (note 3)	(71,278)	-
Equity income	(506,650)	-
Distributions by Boston Pizza Royalties Limited Partnership (note 4)	466,069	-
Changes in non-cash working capital items	8,447,665	(1,432,917)
	2,435,453	(1,171,163)
Investments:		
Changes in long-term receivables	(20,459,459)	(1,006,243)
Purchase of capital assets, net	(450,563)	(196,459)
Additions to deferred charges	(60,020)	-
Cash proceeds from sale of intangible assets (note 3)	51,296,000	-
Costs incurred on sale of intangible assets	(250,000)	-
	30,075,958	(1,202,702)
Financing:		
Bank indebtedness	(3,811,889)	2,292,836
Proceeds from long-term debt	949,626	518,641
Repayment of long-term debt	(1,209,020)	(634,031)
Payment of dividends	(45,103,990)	-
Loan from the Boston Pizza Royalties Income Fund (note 3)	24,000,000	-
	(25,175,273)	2,177,446
Increase (decrease) in cash	7,336,138	(196,419)
Cash, beginning of year	107,204	303,623
Cash, end of year	$ 7,443,342	$ 107,204
Supplemental information:		
Cash paid for:		
Interest	$ 498,030	$ 230,231
Income taxes	-	367,259
Non-cash transactions:		
Investment in the Boston Pizza Royalties Limited Partnership in exchange for partial payment on sale of intangible assets (note 4)	58,052,900	-

See accompanying notes to consolidated financial statements.

1. Nature of operations:

Boston Pizza International Inc. (the “Company”) was incorporated on March 26, 1982 under the laws of British Columbia and continued under the Canada Business Corporations Act on August 25, 2002. Its principal business activity is the operation and franchising of Boston Pizza restaurants in Canada and, through a partnership, in select markets in the United States. The Company initially focused on the growth of its business in Western Canada and is currently in the process of developing its Eastern Canada market. The United States market is also in the process of being developed through a limited partnership arrangement which was transferred to a related party effective September 1, 2002 (note 2(i)).

2. Significant accounting policies:

(a) Basis of presentation:

These consolidated financial statements include the accounts of the following companies, after elimination of all material intercompany balances and transactions:

Boston Pizza International Inc. and subsidiaries:	
Lansdowne Holdings Ltd.	100%
Boston Pizza (Asia) Ltd.	75%
Boston's The Gourmet Pizza, Inc.	100%
Vernon Property Management Inc.	50%
Winston Churchill Pizza Ltd.	100%
Boston Pizza Restaurants LP	96.5%

(b) Inventory:

Inventory of supplies is valued at the lower of cost and replacement cost.

(c) Capital assets:

Capital assets are recorded at cost less accumulated amortization.

(d) Depreciation and amortization:

The Company provides for depreciation of capital assets and amortization of deferred charges over their estimated useful lives as follows:

Asset	Basis	Rate
Building	Declining balance	4%
Office furniture and equipment	Declining balance or straight-line	20% to 50%
Office furniture and equipment under capital lease	Straight-line at various rates	up to 15 years
Leasehold improvements	Straight-line	term of the lease
Tenant inducement costs	Straight-line	10 years
Automobile	Declining balance	30%

2. Significant accounting policies (continued):

(e) Revenue recognition and deferred revenue:

(i) Sales – company restaurants:

Revenue from restaurant operations is recorded when services are rendered.

(ii) Franchise fee income:

Area franchise fees:

Area franchise fee deposits are deferred until the agreed number of franchisee-owned restaurants are opened. The area franchise fee is expected to match costs incurred by the Company during the pre-opening period and is amortized into income based on the number of restaurants opened. In the event that the required number of restaurants are not opened during the specified time period, the deposit becomes non-refundable and is recognized as income.

Monthly franchise fee:

Monthly franchise fees are recorded as they are earned, net of any allowance for doubtful accounts.

Franchise fee deposits:

Franchise fee deposits are presented net of expenses incurred relating to the sale of the franchise. Such amounts are deferred and recorded as a liability until the franchise commences operations, at which time the amounts are recorded as initial franchise fees.

(iii) Supplier contributions:

The Company receives supplier contributions from franchisee suppliers to be used for various franchise activities. Amounts received in advance of the expenditures are deferred and either netted against the actual costs incurred in the year of the applicable expense or are amortized over the period of the contribution agreement.

(f) Income taxes:

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

The refundable portion of taxes on investment income is charged to retained earnings. The recovery of refundable taxes previously charged to retained earnings is credited to retained earnings in the period it becomes receivable.

2. **Significant accounting policies (continued):**

(g) Cash and cash equivalents:

Cash and cash equivalents consist of cash on hand, balances with banks, and short-term investments of three months or less.

(h) Restaurant locations – Canada:

	2002	2001
Company owned restaurants included in the Royalty Pool	2	-
Franchised restaurants included in the Royalty Pool	152	-
	154	-
Company owned restaurants excluded from Royalty Pool	-	2
Franchised restaurants excluded from Royalty Pool	8	146
	8	148
	162	148

(i) Investment in Limited Partnership:

The Company had a majority interest in Boston Pizza Restaurant LP (the "Limited Partnership") effective September 1, 2000. The consolidated financial statements include the assets, liabilities and expenses of the Limited Partnership. Since the Limited Partnership is in the process of developing its market and concept in the United States, the Company expenses these costs, net of applicable franchise fee income, as incurred. Effective September 1, 2002, the Company transferred the Limited Partnership interest to BP Limited Partnership Holdings Inc., a related party.

(j) Investment in BP International Rights Holdings Inc.:

As part of the sale of intangible assets (note 3), the Company transferred to BP International Rights Holdings Inc. ("IPCo") (a company controlled by the ultimate shareholders of the Company) certain intellectual property ("the Operating Systems") in exchange for preferred shares of IP Co.

The Operating Systems consist of processes, procedures, and all other intellectual property inherent to the Operating Systems for use outside of Canada.

(k) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the valuation of accounts receivable and long-term receivables, capital assets, future income tax benefits and deferred charges.

2. **Significant accounting policies (continued):**

(l) Goodwill:

Goodwill represents the excess of the purchase price over the fair value of net assets acquired, and is being amortized on a straight-line basis over 20 years. On an ongoing basis, management reviews the valuation and amortization of goodwill, taking into consideration any events and circumstances which might have impaired its carrying value.

Effective September 1, 2002, the Company adopted the new Recommendations of The Canadian Institute of Chartered Accountants Handbook Section 3062, Goodwill and Other Intangible Assets. Under Section 3062 goodwill and intangible assets with an indefinite life will no longer be amortized. Intangible assets with a finite life will be amortized over the expected period of benefit. Goodwill and other intangible assets will be tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. In accordance with Handbook Section 3062, this change in accounting policy is not applied retroactively.

(m) Investment in joint venture:

The Company has a 50% interest in the corporate joint venture Vernon Property Management Inc. The consolidated financial statements include the Company's proportionate share of the assets, liabilities, revenues and expenses of the joint venture, however, since the amounts are not significant, separate disclosure has not been presented for this joint venture.

(n) Financial instruments:

(i) Fair values:

The carrying values of cash and bank indebtedness, accounts receivable and accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity of the instruments. The interest bearing portion of the long-term receivables, long-term debt and loan from the Boston Pizza Royalties Income Fund bear interest at rates that, in management's opinion, approximate the current interest rates and therefore approximate their fair value. Included in long-term receivables are non-interest bearing advances to related companies totaling $8,128,182 (2001 - $4,875,699), accordingly management has not determined the fair value of these advances.

(ii) Credit risk:

The distribution of the Company's franchisees and suppliers and the business risk management procedures have the effect of avoiding any concentration of credit risk.

(o) Comparative figures:

Certain of the figures presented for comparative purposes have been reclassified to conform with the financial statement presentation adopted for the current period.

3. Sale of intangible assets:

On July 17, 2002, the Boston Pizza Royalties Income Fund (the "Fund") successfully completed an offering of units. A portion of the net proceeds of the offering were used by the Fund to indirectly acquire through an interest in Boston Pizza Royalties Limited Partnership (the "Partnership") all rights in Canada in and to certain trademarks, pending trademark applications, unregistered trademarks used in the business of the Company, trade names and in all goodwill associated with those trade names, owned by the Company (collectively, the "BP Rights"). The Partnership acquired the BP Rights from the Company in exchange for cash and by issuing partnership interests. The Partnership and the Company entered into a license and Royalty agreement (the "License and Royalty Agreement") to allow the Company the Canadian use of the BP Rights for a term of 99 years, for which the Company will pay a royalty equal to 4% of the franchise revenues (as defined) of certain restaurants located in Canada (the "Royalty Pool"). The proceeds received on the sale of the BP Rights by the Company to the Partnership, a partnership ultimately controlled by the Fund, were $109,348,900, consisting of $51,296,000 in cash and $58,052,900 in partnership units. As part of this transaction, long-term debt owing to the Canadian chartered bank affiliate of Scotia Capital Inc. was issued to the Company in the aggregate amount of $24,000,000 (the "BP loan") which bears interest at 7.5% and is repayable 40 years from the closing of the offering. This debt was acquired by the Fund, using the remaining net proceeds of the offering. The BP loan is secured by means of a general security agreement granted to the Fund by the Company and each of its subsidiaries that own a Boston Pizza restaurant over certain assets of the Company and each of these subsidiaries. The proceeds and resulting gain are as follows:

Proceeds:	
Cash	$ 51,296,000
1,605,290 class A units of the Partnership	16,052,900
100,000,000 class B units of the Partnership	18,000,000
2,400,000 class C units of the Partnership	24,000,000
	109,348,900
Less: book value of intangible assets and disposition costs	(250,001)
Deferred gain on sale	109,098,899
Less: portion relating to the Company's ownership interest in the Partnership	(51,842,752)
Net deferred gain on sale	57,256,147
Amortization of deferred gain for fiscal 2002	(71,278)
Net deferred gain on sale at August 31, 2002	$ 57,184,869

4. Investment in Boston Pizza Royalties Limited Partnership:

The Company's investment in the Partnership is comprised of:

1,605,290 class A units of the Partnership	$ 16,052,900
100,000,000 class B units of the Partnership	18,000,000
2,400,000 class C units of the Partnership	24,000,000
	58,052,900
Equity income during the period	506,650
Distributions from the Partnership	(466,069)
	58,093,481
Portion of deferred gain relating to the Company's ownership interest in the Partnership	(51,842,752)
Net investment in Partnership	$ 6,250,729

(a) Class A units rights and attributes:

The Company has the right to exchange each class A unit it holds for one unit of the Fund ("Units") by delivering such class A units to the Boston Pizza Holdings Trust (the "Trust"). Class A units carry voting rights equal to the number of Units into which such class A units are exchangeable at the time. Subject to the prior rights of the holders of the class C units, the holders of the class A units will be entitled to receive a cumulative preferential cash distribution in an amount equal to the total distribution in respect of class C units multiplied by the number of issued class A units divided by the number of issued Partnership units. Class A units are also entitled to a pro rata share of residual distributions of the Partnership.

(b) Class B units rights and attributes:

Class B units were issued for the right to receive a royalty based on the franchise revenue associated with restaurants to be opened in the future and their fair market value is based on the estimated future revenues.

The Company has the right to exchange each class B unit it holds for a number of Units based, at any time, on a defined calculation which is based on the net franchise revenues from restaurants opened subsequent to July 17, 2002 and restaurants open for less than twelve months at April 30, 2002. Class B units held by the Company carry voting rights equal to the number of Units into which such class B units are exchangeable at that time.

4. Investments in Boston Pizza Limited Partnership (continued):

(b) Class B units rights and attributes (continued):

Subject to the prior rights of the holders of class C units, the holders of the class B units will be entitled to receive a cumulative preferential cash distribution equal to the distribution on class C units multiplied by the number of class B units issued, multiplied by a defined ratio which is based in part on the net franchise revenues from restaurants opened subsequent to July 17, 2002, and divided by the number of issued LP units. Class B units are also entitled to a pro rata share of residual distributions of the Partnership.

(c) Class C units rights and attributes:

Class C units carry no voting rights. The holders of class C units will be entitled to receive a monthly cumulative preferential cash distribution equal to $0.0625 per class C unit. The Company, as holder of class C units, will have the right to transfer such class C units to the Trust in consideration for the assumption by the Trust of, and the concurrent release of the Company of its obligations with respect to, an amount of the indebtedness under the BP loan equal to $10.00 for each class C unit to be transferred.

5. Long-term receivables:

Long-term receivables consists of the following:

	2002	2001
		(Restated - note 3)
Debentures receivable, bearing interest between prime plus 2% and 11% per annum, receivable in blended monthly payments of approximately $2,800	$ 91,296	$ 114,154
Advances to companies owned by shareholders of the Company, non-interest bearing, unsecured with no specified terms of repayment	8,128,182	4,875,699
Promissory notes to companies owned by the ultimate shareholders of the Company, bearing interest at 7.6%, unsecured with no specific terms of repayment	17,229,834	-
	25,449,312	4,989,853
Current portion	3,254,978	318,239
	$ 22,194,334	$ 4,671,614

6. Capital assets:

2002	Cost	Accumulated amortization	Net book value
Land	$ 423,055	$ -	$ 423,055
Building	393,122	78,667	314,455
Office furniture and equipment	2,900,728	1,952,825	947,903
Office furniture and equipment under capital lease	209,003	104,785	104,218
Leasehold improvements	1,727,887	812,515	915,372
Auto	24,176	3,626	20,550
	$ 5,677,971	$ 2,952,418	$ 2,725,553

2001	Cost	Accumulated amortization	Net book value
Land	$ 422,124	$ -	$ 422,124
Building	393,122	65,904	327,218
Office furniture and equipment	2,598,017	1,687,088	910,929
Office furniture and equipment under capital lease	205,349	52,990	152,359
Leasehold improvements	1,608,796	667,000	941,796
	$ 5,227,408	$ 2,472,982	$ 2,754,426

7. Deferred charges:

			2002	2001
	Cost	Accumulated amortization	Net book value	Net book value
				(Restated - note 3)
Tenant inducement	$ 100,000	$ 52,500	$ 47,500	$ 57,500
Deferred finance charges	60,000	1,000	59,000	-
Goodwill and other	3,667,027	3,537,412	129,615	304,435
	$ 3,827,027	$ 3,590,912	$ 236,115	$ 361,935

8. Long-term debt:

Long-term debt consists of:

	2002	2001
Royal Bank of Canada term loan bearing interest at 6.22% per annum, due August 20, 2002, repayable in blended monthly installments of $3,967, secured by a first mortgage on land and building	$ -	$ 463,500
HSBC Bank of Canada demand, non-revolving loan bearing interest at 5.25% per annum, due January 1, 2007, secured by a first charge on land and building	455,494	-
GE Capital Canada Equipment Financing Inc. term loan bearing interest at 8.2% per annum, due September 3, 2006, repayable in blended monthly installments of $16,070 secured by a first charge on leaseholds and equipment	667,228	799,406
GE Capital Canada Equipment Financing Inc. term loan bearing interest at Government of Canada Bond rate plus 3% per annum, repayable by blended monthly payments of $8,159, due November 5, 2004, secured by restaurant equipment	198,874	275,250
Obligation under equipment financing arrangements	120,194	163,028
	1,441,790	1,701,184
Current portion	299,299	714,889
	$ 1,142,491	$ 986,295

The obligations under equipment finance arrangements are secured by specific assets of the Company.

Term loans are secured by a general assignment of book debts and certain guarantees from the shareholders and related companies.

Principal repayments on long-term debt and capital lease obligations for the next five years ending August 31 are as follows:

2003	$ 299,299
2004	337,006
2005	235,894
2006	215,610
2007	353,981
	$ 1,441,790

9. 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:

	2002	2001
Loss before income taxes	$ (1,070,202)	$ (329,052)
Combined Canadian federal and provincial tax rates	40.16%	43.00%
Computed "expected" tax expense	(429,793)	(141,492)
Increased (reduced) by:		
Amounts not deductible	189,632	43,172
Non-controlling interest of Limited Partnership	56,405	157,350
Difference between statutory rate and refundable rate	220,189	-
Other	2,930	-
Income tax expense	$ 39,363	$ 59,030

The tax effects of temporary differences that give rise to significant portions of the future tax assets and liabilities are:

	2002	2001
Future income tax assets (liabilities):		
Deferred gain	$ 13,818,724	$ -
Investment in Partnership (note 3)	(1,676,034)	-
Losses carried forward	7,865	32,771
Capital assets	(31,512)	24,458
Deferred revenue	320,316	241,405
Goodwill and other intangibles	234,642	122,674
	12,674,001	421,308
Current future income tax assets	131,518	98,222
	12,542,483	323,086
Non-current future income tax liabilities	31,381	23,223
Non-current future income tax assets	$ 12,573,864	$ 346,309

10. Share capital:

Authorized:
10,000 common shares of no par value

	2002	2001
Issued:		
100 common shares	$ 100	$ 100

11. Commitments:

(a) The Company is committed under operating lease contracts for office space, restaurant space and advertising contracts. The minimum annual rental payments under these leases for the years ending August 31 are as follows:

2003	$ 1,130,433
2004	1,134,570
2005	712,057
2006	508,021
2007	337,056

(b) Pursuant to the License and Royalty Agreement (note 3), system sales from the restaurant locations included in Royalty Pool for the current period from July 17, 2002 to August 31, 2002 amounted to $36,277,448 and the royalty paid for the year amounted to $1,451,098.

(c) The Company has drawn $872,000 on a letter of credit on behalf of a shareholder of the Company, which expires on April 20, 2003.

12. Contingent liabilities:

(a) The Company guarantees lease payments totaling $180,000 for one of its franchisees.

(b) The Company is involved in trademark litigation with entities affiliated with McDonald's Restaurant of Canada (the "McDonald's Group"), opposing the registration of the Boston Market trademark. Management believes that there is a likelihood that the trademark will not be registered. Additionally, the Company has commenced an action against The McDonald's Group to prevent them from infringing the Company's interest in the trademarks by operating Boston Market in Canada. The McDonald's Group has filed a counterclaim and a separate action challenging the validity of the registered trademark "Boston Pizza" and related trademarks under the Trademarks Act (Canada), which management believes is a defensive maneuver to bolster their attempts to use "Boston Market" without a registered trademark. In July 2002, the BP Rights were sold to the Partnership which, as a result of recently filed notice of application by the McDonald's Group, is now a direct party in the litigation proceedings.

13. Related party transactions:

Interest received on advances to a company under common control totaled $180,341 (2001 - $20,857).

Included in accounts payable and accrued liabilities is $1,055,425 (2001 - $950,000) payable to the Company's parent company in respect of outstanding trade payables. Included in accounts receivable is $175,845 and $217,184 due from companies under common control and the Fund, respectively.

Included in administrative expenses and restaurant operating costs are amounts paid by the Company relating to rent and management fees and bonuses to companies under common control totaling $364,307 (2001 - $337,057) and $3,368,340 (2001 - $2,435,567), respectively. Additionally, included in management bonus is $1,603,390 (2001 - $2,435,567) paid to the Company's parent for services rendered.

The Company's interest in the Limited Partnership arose out of a partnership with a company under common control.

Long-term receivables include amounts owing from various related parties (note 5).

The Company paid interest on the loan from the Fund of $222,750.

14. Segment reporting:

Management has determined the Company operates in one segment, which involves franchise fee income, sales from company restaurants and rental income. Substantially all of the Company's assets and revenues are located or earned in Canada, the Company's U.S. territorial development expense in incurred substantially in the U.S. and these operations were transferred to a related party subsequent to year end.

15. Subsequent event:

Effective September 1, 2002, the Company transferred its interesting Boston Pizza Restaurants, LP to BP Limited Partnership Holdings Inc., a related party.

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