



**BOSTON PIZZA ROYALTIES INCOME FUND**

**ANNUAL INFORMATION FORM**

**For the year ended December 31, 2007**

**February 1, 2008**

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## GLOSSARY

**“Additional Restaurants”** means, at any time, Boston Pizza restaurants in Canada which are not included in the Royalty Pool at such time.

**“Adjustment Date”** means January 1 of each calendar year.

**“Administration Agreement”** means the amended and restated administration agreement dated July 17, 2002 among the Fund, the Trust and the Partnership, pursuant to which the Partnership has agreed to provide or arrange for the provision of services required for the administration of the Fund and the Trust.

**“affiliate”** has the meaning set out in Ontario Securities Commission Rule 45-501.

**“Bank”** means the Canadian chartered bank providing the Term Loan and the Operating Loan to the Partnership and providing the Line of Credit to BPI.

**“Boston Pizza”** means the business of BPI, its affiliated entities and franchisees.

**“Boston Pizza General Security Agreement”** means the general security agreement granted to the Fund by BPI and each of its subsidiaries that own a Boston Pizza restaurant over certain assets of BPI and each of these subsidiaries to secure payment of the BP Loan.

**“BPI”** means Boston Pizza International Inc., a company continued under the Canada Business Corporations Act.

**“BP Loan”** means the loan to BPI in the aggregate amount of \$24,000,000 held by the Fund.

**“BP Rights”** means:

- (a) all rights of BPI in Canada, including all Canadian trade-mark registrations and pending Canadian trade-mark applications, in and to the following trademarks:

BOSTON PIZZA (Canadian registration no. 171,428)

BP & Design (Canadian registration no. 171,429)

BP & Design (Canadian registration no. 181,249)

BP’s LOUNGE (Canadian registration no. 293,639)

BP’s BISTRO (Canadian registration no. 362,359)

BOSTON’S THE GOURMET PIZZA (Canadian registration no. 410,558)

BOSTON PIZZA QUICK EXPRESS (Canadian registration no. 429,024)

BOSTON PIZZA RESTAURANT AND SPORTS BAR (Canadian registration no. 629,841)

BOSTON PIZZA COLLEGE (Canadian registration no. 653,655)

BOSTON PIZZA CARB FRIENDLY CHOICES (Canadian application no. 1,217,381)

BOSTON PIZZA FLAVOURS OF THE WORLD (Canadian application no. 1,328,377)

BOSTON PIZZA SAVEURS DU MONDE (Canadian application no. 1,328,378);

- (b) all rights of BPI in Canada in and to any unregistered trademarks used in the business of BPI which contain the word “Boston” or “Boston’s” or the letters “BP” or the BP design; and
- (c) all rights of BPI in Canada in any trade names confusingly similar to any of the foregoing trade-marks.

“**Boston Pizza Restaurants**” refers to the casual dining pizza and pasta restaurants operated by BPI, its affiliated entities, related parties or franchisees in Canada.

“**CBCA**” means the *Canada Business Corporations Act*.

“**CDS**” means CDS Clearing and Depository Services Inc.

“**CFADS**” means cash flow available for debt service and is the aggregate of EBITDA,

plus:

- proceeds received from Sale of Fund Units, net of transaction costs;

less:

- unfunded capital expenditures;
- cash taxes;
- dividends paid.

“**Class A Units**” means Class A limited partner units of the Partnership held by the Trust or a permitted transferee.

“**Class B Distribution Limit**” means at any time the number, calculated in accordance with the Limited Partnership Agreement, used to determine the amount of any distributions to be made on the Class B Units at that time.

“**Class B Exchange Limit**” means at any time the Class B Exchange Limit immediately before that time

- (i) plus, where that time is an Adjustment Date,
  - (a) 80% of the estimated Determined Amount for that date divided by the Current Market Price of a Unit on that date; and
  - (b) the amount, whether positive or negative, equal to (1) the Determined Amount on the immediately preceding Adjustment Date, if any, divided by the Current Market Price of a Unit on that preceding date, less (2) the amount determined under (a) on that preceding date,
- (ii) less the number of Class B Units exchanged on that date, if any, multiplied by the Class B Exchange Multiplier on that date.

“**Class B Exchange Multiplier**” means at any time the Class B Exchange Limit on such date divided by the number of Class B Units outstanding on that date.

“**Class B Units**” means the Class B general partner units of the Partnership held by BPI or any Related Party.

“**Class C Units**” means the Class C general partner units of the Partnership held by BPI or any Related Party or Class C limited partner units of the Partnership acquired by the Trust or a permitted transferee pursuant to the Exchange Agreement (see “The Exchange Rights”), as the case may be.

**“Class D Units”** means the Class D limited partner units of the Partnership which are acquired by the Trust in exchange for Class B Units acquired by the Trust from BPI or any Related Party pursuant to the Exchange Agreement.

**“Common Shares”** means the common shares in the capital of Boston Pizza GP Inc.

**“Current Market Price of a Unit”** means as at any date or for any period, the weighted average price at which the Units have traded on a stock exchange during the period of 20 consecutive trading days ending on the fifth trading day before such date or the end of each period.

**“Declaration of Trust”** means the declaration of trust dated June 10, 2002 as amended and restated on July 17, 2002 by which the Fund is governed.

**“Determined Amount”** means the amount, calculated as at the end of each fiscal year, in respect of the Adjustment Date in the next following fiscal year determined in the manner described under “License and Royalty – Adjustment of the Royalty – Class B Unit Entitlement”.

**“Eastern Canada”** means that part of Canada containing the provinces of New Brunswick, Newfoundland, Nova Scotia, Ontario and Prince Edward Island.

**“EBITDA”** means earnings before interest, taxes, depreciation and amortization.

**“Exchange Agreement”** means the exchange agreement among the Fund, the Trust, BPI and Boston Pizza GP Inc. providing for, among other things, the Exchange Rights. See “The Exchange Rights”.

**“Exchange Rights”** means the right of BPI (or a Related Party to which BPI has transferred Partnership Securities in accordance with the Governance Agreement) in respect of the Class B Units to exchange one Class B Unit for the number of Units equal to the Class B Exchange Multiplier at that time, by delivering such Class B Unit to the Trust in exchange for a Unit or Units which the Trust will obtain from the Fund.

**“Franchised Boston Pizza Restaurants”** means Boston Pizza restaurants owned and operated by the owners thereof under franchise agreements with BPI which are operated in Canada.

**“Franchise Revenue”** is the basis on which the Royalty is payable. Franchise Revenue is Gross Revenue after deducting revenue from the sale of liquor, beer, wine and tobacco and approved national discounts and excluding applicable sales and similar taxes.

**“Fund”** means Boston Pizza Royalties Income Fund, a limited purpose open-ended trust established under the laws of the Province of British Columbia.

**“Governance Agreement”** means the agreement among the Fund, Boston Pizza GP Inc., BPI and the Related Parties providing for, among other things, the governance of Boston Pizza GP Inc.

**“GP Units”** means the ordinary general partner units of the Partnership.

**“Gross Revenue”** is (i) revenue of the corporate Boston Pizza Restaurants in Canada owned by BPI and (ii) revenue reported to BPI by franchised Boston Pizza Restaurants in Canada, without audit or other form of independent assurance, in the case of both (i) and (ii).

**“License”** means the exclusive and unlimited license to use the BP Rights in Canada for a period of 99 years from July 17, 2002 granted by the Partnership to BPI pursuant to the License and Royalty Agreement.

**“License and Royalty Agreement”** means the license and royalty agreement dated July 17, 2002, as amended as of May 9, 2005, between the Partnership and BPI pursuant to which the Partnership has granted the License to BPI and BPI has agreed to pay the Royalty.

**“Limited Partnership Agreement”** means the limited partnership agreement among Boston Pizza GP Inc., the Trust and BPI by which the Partnership is governed.

**“Line of Credit”** means the \$7,500,000 operating line of credit and the \$2,000,000 corporate Mastercard facility provided by the Bank to BPI.

**“LP Units”** means the ordinary limited partner units of the Partnership.

**“Management”** means senior management of BPI.

**“Managing General Partner”** means Boston Pizza GP Inc. in its capacity as general partner of the Partnership.

**“Non-resident”** means a non-resident of Canada within the meaning of the Tax Act.

**“Operating Loan”** means the operating loan provided by the Bank to the Partnership.

**“Partnership”** means Boston Pizza Royalties Limited Partnership, a limited partnership formed under the laws of the Province of British Columbia pursuant to the Limited Partnership Agreement.

**“Partnership General Security Agreement”** means the general security agreement granted to the Partnership by BPI and each of its subsidiaries that owns a Boston Pizza restaurant over certain assets of BPI and each of these subsidiaries, to secure payment of the Royalty and all of the obligations of BPI under the License and Royalty Agreement.

**“Partnership Securities”** means, collectively, the LP Units, GP Units, Class A Units, Class B Units, Class C Units and Class D Units in the capital of the Partnership.

**“Partnership Special Resolution”** means, in respect of matters pertaining to the governance, management and affairs of the Partnership, (i) a resolution of the board of directors of Boston Pizza GP Inc. that is consented to by each of BPI and the Trust; or (ii) if either BPI or the Trust do not consent, a Voting Unitholders’ Ordinary Resolution.

**“Related Parties”** means, collectively, James Treliving and George Melville (the holders of the beneficial interest in BPI) and Management (from time to time of BPI), or any corporation or other entity in which they or any of their associates (or other family members) has a direct or indirect equity interest of 50% or greater, or an associate or affiliate of any of them.

**“Royalty”** means the royalty and other amounts payable by BPI under the License and Royalty Agreement for the License to use the BP Rights in Canada for 99 years, commencing on July 17, 2002.

**“Royalty Pool”** means, in any period, all Boston Pizza Restaurants for which Franchise Revenue is to be determined for such period, as described under “License and Royalty – The Royalty”.

**“same store sales growth”** or **“SSSG”** means the increase in annual gross revenue of a particular Boston Pizza restaurant as compared to sales for the same period in the previous year, where the restaurant was open for a full 12 months in each year.

**“Securities Act”** means the *Securities Act* (British Columbia).



**“Series 1 Trust Notes”** means the non-interest bearing Series 1 unsecured subordinated demand notes of the Trust.

**“Series 2 Trust Notes”** means the interest bearing Series 2 unsecured subordinated notes of the Trust.

**“Series 3 Trust Notes”** means the interest bearing Series 3 unsecured subordinated notes of the Trust.

**“Special Voting Unit”** means a special voting unit of the Fund to be issued to the holders of securities exchangeable into Units, and which shall entitle the holder to vote at any meeting of Voting Unitholders.

**“subsidiary”** has the meaning set out in the Securities Act and includes a partnership or other entity.

**“Tax Act”** means the *Income Tax Act* (Canada) and regulations thereunder, as amended.

**“Term Loan”** means the term loan provided by the Bank to the Partnership, any renewal thereof and any replacement thereof by a financial institution carrying on business in Canada.

**“TDS”** means total debt service requirements and is the aggregate of:

- total interest expense on funded debt;
- scheduled principal repayments;
- any capital lease payments;

which are scheduled to be paid during the period of the test.

**“Trust”** means Boston Pizza Holdings Trust, a limited purpose trust established under the laws of British Columbia.

**“Trust Notes”** means the Series 1 Trust Notes, Series 2 Trust Notes and Series 3 Trust Notes, collectively.

**“Trust Units”** means the units of the Trust.

**“Trustees”** means, at the relevant time, the trustees of the Fund.

**“TSX”** means the Toronto Stock Exchange.

**“Unitholders”** means, at the relevant time, the holders of the Units.

**“Unit”** means a trust unit of the Fund, each such unit representing an equal undivided beneficial interest therein.

**“Voting Units”** means collectively the Units and Special Voting Units.

**“Voting Unitholders”** means the holders from time to time of Units and Special Voting Units.

**“Voting Unitholders’ Ordinary Resolution”** means a resolution passed by a majority of more than 50% of the votes cast, either in person or by proxy, at a meeting of Voting Unitholders, called for the purpose of approving such resolution, or approved in writing by the holders of more than 50% of the votes cast by Voting Unitholders entitled to vote on such resolution.

**“Voting Unitholders’ Special Resolution”** means a resolution passed by a majority of not less than  $66\frac{2}{3}\%$  of the votes cast, either in person or by proxy, at a meeting of Voting Unitholders, called for the purpose of approving such resolution, or approved in writing by the holders of not less than  $66\frac{2}{3}\%$  of the votes cast by Voting Unitholders entitled to vote on such resolution.

**“Western Canada”** means that part of Canada containing the provinces of Alberta, British Columbia, Manitoba and Saskatchewan and the territories of Nunavut, Northwest Territories and Yukon.

## GENERAL

The information in this Annual Information Form is dated as of February 1, 2008 unless otherwise indicated. All dollar amounts are stated in Canadian currency.

## CORPORATE STRUCTURE

### **Boston Pizza Royalties Income Fund**

Boston Pizza Royalties Income Fund (the "Fund") is a limited purpose open-ended trust established under the laws of the Province of British Columbia by a declaration of trust dated June 10, 2002, as it was amended and restated on July 17, 2002, (the "Declaration of Trust"). The Fund's head office is located at Suite 200 - 5500 Parkwood Way, Richmond, British Columbia, Canada, V6V 2M4 and its registered office is located at Suite 1200 Waterfront Centre, 200 Burrard Street, Vancouver, British Columbia, Canada, V7X 1T2. The Fund was established to, and on July 17, 2002 did, acquire indirectly through Boston Pizza Royalties Limited Partnership (the "Partnership") certain trademarks and tradenames used by Boston Pizza International Inc. ("BPI") in its Boston Pizza Restaurants in Canada (the "BP Rights") and to acquire from a Canadian chartered bank, a \$24,000,000 loan to BPI (the "BP Loan").

The Fund is administered by the Partnership pursuant to an amended and restated administration agreement (the "Administration Agreement") dated July 17, 2002 among the Fund, Partnership and Boston Pizza Holdings Trust (the "Trust"). See "Management – Administration Agreement".

The Fund owns 100% of the issued and outstanding trust units ("Trust Units") and 100% of the series 1 unsecured subordinated notes of the Trust ("Series 1 Trust Notes") and owns, indirectly through the Trust, 100% of the LP Units, Class A Units and Class D Units of the Partnership. The Fund also owns 80% of the issued and outstanding common shares ("Common Shares") of Boston Pizza GP Inc., the managing general partner (the "Managing General Partner") of the Partnership.

Units of the Fund (the "Units") are listed for trading on the Toronto Stock Exchange (the "TSX") under the symbol BPF.UN.

### **Boston Pizza Holdings Trust**

The Trust is a limited purpose trust established under the laws of the Province of British Columbia pursuant to a declaration of trust. The Trust is a wholly-owned subsidiary of the Fund and was established to invest in securities of the Partnership ("Partnership Securities"). The Trust is the sole limited partner of the Partnership owning 100% of the LP Units, 100% of the Class A Units and 100% of the Class D Units of the Partnership.

### **Boston Pizza GP Inc.**

Boston Pizza GP Inc. is a corporation incorporated under the laws of Canada. Boston Pizza GP Inc. owns 99% of the general partner units of the Partnership ("GP Units") and is the Managing General Partner of the Partnership. Pursuant to a governance agreement (the "Governance Agreement") among the Fund (as 80% shareholder of Boston Pizza GP Inc.), BPI (as 20% shareholder of Boston Pizza GP Inc.) and certain "Related Parties" of BPI, the Fund is entitled to elect three of the five directors of Boston Pizza GP Inc. and BPI is entitled to elect two of the five directors of Boston Pizza GP Inc. See "Management – Governance Agreement".

### **Boston Pizza Royalties Limited Partnership**

The Partnership is a limited partnership formed under the laws of the Province of British Columbia pursuant to a limited partnership agreement (the "Limited Partnership Agreement"). The Trust is the sole limited partner of the Partnership. Boston Pizza GP Inc. is the Managing General Partner and BPI is the general partner of the Partnership.

The Partnership is the owner of the BP Rights. The Partnership licenses the BP Rights to BPI (the "License") for use in BPI's business as a franchisor of Boston Pizza Restaurants. The License is granted pursuant to a license and royalty agreement (the "License and Royalty Agreement") and BPI pays a monthly royalty (the "Royalty") to the Partnership equal to 4% of gross revenue earned by Boston Pizza Restaurants included in a royalty pool (the "Royalty Pool") after deducting certain items including alcohol and tobacco ("Franchise Revenue"). See "License and Royalty".

#### **Boston Pizza International Inc.**

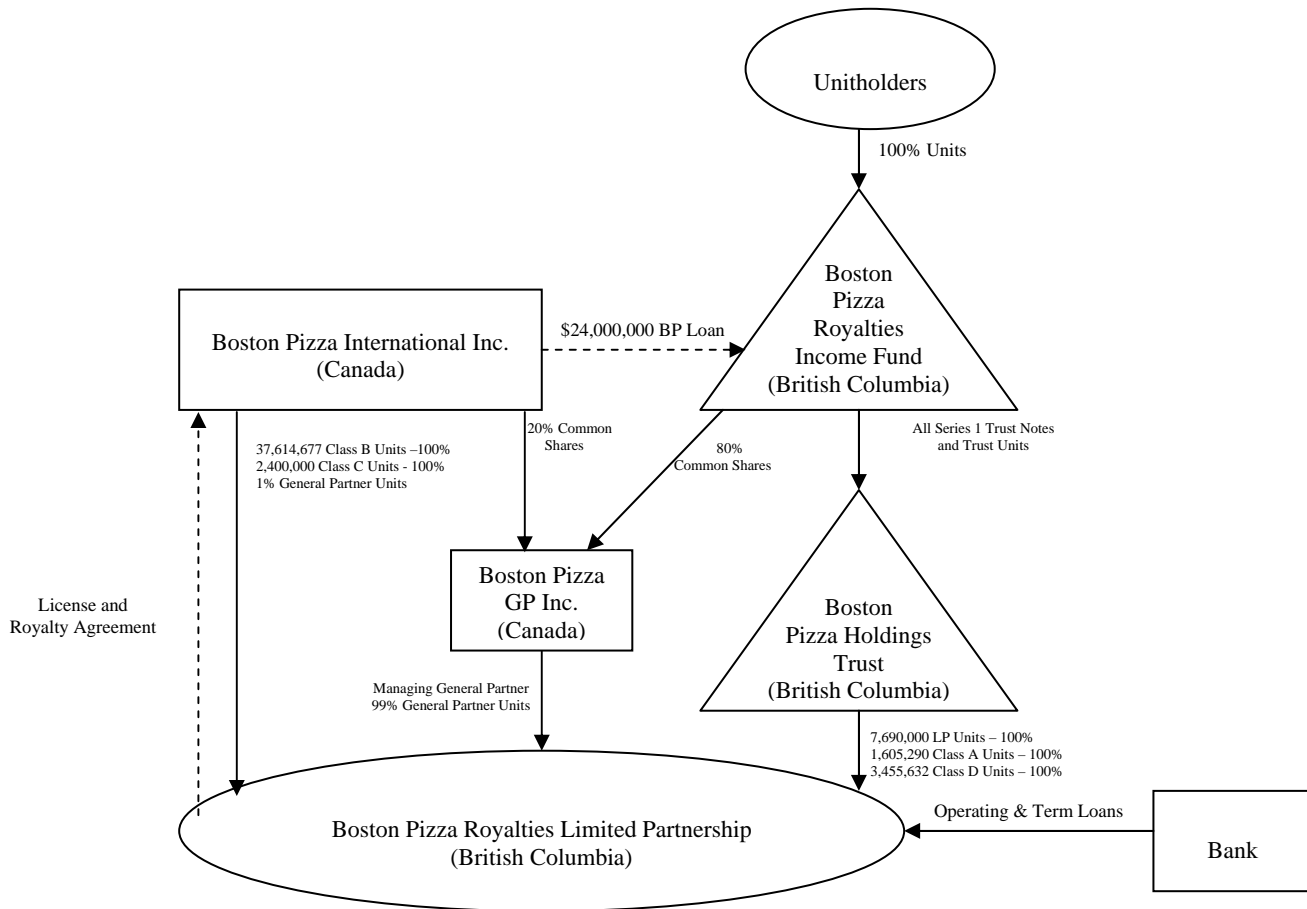
BPI is a corporation continued under the laws of Canada. BPI carries on business as the franchisor of casual dining pizza and pasta restaurants and operates only in Canada and, through various affiliated entities, in select markets in the United States and Mexico. BPI licenses the BP Rights from the Partnership under the License and Royalty Agreement.

BPI owns 100% of the Class B Units and 100% of the Class C Units of the Partnership and 1% of the GP Units. The Class B Units are exchangeable for Units of the Fund. As of February 1, 2008, BPI's Class B Units represent an indirect 26.9% interest in the Fund. BPI also holds 100% of the special voting units (the "Special Voting Units") of the Fund which entitle BPI to one vote for each Unit of the Fund that BPI would be entitled to receive if it exchanged all of its Class B Units of the Partnership for Units of the Fund. As of February 1, 2008, BPI was entitled to 4,699,297 votes, representing 26.9% of the aggregate votes held by holders of Units and Special Voting Units (collectively, "Voting Unitholders"). See "Description of Fund – Units and Special Voting Units". The number of Units of the Fund that BPI is entitled to receive upon the exchange of its Class B Units of the Partnership and the number of votes that BPI is entitled in respect of its Special Voting Units is adjusted annually to reflect any additional Boston Pizza Restaurants ("Additional Restaurants") that may be added to the Royalty Pool.

The Fund does not have any direct or indirect ownership interest in BPI.

## Intercorporate Relationships

The following chart illustrates the primary structural and contractual relations between the Unitholders, the Fund, the Trust, Boston Pizza GP Inc., the Partnership and BPI.



## GENERAL DEVELOPMENT OF THE BUSINESS

### Four Year History

The Fund's sole business is carried on through the Partnership. The Partnership's revenue is based on collecting a 4% royalty of Franchise Revenue from a fixed Royalty Pool. Over the last four financial years the Royalty Pool has increased from 195 restaurants in 2005, 226 restaurants in 2006, 266 restaurants in 2007 and 300 restaurants in 2008. On January 1, 2009, the Fund estimates that between 30 - 35 restaurants will be added into the Royalty Pool.

## DESCRIPTION OF THE BUSINESS

### The Fund

The Fund is a limited purpose trust and as such the business of the Fund is limited to, among other things, investing in securities and notes of the Trust ("Trust Notes"), holding the BP Loan, making distributions to Unitholders and matters incidental thereto. See "Description of Fund – Activities of the Fund" and "Description of Fund – BP Loan".

To the maximum extent possible, the Fund makes cash distributions to the holders (“Unitholders”) of Units from amounts received by the Fund from interest paid on Trust Notes and the BP Loan and from distributions on the Trust Units, less estimated amounts required for the payment of expenses, any cash redemptions of Units and reasonable reserves. See “Description of Fund – Cash Distributions”.

## The Partnership

The business of the Partnership is to take actions consistent with the License and Royalty Agreement to exploit, to the fullest extent possible, the use of the BP Rights by BPI, the collection of Royalty payable to the Partnership under the License and Royalty Agreement, and the administration of the Fund and the Trust pursuant to the Administration Agreement. See “License and Royalty”, “Description of the Partnership” and “Management - Administration Agreement”.

## Boston Pizza International Inc.

BPI carries on the business as franchisor of casual dining pizza and pasta restaurants in Canada. The business of BPI and the manner in which BPI operates that business is relevant to the Fund and its Unitholders since BPI is the exclusive licensor of the BP Rights under the License and Royalty Agreement. A key attribute of the Fund structure is the fact that it is a “top-line” fund. Royalty income of the Fund is based on top-line revenue of Royalty Pool restaurants and is not determined by the profitability of either BPI or the Boston Pizza Restaurants in the Royalty Pool. Given this structure, the success of the Fund depends primarily on the ability of BPI to maintain and increase Franchise Sales of the Royalty Pool restaurants.

### Industry Overview

According to the Canadian Restaurant and Food Services Association (the “CRFA”), revenues generated by the Canadian foodservice industry are forecasted to have grown over the past three years, from \$48.7 billion in 2005 to \$53.5 billion in 2007, representing a compound average growth rate of 1.8% over the same period. Revenues are forecasted to have grown by 1.4% in 2007.

The Canadian foodservice industry is comprised of two main sectors: commercial foodservice operators, whose primary business is food and beverage service; and non-commercial foodservice operators, such as hotels, retail outlets, movie theatres and schools, whose primary business is something other than food and beverage, but includes some component of commercial foodservice. Participants in the commercial foodservice sector generally fall within one of the following categories: restaurants, social and contract caterers and bars.

There are four major restaurant segments within commercial food service: quick-service, family / midscale dining, casual dining and fine dining, with the latter three falling within the definition of “full service restaurants”. The table below summarizes the characteristics of the various segments:

<b>Restaurant Segment</b>	<b>Average Cheque Amount <sup>1</sup></b>	<b>Characteristics</b>	<b>Examples</b>
Quick Service	\$4.41	<ul style="list-style-type: none"> <li>• Counter service</li> <li>• Usually specializes in one type of food</li> <li>• Emphasis on take-out and delivery</li> <li>• Some drive-through service</li> </ul>	<ul style="list-style-type: none"> <li>• A&amp;W</li> <li>• KFC</li> <li>• McDonald's</li> <li>• Tim Horton's</li> </ul>

<sup>1</sup> Average cheque as per CRFA 2006 statistic.

<b>Restaurant Segment</b>	<b>Average Cheque Amount <sup>1</sup></b>	<b>Characteristics</b>	<b>Examples</b>
Family / Midscale Dining	\$9.66	<ul style="list-style-type: none"> <li>• Table or self-service</li> <li>• Usually specializes in one type of food</li> <li>• May be take-out service</li> </ul>	<ul style="list-style-type: none"> <li>• Denny's</li> <li>• Pizza Hut</li> <li>• Swiss Chalet</li> </ul>
Casual Dining	\$14.19	<ul style="list-style-type: none"> <li>• Full table service</li> <li>• Themed atmosphere</li> <li>• Generally little take-out</li> </ul>	<ul style="list-style-type: none"> <li>• Boston Pizza</li> <li>• Earl's</li> <li>• East Side Mario's</li> <li>• Kelsey's</li> <li>• Montana's</li> <li>• The Keg</li> </ul>
Fine Dining	\$30.20	<ul style="list-style-type: none"> <li>• Extensive table service</li> <li>• Formal table settings</li> </ul>	<ul style="list-style-type: none"> <li>• Morton's</li> <li>• Various independents</li> </ul>

#### *Trends in the Foodservice Industry*

- **Increasing Market Share for Commercial Foodservice Operators:** As forecasted by the CRFA, in 2006, commercial foodservice operators will generate over 78% of revenues in the foodservice industry while 22% of overall revenues came from non-commercial foodservice operators. The CRFA further forecasts that food service sales in Canada will be \$53.5 billion in 2007 fuelled by an overall improvement in the Canadian economy. The CRFA goes on to report that after accounting for menu inflation, foodservice sales are forecasted to have achieved real growth of 1.4% in 2007.
- **Demographics Favouring Full Service Restaurants:** Growth in the foodservice industry has been driven by demographic changes, as aging and increasingly affluent consumers spend more on foodservice, and a younger generation increasingly views foodservice not as a luxury but integral to their everyday lifestyle. These trends are anticipated to continue driving increases in the industry in the next several years. According to industry forecasts, full service restaurants are expected to be the fastest growing sector.
- **Increase in Revenue Share of Chain Restaurants:** The top 50 foodservice companies represent a growing share of the overall revenues in the foodservice industry. According to the latest CRFA figures, the top 50 chain restaurants in Canada represented 53.5% of the revenues generated in the commercial foodservice industry. Growth in revenues enjoyed by chain restaurants has been spurred on in part by increased personal income and favourable demographics. However, the increased market share of chain restaurants is also a result of the brand strength that many of the chain restaurants have developed through their use of marketing programs, resulting in increased traffic and market share. Management expects continued consolidation in the industry and increasing market share for the largest chain operators and franchises.

#### *Overview of the Business of BPI*

From its first restaurant in Edmonton in 1964, Boston Pizza has grown to become Canada's number one casual dining brand. With 300 restaurants stretching from Victoria to St. John's, Boston Pizza has more locations and serves more customers annually than any other casual dining concept in Canada.

BPI is a franchise-driven restaurant company, and operates only three Boston Pizza Restaurants as corporate restaurants. These corporate restaurants also serve as franchisee training centres, and allow BPI to test market new menu items and programs before launching them throughout the BPI franchise

system. BPI's strategic focus on the development of successful franchise operations has underpinned the success of the Boston Pizza franchise system over the past 40 years.

BPI franchises both the "Boston Pizza" and the "Boston Pizza Quick Express" concepts. Boston Pizza is a full service restaurant and sports bar concept competing in the casual dining segment of the restaurant industry. Boston Pizza Quick Express serves a limited menu and is targeted to "captured traffic" locations such as arenas, food courts and airports. BPI's strategic focus is on the opening of full service BPI franchises and BPI's management does not anticipate that Boston Pizza Quick Expresses will be a significant aspect of BPI's growth strategy.

### *The Boston Pizza Concept*

Two Distinct Dining Experiences – The Boston Pizza restaurant provides for "two experiences under one roof", with a full service, family friendly casual dining restaurant and a separate sports bar. The restaurant décor is lively, colourful and eclectic with an open view to the kitchen allowing the activity of the kitchen to become part of the dining experience. The bar area is an adult-oriented design, with pool tables, games and big screen TVs. Most restaurants also have an outdoor patio to accommodate guests during the warmer months. A typical restaurant is 5,500 to 6,500 square feet and has seating for 180 to 225 guests in total.

Ability to Target Distinct Business Segments – The Boston Pizza concept offers the flexibility to target four distinct business segments, or "dayparts". Lunch and dinner are standards for the casual dining segment, but Boston Pizza has a competitive advantage in the late night daypart due to its sports bar development. Boston Pizza Restaurants also have a much more developed take out and delivery business by virtue of their pizza menu focus. Take out and delivery sales averaged 12.1% of total sales across the chain in 2007.

Boston Pizza Target Market – Boston Pizza is able to exploit its unique "two experiences under one roof" restaurant design to simultaneously and successfully appeal to different target groups. Families and other casual dining customers are attracted to Boston Pizza's menu, decor and moderate pricing while the "bar crowd" is attracted to the fun, social atmosphere of the sports bar. Families are the primary target and represent approximately 50% of the total business, split equally between families with young children and families with teenagers. The secondary target is persons aged 19 to 34 who are single and do not have children. Both of these broad market segments are expected to continue to drive full service restaurant trends in the coming years.

### *Franchise Support Systems*

BPI believes that its historical success, and the success of Boston Pizza going forward, begins with the success of each individual franchise. BPI's approach to restaurant development begins with the careful selection of the right market site and coupling an appropriate location with a strong franchisee. As part of its commitment to ensuring success of the Boston Pizza franchisee, BPI provides the following support services:

Franchisee Selection – BPI has developed a rigorous, systematic approach to franchisee selection. A potential franchisee must go through a series of interviews with senior managers in each of the key business operational areas: marketing, finance and operations. A series of financial and background checks is also conducted on a potential franchisee.

Real Estate – BPI's real estate managers take a lead role in sourcing, negotiating and securing sites, as well as assembling the necessary site approval information. BPI provides full demographic and market analysis as well as site information. Once assembled, the site packages go through a multi-department review with senior management before final approval is given to the franchisee.

Finance – BPI administers national franchise finance programs with major Canadian lenders to provide funds for new store construction, store renovations and equipment leasing. However, BPI does not



provide these financial institutions with a guarantee of franchisees' obligations or otherwise provide financial assistance to the franchisees. A comprehensive general insurance program has been developed with the support of insurance brokers and consultants to provide Boston Pizza franchisees with a complete and competitive program that effectively protects the interests of both the franchisees and BPI. A group benefits program is administered through the Finance group providing corporate staff and the franchisee community with benefits coverage for employees and their families.

Construction and Design – BPI has developed a project management system that oversees the new store process with the franchisee, including the tender and award process, construction start-up meeting, development process, nine-day on-site construction completion and pre-opening review, final inspection, one-year warranty inspection and final project review. BPI's construction department also manages the renovation process that each Boston Pizza restaurant must complete on a seven-year cycle, which includes design changes to the exterior and interior, scope of work, budget preparation, drawing & tendering. The construction department also oversees the renovation construction process with the franchisees and general contractor.

Training – Franchisees and their general managers undergo seven weeks of total training. Each trainee completes an intensive five-day Business Management Program then completes six weeks of practical training at one of the corporate restaurants. BPI provides a separate three-week training course for the franchisee's kitchen manager. In addition to the initial franchisee training program, BPI provides ongoing training programs which take place at least once per year.

Store Opening Support – BPI supplies a four person training team that arrives on site two weeks before the opening date and stay for one week thereafter. This team assists the franchisee in hiring staff and then trains them in restaurant operating standards. As well, a Local Store Marketing Manager is assigned to each new franchise to develop a restaurant opening support program.

Ongoing Field Support – Each restaurant is assigned to a Field Services Manager who is responsible for providing ongoing support and assessment of the financial and operations standards of the restaurant. In its first year each restaurant receives a minimum of four visits, including a store opening visit, a visit 45 days after opening and two subsequent quality assurance visits. In following years, each Boston Pizza restaurant receives a minimum of two quality assurance visits and on going silent shopper evaluations to assess customer experience and identify in-store sales opportunities. BPI has developed an incentive program to rank and reward the staff of the top performing restaurants in the chain.

Purchasing – BPI's purchasing department leverages Boston Pizza's buying power to procure the highest quality ingredients at the best possible prices. Approximately 86% of total food purchases are covered under national buying contracts and produce an estimated savings of 25% compared to the street price of these items. BPI also administers the Direct Buy Equipment Program, which negotiates pricing on major pieces of equipment and restaurant fixtures. By leveraging its buying power to negotiate directly with manufacturers, BPI has been able to save franchisees approximately 17% of the cost of these items, reducing the initial investment of fixturing a restaurant.

Research and Development – BPI employs an executive chef and has a Menu Development Committee, which together are responsible for menu development. This group's key goal is the continuous refreshment and updating of the menu while maintaining BPI's strategic food cost target. This group also manages menu design and administration and reviews pricing decisions.

Information Technology – Franchisees use the POSitouch point of sale system for order entry, inventory, labour management and reporting. POSitouch provides vital, real-time updates on food and labour cost, and the system's open architecture allows BPI to collect detailed sales information electronically. This information is stored in a primary data warehouse and then used by BPI staff to analyze menu item profitability, menu item sales volumes and to support marketing decisions. Immediate communication throughout the organization is achieved on-line through BPI's recently upgraded Intranet system, "Bostonlink", a web-based knowledge management system which allows franchisees and corporate staff

continual access to key operational information and company announcements, along with access to online manuals and resource materials.

### *Competitive Strengths*

BPI believes that the success of the Boston Pizza concept and the strong increases in same store sales growth and Franchise Revenues are driven by the following factors:

- Low Food Costs – The Boston Pizza menu features pizza and pasta on an extensive menu of over 100 items. These signature menu items are low cost, high return food items relative to high cost items such as steak, seafood or poultry. The corporate target is to maintain pizza and pasta sales at 45 - 50% of food sales, in order to achieve food cost targets. This food cost advantage is a key component of Boston Pizza's success. In addition, BPI is able to use its purchasing power to negotiate lower food costs for its franchisees. BPI's food costs as a percentage of sales are approximately 25% lower than the average for licensed restaurants in Canada.
- Broad Demographic Appeal – Boston Pizza Restaurants operate within two distinct categories of the full service restaurant segment as a casual dining restaurant and as a sports bar. This concept duality means that the typical Boston Pizza restaurant has broader demographic appeal, effectively targeting families and casual dining restaurant customers as well as young adults with no children. These two segments are typically considered to be very different markets.
- Ability to Target Multiple Dayparts – The Boston Pizza concept provides a franchisee with the flexibility necessary to target four distinct "dayparts" or segments – lunch, dinner and late night, as well as the take out and delivery segment. Typically, other casual dining concepts are not as well developed in the late night and take out and delivery segments.
- Single Brand Focus – BPI's exclusive focus on Boston Pizza has driven the continuing successful evolution of the brand. This has had a significant impact in the areas of menu development, franchisee communication and relations, and marketing.
- Franchise System Focus – Unlike many competitors in the casual dining segment, BPI's business is not divided between corporate owned operations and franchise sales. BPI owns and operates only three Boston Pizza Restaurants (which also serve as testing facilities and training centres for franchisees). The focus of BPI's operations is on the success of its franchise restaurants.
- Market Flexibility – With its menu diversity, average cheque advantage and profitability potential for a franchisee, the Boston Pizza concept has enjoyed success in a wide range of markets, including smaller markets. Some very successful franchises operate in population trade areas under 20,000. The profitability and universality of the Boston Pizza concept allows for expansion into markets which BPI believes would be unable to support other competing casual dining concepts.
- Average Cheque Advantage – BPI delivers a top quality eating experience with a lower average cheque relative to many other casual dining restaurants. This translates into a significant advantage for franchisees and BPI, both in being able to target a broader market generally and in providing an appealing "cross-over" option for customers in changing economic conditions.
- Ability to Continuously Update the Concept – BPI's franchise agreement provides that franchisees are required to update their restaurants at least every seven years to current standards set by BPI. This is a significant advantage in that it allows BPI to ensure that locations are maintained at the highest standards, and allows for regular updating of the concept. In many cases this regular updating and renovation has been a key determinant of the continuing success of a specific location.

- Award Winning National Marketing Platform – Boston Pizza is one of the few casual dining restaurant brands in Canada able to utilize the efficiencies of national marketing initiatives such as purchasing of blocks of advertising on cable and national network television. This growth in marketing resources has allowed BPI to invest in an aggressive promotional calendar, including sponsorship of the Airmiles customer loyalty program.
- Advantages of Scale and Scope – As well as increasing marketing impact, BPI is able to benefit from its increasing number of franchise operations to increase purchasing efficiencies and reduce unit cost overhead in providing services to franchisees.

### *Growth Strategy*

Management believes that Boston Pizza is well positioned to increase its number one position in the casual dining market. As has been the record over the past decade, BPI's future growth is expected to come from a combination of same store sales growth and new restaurant growth.

- Growth in Same Store Sales – BPI has demonstrated a track record of exceptional same store sales growth, averaging 6.4% over the last 10 years. Given the increasing ability to lever larger marketing budgets and the market synergy gained from increased restaurant presence, Management believes that the brand is well positioned to continue to enjoy above average same store sales growth. BPI's franchise agreement requires that each Boston Pizza restaurant undergo a complete store renovation once every seven years at the franchisee's expense, as well as any equipment upgrades required by BPI. BPI's renovation program is a proven sales builder. Historically the average increase in overall sales for renovated restaurants has been between 10% - 15% in the year following the renovation.
- Growth in New Restaurants – BPI currently has significant commitments from franchisees to develop new restaurants. Eastern Canada and Quebec remain strong markets for new restaurants. BPI will continue to infill an already well developed market in Western Canada. As at February 1, 2008, Eastern Canada has received 39 deposits for new restaurants, Quebec has received 10 deposits for new restaurants and Western Canada has received 16 deposits for new restaurants. Currently, 300 restaurants are in operation today. Based on historical results and the deposits received to date, BPI estimates that approximately 100 Boston Pizza Restaurants will be opened over the next three years.

### *Government Regulation*

#### Local Regulation of Boston Pizza Restaurants

Corporate and franchised Boston Pizza Restaurants are subject to licensing and regulation by a number of governmental authorities, which may include liquor, health, sanitation, safety, fire, building and other agencies in the provinces or municipalities in which Boston Pizza Restaurants are located. Developing new Boston Pizza Restaurants in particular locations requires licenses and land use approval, and could be delayed by difficulties in obtaining such licenses and approvals or by more stringent requirements of local government bodies with respect to zoning, land use and licensing. Boston Pizza franchisees must comply with all applicable federal, provincial and local laws and regulations. Pursuant to its franchise agreements, BPI is indemnified by Boston Pizza franchisees for any liabilities or costs incurred which are attributable to their failure to comply with such laws and regulations.

#### Food Product Regulation

BPI and suppliers of food products to Boston Pizza restaurants must comply with applicable federal and provincial regulations relating to the manufacturing, preparation and labelling of food products.

## Franchise Regulation

BPI must comply with the laws and regulations adopted in the Provinces of Alberta, Ontario and Prince Edward Island that require certain disclosure to be made with respect to the offer and sale of franchises. These laws require that BPI furnish prospective Boston Pizza franchisees with a disclosure document containing information prescribed by these laws.

## Employment Regulations

BPI and Boston Pizza franchisees are subject to provincial labour and employment laws that govern their relationship with employees, such as minimum wage requirements, overtime and working conditions.

## Regulations Governing Alcoholic Beverages

Alcoholic beverage control regulations require that BPI, its subsidiaries or a Boston Pizza franchisee, as the case may be, apply to a provincial or a municipal authority 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 a Boston Pizza restaurant, including the minimum age of patrons and employees, hours of operation, advertising, wholesale purchasing, inventory control, and handling, storage and dispensing of alcoholic beverages.

Boston Pizza Restaurants may be subject to certain provinces' statutes, 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.

## Regulations Governing Smoking

Boston Pizza Restaurants are subject to various laws that prohibit or limit smoking on the premises and that impose fines for failure to adhere to such laws.

## *Competition*

Boston Pizza locations compete with other food service operations within the same geographical area. Competition, in the broadest perspective, includes full service restaurants, quick service restaurants, coffee shops, delicatessens and supermarkets. More narrowly, Boston Pizza is competing within the casual dining segment of the full service restaurant segment. The principal competitors to Boston Pizza vary from market to market and include a number of regional and national chain concepts. These include Earl's, East Side Mario's, Jack Astor's, Kelsey's, Montana's and The Keg as well as other smaller chains.

Boston Pizza competes with other casual dining concepts for high quality restaurant sites as well as committed, qualified individuals as franchisee candidates. In terms of customers, competition comes primarily through the quality, variety and value perception of the menu items, as well as through the perception of the quality of the dining experience. The number of locations, attractiveness of facilities, effectiveness of marketing and menu development are also important competitive factors.

## *Seasonality*

The casual dining industry experiences seasonal fluctuations in sales largely associated with weather. Warm weather periods generally generate higher revenue than cold weather periods. In 2007, the variance between the first quarter franchise revenue results reported by restaurants in the Royalty Pool versus the third quarter results was 13.5%. The majority of the Boston Pizza Restaurants are freestanding, and normally have patios that increase restaurant capacity and revenue during warm weather. This usually results in a stronger third quarter versus other quarters during a calendar year.

## **BPI Line of Credit**

BPI has entered into an agreement with the Bank dated November 16, 2007 whereby the Bank agreed to provide to BPI an operating line of credit, repayable on demand, in the amount of \$7.5 million dollars with an interest rate equal to the Bank's prime rate, floating. This line of credit will be used to cover BPI's day-to-day operating requirements through normal seasonal variations in the business, if needed.

BPI's obligation under the line of credit and a \$2 million corporate Mastercard facility from the same Bank (collectively, the "Line of Credit") will be secured by a first charge over the assets of BPI and its subsidiaries, other than the following assets of BPI:

- the royalty payments received by BPI from its franchisees;
- the Class C Units held by BPI; and
- the monthly distribution by the Partnership on those Class C Units.

The Fund and its subsidiaries (including the Partnership) will continue to have a first charge over these assets and will have a second position charge over all of the assets of BPI and its subsidiaries (with certain exceptions).

BPI has, as part of the security granted to the Bank, agreed to pledge a minimum number of Class B Units held by BPI which are convertible into Units of the Fund which would have a value, at any time, equal to at least 125% of the amount outstanding on the Line of Credit.

BPI and its subsidiaries have also consented under the Line of Credit that they will:

- not guarantee any debt without the prior consent of the Bank;
- not grant a security interest in their assets without the prior consent of the Bank (excluding standard permitted liens);
- not amalgamate or merge without the consent of the Bank (such consent not be unreasonably withheld);
- not allow a change of control without the prior consent of the Bank (such consent not be unreasonably withheld);
- not maintain the Line of Credit in an overdraft position for more than 180 consecutive days;
- shall at all times maintain an adjusted current ratio of 1.10:1 (tested quarterly);
- shall at all times maintain a maximum total funded debt to EBITDA ratio of 3.50:1 (tested quarterly; EBITDA is calculated on a rolling 4 quarters basis); and shall at all times maintain ratio of CFADS to TDS of 1.25:1 (tested annually).

## **LICENSE AND ROYALTY**

### **The License**

Pursuant to the License and Royalty Agreement, the Partnership has granted to BPI a License to use the BP Rights for a period of 99 years from July 17, 2002.

### **The Royalty**

As consideration for the License, BPI pays the Partnership on a monthly basis the Royalty equal to 4% of Franchise Revenue for all Boston Pizza Restaurants included in the Royalty Pool. The amount of the

Royalty is determined at the end of each month and is payable on the 21st day following the end of such month.

The Royalty Pool, at any time, is comprised of the Boston Pizza Restaurants for which Franchise Revenue is to be calculated and for which the Royalty is to be paid at such time. As of February 1, 2008 there were 300 Boston Pizza Restaurants in the Royalty Pool. For the purposes of determining the amount of the Royalty payable at any time, Franchise Revenue is Gross Revenue after deducting revenue from the sale of liquor, beer, wine and tobacco and approved national discounts.

Each time a Royalty payment is made to the Partnership, BPI provides the Partnership with a statement, certified as correct by the Chief Financial Officer of BPI, of the amount of the Franchise Revenue for the month for which the Royalty is paid. The Partnership is entitled to inspect the books and records of BPI at any time to review the determination of the amount of the Royalty that is payable by BPI. BPI is obligated to provide the Partnership and the Fund, by not later than February 28 of each year, with an audited statement of the amount of Franchise Revenue for the 12 months ended on the preceding December 31.

BPI is also obligated to provide the Partnership and the Fund with BPI's unaudited financial statements within 45 days of the end of each quarterly accounting period of BPI and audited annual consolidated financial statements within 90 days of the end of each fiscal year of BPI. These financial statements are required to be prepared in accordance with Canadian generally accepted accounting principles.

#### **Operating Covenants of BPI in the License and Royalty Agreement**

BPI is obligated under the License and Royalty Agreement, among other things, to:

- operate and conduct its business (including the supervision of the Boston Pizza franchisees) in at least the manner and to at least the standards that its business was conducted and operated as at July 17, 2002;
- preserve and protect the business of BPI and all goodwill associated therewith;
- collect all fees and other amounts payable to BPI under franchise agreements with BPI by Boston Pizza franchisees;
- monitor the compliance of Boston Pizza franchisees with the trade mark and character and quality standards set under the franchise agreements;
- enforce the observance and performance of franchise agreements by Boston Pizza franchisees in a manner that is consistent with good and prudent business practices; and
- not, without the consent of the Trustees, which shall not be withheld unreasonably, amend the terms of any franchise agreement such that:
  - royalty revenues under a franchise agreement are calculated in a manner that is not consistent with the present and past practices of BPI, including, without limitation, any reduction in the percent of food sales that is payable by franchisees as a royalty;
  - franchisees are required or have the opportunity to purchase supplies or equipment from BPI or any affiliate of or related party to BPI, in connection with any change in the manner by which royalty revenues are determined; or
  - franchisees are obligated to carry on business in a manner that is not materially consistent with historical Boston Pizza practice.

## **Adjustment of the Royalty**

The License and Royalty Agreement provides for an annual adjustment to the amount of the Royalty based upon closed Boston Pizza Restaurants and any new restaurants to be included in the Royalty Pool (“Additional Restaurants”). The following is a summary only of the manner by which such adjustments are calculated and implemented, and reference should be made to the License and Royalty Agreement and Limited Partnership Agreement for the full text of these adjustments.

### *New Boston Pizza Restaurants and Adjustment to the Royalty Pool*

BPI intends to continue to expand the number of Boston Pizza Restaurants in Canada by entering into franchise agreements in respect of new Boston Pizza Restaurants that are not included in the Royalty Pool.

The Royalty Pool is adjusted annually on January 1 (the “Adjustment Date”) of each year by including in the Royalty Pool those Additional Restaurants which opened prior to the Adjustment Date. For purposes of determining the amount of the Royalty, on or after the Adjustment Date, the amount to be added to the Franchise Revenue in respect of Additional Restaurants is the amount that the Franchise Revenue of the Additional Restaurants exceeds the Franchise Revenue of Boston Pizza Restaurants closed during the year (the amount of Franchise Revenue of a “closed” Boston Pizza Restaurant is determined using Franchise Revenue of that restaurant at the date of adding that restaurant to the Royalty Pool).

### *Class B Unit Entitlement*

The holders of the Class B Units are entitled to distributions on the Class B Units in each year, payable monthly, equal to the distribution on that number of Units equal to the “Class B Distribution Limit” at that time. The Class B Distribution Limit is adjusted on the Adjustment Date in each year based upon an amount (the “Determined Amount”) that reflects the increase in the Royalty as the result of the inclusion of the Franchise Revenue of Additional Restaurants in the Royalty Pool (after adjustment for closed Boston Pizza Restaurants), and further adjusted to reflect any exchanges of Class B Units into Units on the date of such exchange.

The amount of the Franchise Revenue of the Additional Restaurants that is used to calculate the Determined Amount is to be based upon the actual Franchise Revenue of the Additional Restaurants for the first Fiscal Year in which such Additional Restaurants are included in the Royalty Pool. An estimate of the Determined Amount is to be made based upon the amount of the Franchise Revenue of the Additional Restaurants for such Fiscal Year as forecast by BPI, on the basis of assumptions that are considered to be reasonable by the board of directors of Boston Pizza GP Inc. Such estimated Determined Amount is to be readjusted after the end of such Fiscal Year when the actual Determined Amount is calculated on the basis of the actual Franchise Revenue for such Additional Restaurants for such Fiscal Year. BPI is to provide the Partnership with an audited report of the amount of such Franchise Revenues of the Additional Restaurants for the first Fiscal Year in which such Additional Restaurants are included in the Royalty Pool.

The Determined Amount is to be 92.5% of the amount determined by dividing the Royalty paid in respect of the Franchise Revenue for such Additional Restaurants in respect of the first Fiscal Year for which such Additional Restaurants are included in the Royalty Pool by the annual yield paid on the Units for the Fiscal Year immediately preceding the Adjustment Date in respect of such first mentioned Fiscal Year. The annual yield is determined by dividing the per Unit amount distributed in cash by the Fund in such Fiscal Year (annualized in the case of a Fiscal Year of less than 12 months) by the “Current Market Price” of the Units on such Adjustment Date.

### *Closed Boston Pizza Restaurants*

Prior to January 1, 2008, if a Boston Pizza Restaurant was closed, BPI was obligated to pay to the Partnership the amount of the Royalty (the “Make-whole Payment”) payable in respect of the initial

amount of the Franchise Revenue of the closed Boston Pizza restaurant until such time as sufficient Royalties from Additional Restaurants were added to offset the lost Royalties from such closure. BPI opened its 275<sup>th</sup> restaurant in 2007 and this restaurant was added to the Royalty Pool on January 1, 2008; therefore as of January 1, 2008, BPI is no longer obligated to pay any Make-whole Payments.

## **Security for the Royalty**

### *Security*

Payment of the Royalty is secured by a general security interest in all present and after acquired property of BPI (with certain exceptions), including all amounts payable to BPI by the Boston Pizza franchisees operating Boston Pizza Restaurants in Canada, pursuant to a general security agreement (the "Partnership General Security Agreement") granted by BPI to the Partnership. Under the Partnership General Security Agreement, the Partnership is entitled, in the event of a default by BPI, to appoint a receiver of BPI with the power to carry on the business of BPI and, in the event of a material default by BPI, to require BPI to prepay the amount of the Royalty for 12 months. All amounts realized by the receiver, after costs, will be applied to the costs of operating the business of BPI and to the payment of the Royalty to the Partnership. BPI has obtained a Line of Credit from the Bank. BPI's obligation under the Line of Credit is secured by a first charge over certain assets of BPI and its subsidiaries and, as a consequence, the Partnership's interest in those assets is subordinate to that charge. See "Security for the Royalty - BPI Line of Credit".

No security interest in any specific property of BPI has been obtained by the Partnership.

### *Negative Covenants*

BPI has covenanted in the Partnership General Security Agreement for the Royalty and the security agreement in respect of the BP Loan (the "Boston Pizza General Security Agreement"), among other things, not to and not to permit its subsidiaries that are credit parties to the Partnership General Security Agreement to incur any indebtedness, grant any security interests, pay any dividends, or dispose of any interest in any subsidiary of BPI that owns a Boston Pizza restaurant in Canada except in certain circumstances.

### *Certain Remedies*

In the event of a default by BPI under the License and Royalty Agreement, the BP Loan, the Boston Pizza General Security Agreement or under the Partnership General Security Agreement, including the failure to pay the Royalty or any interest payment when due, the Partnership and the Fund are each entitled to a number of remedies, both at law and under the agreements. The principal remedies include the commencement of legal proceedings, assignment to the Partnership or the Fund of amounts owing by franchisees to BPI under its franchise agreements and the appointment of a receiver to take possession of the assets of BPI over which the Fund or the Partnership have a security interest.

In the event of the bankruptcy or insolvency of BPI, the License and Royalty Agreement provides that BPI is required to prepay the Royalty by paying the Partnership the present value at that time, of the Royalty over the remaining term of the License and Royalty Agreement.

Until the Royalty is brought into good standing, or the Partnership agrees to other arrangements, and subject to applicable law (including laws governing reorganizations), a receiver appointed by the Partnership or by the court would continue to operate the business of BPI and its affiliated entities over which the Partnership and the Fund have a security interest.

The foregoing is a summary only of the remedies available to the Partnership in the event of a default by BPI under the License and Royalty Agreement and the Partnership General Security Agreement.



## DESCRIPTION OF THE PARTNERSHIP

### General

The Partnership is a limited partnership formed under the laws of British Columbia. The business of the Partnership is the ownership of the BP Rights, the taking of actions consistent with the License and Royalty Agreement to exploit, to the fullest extent possible, the use of the BP Rights by BPI, and the collection of the Royalty payable to the Partnership under the License and Royalty Agreement and the administration of the affairs of the Fund and the Trust. The Partnership is governed by the Limited Partnership Agreement.

### Partners

The members of the Partnership are Boston Pizza GP Inc., as the Managing General Partner holding 99% of the GP Units; BPI, as a general partner holding in aggregate 1% of the GP Units, 100% of the Class B Units and 100% of the Class C Units; and the Trust, as the sole limited partner holding 100% of the LP Units, Class A Units and Class D Units.

### Partnership Units

As of February 1, 2008, there are 37,614,677 Class B Units, 2,400,000 Class C Units, 100 GP Units, 7,690,000 LP Units, 1,605,290 Class A Units, and 3,455,632 Class D Units issued and outstanding. The rights and entitlements of these units in the Partnership with respect to voting, distributions of distributable cash, allocations of Partnership income and distributions of proceeds of liquidation of the Partnership are described in the following description of the Partnership.

The Limited Partnership Agreement provides that, subject to the terms, conditions and restrictions contained therein, the Partnership may issue an unlimited number of Partnership Securities to any person. The Managing General Partner will be entitled to determine the amount of capital required to be contributed in respect of each unit, the time or times at which the contribution is to be paid to the Partnership and to amend the certificate of limited partnership to reflect such units. The amount of capital to be contributed in respect of any Partnership Security may be paid in cash, or in property, as determined by the Managing General Partner.

Limited partners are liable for the liabilities, debts and obligations of the Partnership, but only to the extent of the amount contributed by them or agreed to be contributed by them to the Partnership, providing that they take no part in the management of the Partnership. Subject to applicable law, limited partners do not otherwise have any liability in respect of the liabilities, debts and obligations of the Partnership. The maximum amount to be contributed to the Partnership in respect of an LP Unit or a Class A Unit, Class B Unit or Class C Unit is the amount agreed to by the Partnership as the value of the property contributed to the Partnership in respect of such unit not exceeding \$10 per unit. Each holder of GP Units, as a general partner, will have unlimited liability for an obligation of the Partnership unless the holder of such obligation otherwise agrees.

### Distributions

Boston Pizza GP Inc., as Managing General Partner, is obligated, on behalf of the Partnership, to distribute cash as set out below. Distributions of available cash in respect of each month will be made no later than the third business day immediately prior to the end of the month following the month in which the applicable distribution period ends to Boston Pizza GP Inc. and to those partners listed on record on the 21st day of such following month (except distributions in respect of December, for which the record date will be the last day of December). The Managing General Partner may, on behalf of the Partnership, distribute additional available cash at any other time.

Available cash at any time will represent, in general, all of the Partnership's cash at such time, less amounts which in the opinion of the Managing General Partner are required to be provided for at such time in respect of:

- debt service obligations, if any, and payments on account of principal of the Term and Operating Loans or any other debt obligations of the Partnership;
- interest (including interest accrued or payable under the Term and Operating Loans) and other expense obligations of the Partnership;
- expenses of the Fund and the Trust to be paid by the Partnership under the Administration Agreement;
- expenses of the Partnership; and
- reasonable reserves considered necessary or desirable by Boston Pizza GP Inc.

The Partnership is obligated to make monthly distributions to its partners of available cash first, to holders of Class C Units; second, to holders of Class D Units; third, to holders of Class A Units; fourth, to holders of Class B Units; and fifth, to holders of GP Units; in the amounts prescribed by the Limited Partnership Agreement. Any amounts remaining after those distributions will be distributed to holders of Class A Units, Class B Units, Class D Units and LP Units *pro rata* in accordance with the aggregate number of units of each class issued and outstanding, or in the case of Class B Units, the Class B Distribution Limit at that time.

In addition, as soon as practicable after each Adjustment Date there will be distributed to the holders of the Class B Units, in priority to all other distributions, any positive amount that would have been distributed to holders of Class B Units in the previous year if the Determined Amount for that period had been based on the actual Franchise Revenues of the Additional Restaurants added to Royalty Pool on the previous Adjustment Date rather than on an estimate of those revenues. In the event the holders of Class B Units should have received less distributions in the previous year than they received based on the estimated Determined Amount, the holders of the Class B Units will pay to the Partnership the negative difference between what they should have received and what they actually received.

#### **Allocation of Net Income and Losses**

The income or loss, if any, of the Partnership for accounting purposes for each fiscal year, and the income or loss, if any, of the Partnership as determined pursuant to the Tax Act for a particular fiscal year, is allocated to the holders of Class A Units, Class B Units, Class C Units, Class D Units, LP Units and GP Units in proportion to the available cash of the Partnership distributed to such holders in respect of such fiscal year. The amount of income allocated to a partner may exceed or be less than the amount of cash distributed by the Partnership to that partner. In any fiscal year in which no cash is distributed to the partners in respect of their units, income or loss is allocated to partners in proportion to the number of Partnership Securities held by each.

#### **Liquidation Entitlement**

In the event of a dissolution of the Partnership, Boston Pizza GP Inc. will distribute the net proceeds from the liquidation of the Partnership (after payment of expenses and provision for indebtedness and adequate reserves) at first, to holders of Class C Units; second, to holders of Class D Units; third, to the holders of Class A Units; fourth, to the holders of Class B Units; and fifth, to the holders of GP Units; in amounts prescribed in the Limited Partnership Agreement. Any amounts remaining after those distributions will be distributed to the holders of Class A Units, Class B Units, Class D Units and LP Units in accordance with the aggregate number of units of each class issued and outstanding or in the case of Class B Units, the Class B Distribution Limit.

## **Voting**

Except as expressly provided for in the Limited Partnership Agreement, units in the Partnership do not carry any entitlement to vote.

## **Functions and Powers of Boston Pizza GP Inc. and BPI**

Boston Pizza GP Inc. has the authority to manage the business and affairs of the Partnership, to make decisions regarding the business of the Partnership and to bind the Partnership in respect of any such decision. Boston Pizza GP Inc. is required to exercise its powers and discharge its duties honestly, in good faith and in the best interests of the Partnership and to exercise the care, diligence and skill of a reasonably prudent person in comparable circumstances.

The authority and power to be vested in Boston Pizza GP Inc. to manage the business and affairs of the Partnership includes all authority necessary or incidental to carry out the objects, purposes and business of the Partnership, including the ability to engage agents to assist Boston Pizza GP Inc. to carry out its management obligations and administrative functions in respect of the Partnership and its business. BPI, as a general partner of the Partnership, is actively engaged in the business of the Partnership, is responsible for assisting, and has authority to assist, Boston Pizza GP Inc. in the management of the business and affairs of the Partnership and performs such additional specific duties in connection with the business of the Partnership as are delegated to BPI by Boston Pizza GP Inc. from time to time and pursuant to the Limited Partnership Agreement. BPI provides ongoing and regular consultation and management services to the Partnership as to the operation and management of the business of the Partnership, in addition to the assistance provided to Boston Pizza GP Inc.

In particular, BPI is responsible for:

- the performance of the duties of the Partnership pursuant to the Administration Agreement;
- the provision of accounting, bookkeeping and administrative services; and
- subject to the approval of Boston Pizza GP Inc., allocating distributions of cash and allocations of taxable and accounting income to the partners.

The Limited Partnership Agreement provides that all material transactions and agreements involving the Partnership (other than the agreements entered into in connection with the formation of the Partnership) must be approved by Boston Pizza GP Inc.'s board of directors and, where those agreements involve BPI or its affiliates or associates, they must be approved by a majority of the directors who are not nominees of BPI or of an affiliate or an associate of BPI, and where those agreements involve the creation of debt obligations for which BPI is liable, they must be approved by BPI. Boston Pizza GP Inc. and BPI are both entitled, under the Partnership Agreement for a reimbursement of out-of-pocket costs associated with activities undertaken on behalf of the Partnership.

## **Limited Liability**

The Partnership is obligated to operate in a manner so as to ensure, to the greatest extent possible, the limited liability of the limited partners. Limited partners may lose their limited liability in certain circumstances. If limited liability is lost by reason of the negligence of Boston Pizza GP Inc. in performing its duties and obligations under the Limited Partnership Agreement, Boston Pizza GP Inc. is obligated to indemnify the limited partners against all claims arising from assertions that their respective liabilities are not limited as intended by the Limited Partnership Agreement.

However, since Boston Pizza GP Inc. has no significant assets or financial resources, the indemnity from Boston Pizza GP Inc. may have nominal value.

## **Transfer of Partnership Units**

Except as provided in the Governance Agreement and the Exchange Agreement, the Partnership Securities are not transferable or assignable to any person. No assignee of the Partnership Securities will be entitled to be admitted to the Partnership as a partner pursuant to an assignment thereof, except with the written consent of Boston Pizza GP Inc. and BPI (which consent Boston Pizza GP Inc. and BPI will each be entitled to withhold in their sole discretion) on the terms and conditions of such consent and unless the assignee has delivered to Boston Pizza GP Inc. an assignment, power of attorney and such other instruments and documents as may be required by Boston Pizza GP Inc. in appropriate form completed and executed in a manner acceptable to Boston Pizza GP Inc. and upon the payment of an administration fee, if any, required by Boston Pizza GP Inc. A transferee of a Partnership Security will not become a partner or be admitted to the Partnership and will not be subject to the obligations and entitled to the rights of the transferor under the Limited Partnership Agreement until the foregoing conditions are satisfied and such transferee is recorded on the Partnership's register of partners.

BPI has, as part of the security granted to the Bank for the Line of Credit, agreed to pledge a minimum number of Class B Units held by BPI in the Partnership which are convertible into Units of the Fund which would have a value, at any time, equal to at least 125% of the amount outstanding on the Line of Credit. See "Description of Business - BPI Line of Credit."

## **Term Loan and Operating Loan**

The Partnership formerly had an agreement with a Canadian Chartered Bank ("Existing Lender") whereby the Existing Lender provided to the Partnership a term loan in the principal amount of \$5 million (the "Existing Lender Term Loan") and an operating loan in the amount of up to \$1 million (the "Existing Lender Operating Loan"). On April 19, 2007, the Partnership repaid all debt outstanding on the Existing Lender Term Loan.

Effective April 19, 2007, the Partnership has a new agreement with the Bank whereby the Bank has provided to the Partnership a non-revolving term loan in the principal amount of \$5 million (guaranteed by Boston Pizza GP Inc., the Trust and the Fund) with an interest rate equal to the Bank's prime rate plus 50 basis points (the "Term Loan") and a revolving operating loan in the amount of up to \$1 million (guaranteed by Boston Pizza GP Inc., the Trust and the Fund) with an interest rate equal to the Bank's prime rate per annum (the "Operating Loan"). The Term Loan is due April 19, 2010 and may be extended at the request of the Partnership and the option of the Bank. The Operating Loan is due April 18, 2008 and may be extended at the request of the Partnership and the option of the Bank.

The indebtedness and liability of the Partnership under the Term Loan and the Operating Loan is secured by a first ranking interest in all present and after-acquired property of the Partnership and the rights and interest of the Partnership in a General Security Agreement providing a first floating charge against assets of the Partnership. No security has been given by BPI with respect to the Term Loan and the Operating Loan. Principal covenants of the Term Loan are: (i) the Partnership shall maintain a maximum total Funded Debt to EBITDA Ratio of 1.25:1 (tested quarterly). Funded Debt is defined as all indebtedness for borrowed money that carries an interest cost. EBITDA is defined as the trailing four quarter earnings before interest, taxes and depreciation and amortization, based on accounting policies consistent with those policies applied in preparation of the fiscal year-end audited financial statements and (ii) the Partnership shall maintain a position so that actual cash distributed to Unitholders of the Fund does not exceed the sum of: (i) Distributable Cash, and (ii) Cash on hand – being the greater of cash on hand as indicated on the Partnership's Balance Sheet at the end of the period of the test and nil (tested quarterly on a trailing 12 month basis). Distributable Cash is defined as EBITDA less interest expense and any other cash payments required by the Partnership before making cash distributions to Unitholders of the Fund. The Partnership is currently in full compliance with all covenants related to these loan agreements.

The fees paid to the Bank are: (i) with respect to the Term Loan, a one-time arrangement fee equivalent to 35 basis points of the amount of the Term Loan and a fee of \$10,000 is payable at each renewal of the

Term Loan, and (ii) with respect to the Operating Loan, a one-time arrangement fee of \$5,000 and a standby fee of \$5,000 payable annually.

### **Governance Agreement**

The Fund, the Partnership, the Trust, BPI, Boston Pizza GP Inc. and certain of the related parties have entered into a Governance Agreement, providing for among other things, the governance of Boston Pizza GP Inc. See "Management – Governance Agreement".

## **DESCRIPTION OF THE FUND**

### **Declaration of Trust**

The Fund is a limited purpose open-ended trust established under the laws of the Province of British Columbia pursuant to the Declaration of Trust. The Fund is a mutual fund trust for the purposes of the Tax Act and intends to continue to so qualify. The following is a summary of the material attributes and characteristics of the Units and Special Voting Units and certain provisions of the Declaration of Trust which does not purport to be complete. Reference is made to the Declaration of Trust for a complete description of the Units and Special Voting Units and the full text of its provisions.

### **Activities of the Fund**

The Declaration of Trust provides that the Fund is restricted to:

- (a) investing its securities, including those issued by the Trust and Boston Pizza GP Inc., acquiring and holding the BP Loan;
- (b) temporarily holding cash in interest-bearing accounts or short-term government debt or investment grade corporate debt for the purposes of paying the expenses of the Fund, paying amounts payable by the Fund in connection with the redemption of any Units and making distributions to Unitholders;
- (c) issuing Units and Special Voting Units (i) for cash or in satisfaction of any non-cash distribution or in order to acquire securities, including those issued by the Trust or the Partnership, (ii) upon the conversion or exchange of securities or debt obligations issued by the Fund, the Trust, the Partnership or any other person, and (iii) in satisfaction of any indebtedness of or borrowing by the Fund;
- (d) issuing debt securities or borrowing funds (including letters of credit, bank guarantees and bankers acceptances);
- (e) guaranteeing the obligations of the Partnership or the Trust or any affiliate of the Fund and granting a security interest in the assets of the Fund therefore;
- (f) pledging securities issued by the Trust as security for the debt securities or borrowed funds referred to in (d) or the guarantees referred to in (e);
- (g) issuing rights and Units pursuant to any Unitholder rights plan adopted by the Fund;
- (h) purchasing securities pursuant to any issuer bid made by the Fund;
- (i) entering into and performing its obligations under certain agreements, including the Administration Agreement and the Governance Agreement; and
- (j) undertaking such other activities, or taking such actions, including investing in securities as shall be approved by the Trustees from time to time provided that the Fund shall not

undertake any activity, take any action or make any investment which would result in the Fund not being considered a “mutual fund trust” for purposes of the Tax Act.

The Fund does not hold securities of entities other than the Trust and Boston Pizza GP Inc. and the only loan it holds is the BP Loan.

### **Units and Special Voting Units**

The beneficial interests in the Fund are divided into interests in two classes as follows:

- (a) a class described and designated as “Units”, which are entitled to the rights and subject to the limitations, restrictions and conditions set out in the Declaration of Trust as summarized herein. An unlimited number of Units may be created and issued pursuant to the Declaration of Trust. Each Unit is transferable and represents an equal undivided beneficial interest in any distributions from the Fund, whether of net income, net realized capital gains or other amounts, and in the net assets of the Fund in the event of termination or winding-up of the Fund; and
- (b) a class described and designated as “Special Voting Units”, which may be issued by the Fund, from time to time, to holders of record of securities which are ultimately exchangeable, exercisable or convertible into Units and shall be entitled to such number of votes at meetings of Voting Unitholders as is equal to the number of Units into which the related securities are exchangeable, exercisable or convertible but shall not be entitled to any distributions from the Fund.

All Units have equal rights and privileges and are not subject to future calls or assessments. Except as set out under “Redemption Right” below, the Units have no conversion, retraction, redemption or pre-emptive rights. Issued and outstanding Units and Special Voting Units may be subdivided or consolidated from time to time by the Trustees without the approval of Voting Unitholders.

No certificates have been issued for fractional Units and fractional Units do not entitle the holders thereof to vote. The Units are not “deposits” within the meaning of the *Canada Deposit Insurance Corporation Act* (Canada) and are not insured under the provisions of such act or any other legislation. Furthermore, the Fund is not a trust company and, accordingly, is not registered under any trust and loan company legislation as it does not carry on or intend to carry on the business of a trust company.

The Special Voting Units are subject to such other rights and limitations as may be determined by the Trustees at the time of issuance of any such Special Voting Units, provided that in no event do Special Voting Units entitle the holder to receive any distributions from the Fund. The Declaration of Trust provides that any Special Voting Units acquired by the Fund or an affiliate of the Fund will immediately cease to represent an entitlement to vote at meetings of Voting Unitholders. As of February 1, 2008, BPI, as holder of Class B Units of the Partnership, held Special Voting Units representing 4,699,297 votes, being that number of Units that BPI would be entitled to receive upon the exchange of its Class B Units for Units of the Fund. The Special Voting Units issued to BPI, as the holder of Class B Units of the Partnership, may be transferred only under the same circumstances as the associated Class B Units are evidenced only by the certificates representing such Class B Units and will be cancelled upon the exchange of Class B Units for Units of the Fund. Special Voting Units may be redeemed by the holder at any time for nominal consideration.

### **Issuance of Units and Special Voting Units**

The Declaration of Trust provides that the Units and Special Voting Units or rights to acquire Units may be issued at the times, to the persons, for the consideration and on the terms and conditions that the Trustees determine. Units may be issued in satisfaction of any non-cash distribution of the Fund to Unitholders on a *pro rata* basis. The Declaration of Trust also provides that immediately after any *pro rata* distribution of Units to all Unitholders in satisfaction of any non-cash distribution, the number of

outstanding Units will be consolidated such that each Unitholder will hold after the consolidation the same number of Units as the Unitholder held before the non-cash distribution. In this case, each certificate representing a number of Units prior to the non-cash distribution is deemed to represent the same number of Units after the non-cash distribution and the consolidation.

## **Trustees**

The Declaration of Trust provides that the Fund will have a minimum of two Trustees and a maximum of ten Trustees. The Trustees are to supervise the activities and manage the affairs of the Fund. See “Management – Trustees of the Fund” for a list of the current Trustees. Each of the current Trustees is also a director of Boston Pizza GP Inc.

Trustees are appointed at each annual meeting of Voting Unitholders to hold office for a term expiring at the close of the next annual meeting.

Any one or more of the Trustees may resign upon 30 days prior written notice to the Fund and may be removed by a resolution passed by a majority of the Voting Unitholders and the vacancy created by such removal or resignation must be filled at the same meeting, failing which it may be filled by the remaining Trustees.

A quorum of the Trustees, being a majority of the Trustees then holding office, may fill a vacancy in the Trustees, except a vacancy resulting from an increase in the maximum number of Trustees or from a failure of the Voting Unitholders to elect the required number of Trustees at a meeting of the Voting Unitholders called for such purpose. In the absence of a quorum of Trustees, or if the vacancy has arisen from a failure of the Voting Unitholders to elect the required number of Trustees at a meeting of the Voting Unitholders called for such purpose, the Trustees will forthwith call a special meeting of the Voting Unitholders to fill the vacancy. If the Trustees fail to call such meeting or if there are no Trustees then in office, any Voting Unitholder may call the meeting.

The Trustees may, between annual meetings of Voting Unitholders, appoint one or more additional Trustees to serve until the next annual meeting of Voting Unitholders, but the number of additional Trustees will not at any time exceed one-third of the number of Trustees who held office at the expiration of the immediately preceding annual meeting of Voting Unitholders.

The Declaration of Trust provides that, subject to the terms and conditions thereof, the Trustees may, in respect of the trust assets, exercise any and all rights, powers and privileges that could be exercised by a legal and beneficial owner thereof and shall supervise the investments and conduct the affairs of the Fund.

The Declaration of Trust prohibits a Non-resident from acting as a Trustee. The Trustees are responsible for, among other things:

- acting for, voting on behalf of and representing the Fund as a Unitholder and noteholder of the Trust, including voting for the election of the trustees of the Trust;
- maintaining records and providing reports to Voting Unitholders;
- supervising the activities of the Fund;
- effecting payments of distributable cash from the Fund to Unitholders; and
- voting in favour of the Fund's nominees to serve as trustees of the Trust.

The Declaration of Trust provides that the Trustees shall act honestly and in good faith with a view to the best interests of the Fund and in connection therewith shall exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. The duties and

standard of care of the Trustees are intended to be similar to, and not to be any greater than, those imposed on a director of a corporation governed by the *Canada Business Corporations Act* (the "CBCA"). The Declaration of Trust provides that the Trustees shall be entitled to indemnification from the Fund in respect of the exercise of their powers and the discharge of their duties provided that they acted honestly and in good faith with a view to the best interests of all the Unitholders.

### Cash Distributions

The following is a summary of the amount of cash distributions per Unit for the financial years ended 2005, 2006 and 2007:

CASH DISTRIBUTIONS - 2005, 2006 AND 2007:					
PAYMENT DATES					
February 28, 2007	11.10¢	February 28, 2006	10.30¢	February 28, 2005	9.67¢
March 30, 2007	11.10¢	March 31, 2006	10.30¢	March 31, 2005	9.67¢
April 30, 2007	11.10¢	April 28, 2006	10.30¢	April 29, 2005	9.67¢
May 31, 2007	11.10¢	May 31, 2006	10.50¢	May 31, 2005	9.67¢
June 29, 2007	11.30¢	June 30, 2006	10.50¢	June 30, 2005	9.90¢
July 31, 2007	11.30¢	July 31, 2006	10.50¢	July 29, 2005	9.90¢
August 31, 2007	11.30¢	August 31, 2006	10.90¢	August 31, 2005	9.90¢
September 28, 2007	11.30¢	September 29, 2006	10.90¢	September 30, 2005	9.90¢
October 31, 2007	11.30¢	October 31, 2006	10.90¢	October 31, 2005	10.10¢
November 30, 2007	11.50¢	November 30, 2006	10.90¢	November 30, 2005	10.10¢
December 31, 2007	11.50¢	December 29, 2006	10.90¢	December 30, 2005	10.10¢
January 31, 2008	11.50¢	January 31, 2007	10.90¢	January 31, 2006	10.10¢

The amount of cash to be distributed per month per Unit to the Unitholders shall be equal to a *pro rata* share of interest and principal repayments on the BP Loan and the Trust Notes and distributions on or in respect of the Trust Units owned by the Fund less:

- administrative expenses and other obligations of the Fund;
- amounts which may be paid by the Fund in connection with any cash redemptions of Units;
- any interest expense incurred by the Fund; and
- reasonable reserves established by the Trustees in their sole discretion.

The Fund intends to make distributions each month of amounts determined by the Trustees in their sole discretion to be available for distribution by the Fund for such month. Distributions in respect of each month are paid on the last day of the immediately following month to Unitholders of record on the 21st day of such following month (except in respect of the month of December, for which the record date is the last day of December).

To the extent that income of the Fund is applied to any cash redemptions of Units or is otherwise unavailable for cash distribution, distributions will be made to Unitholders in the form of additional Units. Such additional Units will be issued pursuant to applicable exemptions under applicable securities laws,



discretionary exemptions granted by applicable securities regulatory authorities or a prospectus or similar filing.

**Holders of Units who are Non-residents will be required to pay all withholding taxes payable in respect of any distributions of income by the Fund, whether such distributions are in the form of cash or additional Units. Non-residents should consult their own tax advisors regarding the tax consequences of investing in the Units.**

### **Book-Entry Only System**

Registration of interests in and transfer of the Units will be made only through a book-based system (the “Book-Entry Only System”) administered by the CDS Clearing and Depository Services Inc. (“CDS”). Units must be purchased, transferred and surrendered for redemption through a CDS Participant. All rights of Unitholders must be exercised through, and all payments or other property to which such Unitholder is entitled will be delivered by, CDS or the CDS Participant through which the Unitholder holds such Units. Upon purchase of any Units, the Unitholder will receive only a customer confirmation from the registered dealer which is a CDS Participant and from or through which the Units are purchased.

The ability of a beneficial owner of Units to pledge such Units or otherwise take action with respect to such Unitholder’s interest in such Units (other than through a CDS Participant) may be limited due to the lack of a physical certificate.

The Fund has the option to terminate registration of the Units through the Book-Entry Only System in which case certificates for the Units in fully registered form would be issued to beneficial owners of such Units or their nominees.

### **Rights of Unitholders**

The rights of Unitholders as investors in the Fund are currently governed by the Declaration of Trust and have been summarized above under “Description of the Fund”. Although the Declaration of Trust confers upon a Unitholder many of the same protections, rights and remedies that an investor would have as a shareholder of a corporation governed by the CBCA, significant differences do exist.

Many of the provisions of the CBCA respecting the governance and management of a corporation have been incorporated in the Declaration of Trust. For example, Unitholders are entitled to exercise voting rights in respect of their holdings of Units in a manner comparable to shareholders of a CBCA corporation and to elect Trustees and auditors. The Declaration of Trust also includes provisions modeled after comparable provisions of the CBCA dealing with the calling and holding of meetings of Unitholders and Trustees, the quorum for and procedures at such meetings and the right of investors to participate in the decision-making process where certain fundamental actions are proposed to be undertaken. The matters in respect of which Unitholder approval is required under the Declaration of Trust are generally less extensive than the rights conferred on the shareholders of a CBCA corporation, but effectively extend to certain fundamental actions that may be undertaken by the Fund’s subsidiary entities, as described under “Description of the Fund – Meetings of Voting Unitholders” and “Description of the Fund – Exercise of Certain Voting Rights Attached to Certain Securities”. These Unitholder approval rights are supplemented by provisions of applicable securities laws that are generally applicable to issuers (whether corporations, trusts or other entities) that are “reporting issuers” or the equivalent or listed on the TSX.

The Declaration of Trust contains conflict of interest provisions, similar to those contained in the CBCA, that require each Trustee to disclose to the Fund, as applicable, any interest in a material contract or transaction or proposed material contract or transaction with the Fund, or the fact that such person is a director or officer of, or otherwise has a material interest in, any person who is a party to a material contract or transaction or proposed material contract or transaction with the Fund. In any case, a Trustee, director or officer who has made disclosure to the foregoing effect is not entitled to vote on any resolution to approve the contract or transaction unless the contract or transaction is one relating primarily to (i) his remuneration as a Trustee or officer of the Fund, as applicable, (ii) insurance or indemnity, or (iii) a contract or transaction with an affiliate of the Fund.

Unitholders do not have recourse to a dissent right under which shareholders of a CBCA corporation are entitled to receive the fair value of their shares where certain fundamental changes affecting the corporation are undertaken (such as an amalgamation, a continuance under the laws of another jurisdiction, the sale of all or substantially all of its property, a going private transaction or the addition, change or removal of provisions restricting (i) the business or businesses that the corporation can carry on, or (ii) the issue, transfer or ownership of shares). As an alternative, Unitholders seeking to terminate their investment in the Fund are entitled to receive, subject to certain conditions and limitations, their *pro rata* share of the Fund's net assets through the exercise of the redemption rights provided by the Declaration of Trust, as described under "Description of the Fund – Redemption Right". Unitholders similarly do not have recourse to the statutory oppression remedy that is available to shareholders of a CBCA corporation where the corporation undertakes actions that are oppressive, unfairly prejudicial or that disregard the interests of security holders and certain other parties. Shareholders of a CBCA corporation may also apply to a court to order the liquidation and dissolution of the corporation in those circumstances, whereas Unitholders could rely only on the general provisions of the Declaration of Trust, which permit the winding up of the Fund with the approval of a Special Resolution of the Unitholders. Shareholders of a CBCA corporation may also apply to a court for the appointment of an inspector to investigate the manner in which the business of the corporation and its affiliates is being carried on where there is reason to believe that fraudulent, dishonest or oppressive conduct has occurred. The Declaration of Trust allows Unitholders to pass resolutions appointing an inspector to investigate the Trustee's performance of their responsibilities and duties, but this process would not be subject to court oversight to assure the other investigative procedures, rights and remedies available under the CBCA. The CBCA also permits shareholders to bring or intervene in derivative actions in the name of the corporation or any of its subsidiaries, with the leave of a court. The Declaration of Trust does not include a comparable right of the Unitholders to commence or participate in legal proceedings with respect to the Fund.

### **Redemption Right**

Units are redeemable at any time on demand by the holders thereof. As the Units have been issued in book entry form, a Unitholder who wishes to exercise the redemption right is required to obtain a redemption notice form from the Unitholder's investment dealer who is required to deliver the completed redemption notice form to CDS. Upon receipt of the redemption notice by the Fund, all rights to and under the Units tendered for redemption will be surrendered and the holder thereof will be entitled to receive a price per Unit (the "Redemption Price") equal to the lesser of:

- 90% of the weighted average price per Unit at which the Units have traded on the stock exchange on which the Units are listed (or if the Units are not listed on any stock exchange, the principal market on which the Units are quoted for trading) during the 20-trading day period immediately following to the date on which the Units were surrendered for redemption (the "Unit Redemption Date"); and
- an amount equal to (a) the closing price of the Units on the principal stock exchange on which the Units are listed (or if the Units are not listed on any stock exchange, the principal market on which the Units are quoted for trading), if there was a trade on the Unit Redemption Date and the exchange or market provides a closing price; (b) the average of the highest and lowest prices of the Units if there was a trade on the Unit Redemption Date and the exchange or market provides only the highest and lowest prices of the Units traded on a particular day; or (c) the average of the last bid and ask prices of the Units on the exchange or market if there was no trading on the Unit Redemption Date.

The aggregate Redemption Price payable by the Fund in respect of any Units surrendered for redemption during any calendar month will be satisfied by way of a cash payment no later than the last day of the month following the month in which the Units were tendered for redemption, provided that Unitholders are not entitled to receive cash upon the redemption of their Units if:

- the total amount payable by the Fund in respect of such Units and all other Units tendered for redemption in the same calendar month exceeds \$50,000, provided that the Trustees may, in their sole discretion, waive such limitation in respect of all Units tendered for redemption in any calendar month;
- at the time such Units are tendered for redemption, the outstanding Units are not listed for trading on a stock exchange or traded or quoted on another market which the Trustees consider, in their sole discretion, one which provides representative fair market value prices for the Units; or
- the normal trading of Units is suspended or halted on any stock exchange on which the Units are listed (or, if not listed on a stock exchange, on any market on which the Units are quoted for trading) on the Unit Redemption Date or for more than five trading days during the ten-day trading period commencing immediately after the Unit Redemption Date.

If a Unitholder is not entitled to receive cash upon the redemption of Units as a result of the foregoing limitations, then the Redemption Price for each Unit tendered for redemption will be the fair market value thereof as determined by the Trustees in their sole discretion and, subject to any applicable regulatory approvals, will be paid and satisfied by way of a distribution *in specie*. In such circumstances, the Fund will transfer to the Trust, in respect of each Unit surrendered for redemption, a *pro rata* portion of the outstanding BP Loan owed to the Fund in consideration for Trust Units and series 3 unsecured subordinated notes of the Trust (“Series 3 Trust Notes”). Trust Units and Series 1 Trust Notes having a value equal to the Redemption Price will then be redeemed by the Trust in consideration of the issuance to the Fund of series 2 unsecured subordinated notes of the Trust (“Series 2 Trust Notes”) and Series 3 Trust Notes, respectively. The portion of the fair market value of such redeemed Units derived from the Fund’s interest in the BP Loan may, in the Trustees’ discretion, be represented by Series 3 Trust Notes issued by the Trust to the Fund in consideration for the transfer by the Fund to the Trust of an interest in the BP Loan of equivalent value. The Series 2 Trust Notes and Series 3 Trust Notes will then be distributed in satisfaction of the Redemption Price. No fractional Series 2 Trust Notes or Series 3 Trust Notes in integral multiples of less than \$100 will be distributed and where the number of securities of the Trust to be received by a Unitholder includes a fraction or, in the case of Trust Notes, a multiple less than \$100, that number shall be rounded to the next lowest whole number or integral multiple of \$100 as the case may be. The Fund shall be entitled to all interest paid on the Trust Notes, if any, and distributions paid on the Trust Units on or before the date of the distribution *in specie*. Where the Fund makes a distribution *in specie* of securities of the Trust on the redemption of Units of a Unitholder, the Fund currently intends to allocate to that Unitholder any capital gain or income realized by the Fund as a result of the redemption of Trust Units, the transferring of an interest in the BP Loan owned by the Fund to the Trust in exchange for Series 3 Trust Notes or any capital gain realized by the Fund as a result of the distribution of Series 2 Trust Notes or Series 3 Trust Notes to the Unitholder.

It is anticipated that the redemption right described above will not be the primary mechanism for holders of Units to dispose of their Units. Series 2 Trust Notes and Series 3 Trust Notes which may be distributed to Unitholders in connection with a redemption will not be listed on any stock exchange, no market is expected to develop in securities of the Trust and such securities may be subject to an indefinite “hold period” or other resale restrictions under applicable securities laws. Series 2 Trust Notes and Series 3 Trust Notes so distributed may not be qualified investments for registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans, depending upon the circumstances at the time.

## Meetings of Voting Unitholders

Each Unit entitles the holder thereof to one vote at all meetings of Voting Unitholders. Meetings of Voting Unitholders will be called and held annually for the appointment of Trustees and the appointment of auditors of the Fund. The Declaration of Trust provides that the Voting Unitholders shall be entitled to pass resolutions that will bind the Fund only with respect to:

- the election or removal of Trustees of the Fund;
- the appointment or removal of the auditors of the Fund;
- the appointment of an inspector to investigate the performance by the Trustees in respect of their respective responsibilities and duties in respect of the Fund;
- the approval of amendments to the Declaration of Trust (except as described under "Description of the Fund - Amendments to the Declaration of Trust");
- the sale of all or substantially all of the assets of the Fund;
- the exercise of certain voting rights attached to the Partnership Securities, Common Shares, Trust Notes and Trust Units held directly or indirectly by the Fund; and
- the dissolution of the Fund prior to the end of its term.

A resolution appointing or removing the Trustees and a resolution appointing or removing the auditors of the Fund must be passed by a simple majority of the votes cast by the Voting Unitholders. All other matters must be approved by a resolution passed by a majority of not less than  $66\frac{2}{3}\%$  of the votes cast, either in person or by proxy, at a meeting of Voting Unitholders, or approved in writing by the holders of more than  $66\frac{2}{3}\%$  of the Voting Units then outstanding and entitled to be voted on such resolution (each a "Voting Unitholders' Special Resolution").

A meeting of Voting Unitholders may be convened at any time and for any purpose by the Trustees and must be convened if requisitioned by the holders of not less than 10% of the Voting Units then outstanding by a written requisition. A requisition must state in reasonable detail the business proposed to be transacted at the meeting.

Voting Unitholders may attend and vote at all meetings of the Voting Unitholders either in person or by proxy and a proxy holder need not be a Voting Unitholder. Two persons present in person or represented by proxy and representing in the aggregate at least 25% of the votes attached to all outstanding Units and Special Voting Units shall constitute a quorum for the transaction of business at all such meetings. The Declaration of Trust contains provisions as to the notice required and other procedures with respect to the calling and holding of meetings of Voting Unitholders.

## Limitation on Non-resident Ownership

In order for the Fund to maintain its status as a mutual fund trust under the Tax Act, the Fund must not be established or maintained primarily for the benefit of non-residents of Canada within the meaning of the Tax Act ("Non-residents"). Accordingly, the Declaration of Trust provides that at no time may Non-residents be the beneficial owners of a majority of the Units. The Trustees may require declarations as to the jurisdictions in which beneficial owners of Units are resident.

If the Trustees become aware that the beneficial owners of 49% of the Units then outstanding are, or may be, Non-residents or that such a situation is imminent, the Trustees may direct the transfer agent and registrar to make a public announcement thereof and shall not accept a subscription for Units from or issue or register a transfer of Units to any person unless the person provides a declaration that he or she is not a Non-resident. If, notwithstanding the foregoing, the Trustees determine that a majority of the

Units are held by Non-residents, the Trustees may direct the transfer agent of the Units to send a notice to Non-resident holders of Units, chosen in inverse order to the order of acquisition or registration or in such manner as the Trustees may consider equitable and practicable, requiring them to sell their Units or a portion thereof within a specified period of not less than 60 days. If the Unitholders receiving such notice have not sold the specified number of Units or provided the Trustees with satisfactory evidence that they are not Non-residents within such period, the Trustees may direct the transfer agent to sell such Units on behalf of such Unitholders and, in the interim, the voting and distribution rights attached to such Units shall be suspended. Upon such sale, the affected holders shall cease to be holders of the Units and their rights shall be limited to receiving the net proceeds of such sale.

Special Voting Units may not be owned by a Non-resident. In the event that a holder of Special Voting Units becomes a Non-resident, such a holder will be deemed to have exercised his or her right of redemption in accordance with the Declaration of Trust and such Special Voting Units will be immediately redeemed for nominal consideration.

### **Amendments to the Declaration of Trust**

The Declaration of Trust may be amended or altered from time to time by a Voting Unitholders' Special Resolution.

The Trustees may, without the approval of the Voting Unitholders, make certain amendments to the Declaration of Trust, including amendments:

- for the purpose of ensuring continuing compliance with applicable laws, regulations, requirements or policies of any governmental authority having jurisdiction over the Trustees or over the Fund;
- which, in the opinion of counsel to the Trustees, provide additional protection for Voting Unitholders;
- to remove any conflicts or inconsistencies in the Declaration of Trust or to make minor corrections which, in the opinion of the Trustees, are necessary or desirable and not prejudicial to the Voting Unitholders;
- which, in the opinion of the Trustees, are necessary or desirable as a result of changes in Canadian taxation laws; and
- for the purpose of ensuring that the Fund continues to qualify as a mutual fund trust under the Tax Act.

### **Term of the Fund**

The Fund has been established for a term ending 21 years after the date of death of the last surviving issue of Her Majesty, Queen Elizabeth II, alive on June 10, 2002. On a date selected by the Trustees which is not more than two years prior to the expiry of the term of the Fund, the Trustees are obligated to commence to wind up the affairs of the Fund so that it will terminate on the expiration of the term. In addition, at any time prior to the expiry of the term of the Fund, the Voting Unitholders may by a Voting Unitholders' Special Resolution require the Trustees to commence to wind up the affairs of the Fund.

The Declaration of Trust provides that, upon being required to commence to wind up the affairs of the Fund, the Trustees will give notice thereof to the Voting Unitholders, which notice shall designate the time or times at which Voting Unitholders may surrender their Voting Units for cancellation and the date at which the register of Voting Units will be closed. After the date the register is closed, the Trustees shall proceed to wind up the affairs of the Fund as soon as may be reasonably practicable and for such purpose shall, subject to any direction to the contrary in respect of a termination authorized by a resolution of the Voting Unitholders, sell and convert into money the Trust Units, Series 1 Trust Notes and

all other assets comprising the Fund in one transaction or in a series of transactions at public or private sales and do all other acts appropriate to liquidate the Fund. After paying, retiring, discharging or making provision for the payment, retirement or discharge of all known liabilities and obligations of the Fund and providing for indemnity against any other outstanding liabilities and obligations, the Trustees shall distribute the remaining part of the proceeds of the sale of the Trust Units, Series 1 Trust Notes and other assets together with any cash forming part of the assets of the Fund among the Unitholders in accordance with their *pro rata* interests. If the Trustees are unable to sell all or any of the Trust Units, Series 1 Trust Notes or other assets which comprise part of the Fund by the date set for termination, the Trustees may distribute the remaining Trust Units, Series 1 Trust Notes or other assets *in specie* directly to the Unitholders in accordance with their *pro rata* interests subject to obtaining all required regulatory approvals.

### **Take-over Bids**

The Declaration of Trust and Governance Agreement contain provisions to the effect that if a take-over bid is made for the Units (including rights to the Units to be issued upon exercise of the Exchange Rights) and not less than 90% of the Units on a fully diluted basis (including the Units issuable upon the exchange of any securities exchangeable into Units but not including any Units held at the date of the take-over bid by or on behalf of the offeror or associates or affiliates of the offeror) are taken up and paid for by the offeror, the offeror will be entitled to acquire the Units held by Unitholders and holders of securities exchangeable for Units who did not accept the take-over bid on the terms offered by the offeror.

### **Exercise of Certain Voting Rights Attached to Certain Securities**

The Declaration of Trust provides that the Fund shall not vote its common shares of Boston Pizza GP Inc., Trust Units and Series 1 Trust Notes to authorize, among other things:

- any sale, lease or other disposition of all or substantially all of the direct or indirect assets of the Trust or Boston Pizza GP Inc. except in conjunction with an internal reorganization;
- any amalgamation, arrangement or other merger of the Trust or Boston Pizza GP Inc. with any other corporation except in conjunction with an internal reorganization;
- any material amendment to the note indenture in respect of the Trust Notes other than in contemplation of a further issue of Trust Notes; and
- any material amendment to the declaration of trust for the Trust or the Limited Partnership Agreement which may be prejudicial to the Fund;

without the authorization of the Voting Unitholders by a Voting Unitholders' Special Resolution.

### **Information and Reports**

The Fund will furnish, in accordance with and subject to, applicable securities laws, to Voting Unitholders such consolidated financial statements of the Fund (including quarterly and annual consolidated financial statements) and other reports as are from time to time required by applicable law, including prescribed forms needed for the completion of Unitholders' tax returns under the Tax Act and equivalent provincial legislation.

Prior to each meeting of Voting Unitholders, the Trustees will provide the Voting Unitholders (along with notice of such meeting) all such information as is required by applicable law and the Declaration of Trust to be provided to such holders.

The Partnership has undertaken to provide the Fund with:

- a report of any material change that occurs in the affairs of the Partnership in form and content that it would file with the applicable securities regulatory authorities as if it were a reporting issuer; and
- all financial statements that it would be required to file with the applicable securities regulatory authorities as if it were a reporting issuer under applicable securities laws.

All such reports and statements must be provided to the Fund in a timely manner so as to permit the Fund to comply with the continuous disclosure requirements relating to reports of material changes in its affairs and the delivery of financial statements as required under applicable securities laws.

BPI is to provide the Partnership and the Fund with BPI's unaudited financial statements within 45 days of the end of each quarterly accounting period of BPI and audited annual consolidated financial statements within 90 days of the end of each fiscal year of BPI. These financial statements are required to be prepared in accordance with generally accepted accounting principles. BPI also provided an undertaking to the applicable securities regulatory authorities to issue a press release and file a report of any material change that occurs in the affairs of BPI that would reasonably be expected to have a significant effect on the market price or value of the Units.

#### **BP Loan**

As permitted by the Declaration of Trust, on July 17, 2002, the Fund acquired the BP Loan from a Canadian chartered bank. The following is a summary of the main terms of the BP Loan:

- interest on all amounts outstanding on the BP Loan accrues at 7.5% per annum payable on each "Interest Payment Date", being the last day of each month for which such interest has accrued;
- the principal amount, together with all accrued and unpaid interest, outstanding under the BP Loan will become due and payable on the 40<sup>th</sup> anniversary of July 17, 2002, subject to extension by the mutual agreement of BPI and the lender, or earlier, at the option of the lender, following the occurrence and continuance of an event of default;
- the events of default under the BP Loan include:
  - (i) default in repayment of the principal amount of the BP Loan when the same becomes due;
  - (ii) the failure to pay interest obligations under the BP Loan when the same become due, following a period of three days after receipt of written notice of such default;
  - (iii) the winding-up, liquidation, bankruptcy, insolvency or receivership of BPI;
  - (iv) the taking of possession by an encumbrancer, of all or substantially all of the property of BPI and its subsidiaries;
  - (v) a material default under the License and Royalty Agreement, the Boston Pizza General Security Agreement or the Partnership General Security Agreement; and
  - (vi) the right to accelerate or the acceleration of other indebtedness of BPI or any subsidiary of BPI that has or is reasonably likely to have a material adverse effect on BPI, including the indebtedness permitted under the License and Royalty Agreement. See "License and Royalty – Security for the Royalty";

- the BP Loan is secured by the Boston Pizza General Security Agreement. The security interest for all amounts payable by BPI under the BP Loan, as set out in the Boston Pizza General Security Agreement, is the same as, and ranks equally with, the security interest granted in respect of the Royalty described under “License and Royalty – Security for the Royalty”. The Boston Pizza General Security Agreement contains negative covenants that are the same as the negative covenants contained in the Partnership General Security Agreement. See “License and Royalty – Security for the Royalty – Negative Covenants”;
- BPI (as holder of the Class C Units) has 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 BPI of its obligations with respect to) an amount of the indebtedness under the BP Loan equal to \$10 per Class C Unit to be transferred; and
- the BP Loan may not be assigned (directly, by operation of law or otherwise) other than to the Fund or the Trust, without the prior consent of BPI.

### **THE EXCHANGE RIGHTS**

Pursuant to an Exchange Agreement among BPI, the Fund, the Trust and Boston Pizza GP Inc., dated July 17, 2002, (the “Exchange Agreement”), BPI (or a Related Party to whom such Class B Units or Class C Units are transferred) has the right to exchange a Class B Unit for that number of Units equal to the Class B Exchange Multiplier. The exchange procedure will be initiated by BPI delivering to Boston Pizza GP Inc., as escrow agent under the Exchange Agreement, a unit certificate in respect of the Class B general partner units to be exchanged, duly endorsed in blank for transfer. Boston Pizza GP Inc. will give notice of the proposed exchange to the Trust which will acquire Units from the Fund in consideration for Trust Units and Series 1 Trust Notes in the number required to complete the exchange. The Trust will deliver to Boston Pizza GP Inc. as escrow agent a certificate for the requisite number of Units duly endorsed in blank for transfer. Boston Pizza GP Inc. will effect the exchange procedure by causing to be issued in the name of the Trust a unit certificate for that number of Class D Units to be issued on the exchange, entering the Trust in the register of limited partners of the Partnership in respect of such additional Class D Units of a number equal to the Class B Exchange Multiplier for each Class B Unit exchanged, causing the Class B general partner units so tendered for exchange to be cancelled, and delivering to BPI a certificate for that number of Units of the Fund to be received on the exchange.

The Fund has agreed with BPI not to issue any Units to all or substantially all of the holders of Units by way of a distribution of Units (other than the issue of Units to Unitholders as distribution in lieu of a cash distribution) or to subdivide or redivide the outstanding Units into a greater number of Units or to combine, reduce or consolidate the outstanding Units into a lesser number of Units without adjusting the number of Units for which Class B Units may be exchanged upon exercise of the Exchange Rights in a manner approved by BPI and the Trustees, acting reasonably.

If at any time while any Class B Units are outstanding there is any reclassification of the Units outstanding, any change of the Units into other units or securities or any other capital reorganization of the Fund or any consolidation, amalgamation, merger or other form of business combination of the Fund with or into any other entity resulting in a reclassification of the outstanding Units, then the Exchange Rights will also be adjusted in the manner approved by BPI and the Trustees, acting reasonably, so that BPI is entitled to receive, in lieu of the number of Units which it would otherwise have been entitled, the kind and number or amount of securities that it would have been entitled to receive as a result of such event if, on the effective date thereof, it had been the registered holder of the number of Units which it would have received had it exercised the Exchange Rights immediately before the effective date of any such transaction.

The Exchange Rights may be exercised by BPI with respect to any number of Class B Units held by BPI at such time upon not less than three and not more than 10 business days’ prior written notice to the Trust, the Fund and the Partnership of the exercise of such Exchange Rights.



BPI has been granted demand and “piggy-back” registration rights by the Fund which will enable it to require the Fund to file a prospectus and otherwise assist with a public offering of Units subject to certain limitations, with the Fund’s expenses to be borne by BPI (or on a *pro rata* basis if both BPI and the Fund are selling Units) pursuant to the terms and conditions of a registration rights agreement. In the event of a “piggy-back” offering, the Fund’s financial requirements are to take priority.

Pursuant to the Exchange Agreement, BPI, as the holder of Class C Units, has 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 BPI of its obligations with respect to) an amount of the indebtedness under the BP Loan equal to \$10 per Class C Unit to be transferred. The exchange procedure will be initiated by BPI delivering to Boston Pizza GP Inc. as escrow agent under the Exchange Agreement a unit certificate in respect of the Class C general partner units to be exchanged, duly endorsed in blank for transfer and giving notice of the proposed exchange to the Trust. Upon receipt of a notice of such exchange, the Trust is obligated to assume, and the Fund is obligated to release BPI with respect to, an aggregate amount of the indebtedness under the BP Loan equal to \$10 per Class C Unit to be transferred. Boston Pizza GP Inc. will effect the exchange procedure by causing to be issued in the name of the Trust a unit certificate for that number of Class C limited partner units to be issued on the exchange, entering the Trust in the register of limited partners of the Partnership in respect of such additional Class C limited partner units, causing the Class C general partner units so tendered for exchange to be cancelled.

## MARKET FOR SECURITIES

### Trading Price and Volume

Units of the Fund are listed for trading on the TSX under the symbol BPF.UN. The following is a summary of the price ranges and volume traded on a monthly basis for the financial year ended December 31, 2007:

<u>DATE</u>	<u>OPEN</u>	<u>HIGH</u>	<u>LOW</u>	<u>CLOSE</u>	<u>VOLUME TRADED</u>
January, 2007	\$15.10	\$15.98	\$15.00	\$15.92	282,788
February, 2007	\$15.80	\$15.98	\$14.80	\$15.25	1,995,060
March, 2007	\$15.25	\$15.35	\$14.75	\$14.90	285,097
April, 2007	\$14.81	\$15.03	\$14.34	\$14.75	554,997
May, 2007	\$14.70	\$15.05	\$14.60	\$14.85	513,565
June, 2007	\$14.77	\$15.00	\$14.56	\$14.59	439,692
July, 2007	\$14.52	\$15.30	\$14.30	\$14.50	1,056,943
August, 2007	\$14.55	\$14.86	\$13.85	\$14.72	350,221
September, 2007	\$14.89	\$15.00	\$14.57	\$14.90	180,778
October, 2007	\$14.72	\$14.98	\$14.00	\$14.00	457,862
November, 2007	\$14.00	\$14.50	\$13.80	\$14.10	657,993
December, 2007	\$14.05	\$14.20	\$12.90	\$13.99	331,541

## SELECTED CONSOLIDATED FINANCIAL INFORMATION OF THE FUND

The Fund's operations commenced on July 17, 2002. The following is a summary of selected financial information of the Fund for the financial years ended December 31, 2005, 2006 and 2007:

<u>Description</u>	Year Ended December 31	Year Ended December 31	Year Ended December 31
	2007	2006	2005
(in thousands of dollars - except per trust unit information)			
Total assets .....	\$150,665	\$124,054	\$102,080
Total long-term financial liabilities .....	\$0	\$0	\$0
Total revenues .....	\$17,032	\$14,030	\$11,466
Earnings from continuing operations .....	\$17,032	\$14,030	\$11,466
Future income taxes .....	(\$2,881)	-	-
Net earnings.....	\$14,151	\$14,030	\$11,466
Earnings from continuing operations per Fund unit: <sup>2</sup>			
Basic .....	\$1.131	\$1.298	\$1.202
Diluted .....	\$1.131	\$1.298	\$1.202
Net earnings per Fund unit: <sup>2</sup>			
Basic .....	\$1.131	\$1.298	\$1.202
Diluted .....	\$1.131	\$1.298	\$1.202
Cash distribution per Fund unit ...	\$1.354	\$1.278	\$1.187

<sup>2</sup> Throughout the presentation of Fund annual and quarterly information and related per unit information, total revenues and earnings from continuing operations appear as identical amounts. All operating costs related to Fund activities are incurred within the Partnership which is no longer consolidated with the Fund in accordance with AcG-15. Instead, the Fund now records its interest in the Partnership using the equity method which is net of its share of expenses. This equity income forms part of the revenue in the Fund. There are no costs incurred directly within the Fund itself producing the result that the line items described above are identical amounts.

The following is a summary of selected financial information of the Fund for each of the three-month periods ended March 31<sup>st</sup>, June 30<sup>th</sup>, September 30<sup>th</sup> and December 31<sup>st</sup> for fiscal 2005, 2006 and 2007:

	<b>FISCAL 2007</b>			
	<u>Fourth</u>	<u>Third</u>	<u>Second</u>	<u>First</u>
	(in thousands of dollars - except per trust unit information)			
Total assets	\$150,665	\$150,747	\$150,373	\$150,331
Total long-term financial liabilities	\$0	\$0	\$0	\$0
Total revenue	\$4,292	\$4,696	\$4,314	\$3,730
Earnings from continuing operations	\$4,292	\$4,696	\$4,314	\$3,730
Future income taxes recovery/ (expense)	\$118	(\$176)	(\$2,823)	-
Net earnings	\$4,410	\$4,520	\$1,491	\$3,730
Earnings from continuing operations per trust unit:				
Basic	\$0.343	\$0.354	\$0.117	\$0.317
Diluted	\$0.343	\$0.354	\$0.117	\$0.317
Net earnings per trust unit:				
Basic	\$0.343	\$0.354	\$0.117	\$0.317
Diluted	\$0.343	\$0.354	\$0.117	\$0.317
Cash distribution per trust unit	\$0.458	\$0.339	\$0.335	\$0.222

	<b>FISCAL 2006</b>			
	<u>Fourth</u>	<u>Third</u>	<u>Second</u>	<u>First</u>
	(in thousands of dollars - except per trust unit information)			
Total assets	\$124,054	\$124,065	\$123,821	\$123,740
Total long-term financial liabilities	\$0	\$0	\$0	\$0
Total revenue	\$3,584	\$3,796	\$3,523	\$3,127
Earnings from continuing operations	\$3,584	\$3,796	\$3,523	\$3,127
Net earnings	\$3,584	\$3,796	\$3,523	\$3,127
Earnings from continuing operations per trust unit:				
Basic	\$0.328	\$0.345	\$0.320	\$0.305
Diluted	\$0.328	\$0.345	\$0.320	\$0.305
Net earnings per trust unit:				
Basic	\$0.328	\$0.345	\$0.320	\$0.305
Diluted	\$0.328	\$0.345	\$0.320	\$0.305
Cash distribution per trust unit	\$0.436	\$0.323	\$0.313	\$0.206

	<b>FISCAL 2005</b>			
	<u>Fourth</u>	<u>Third</u>	<u>Second</u>	<u>First</u>
	(in thousands of dollars - except per trust unit information)			
Total assets	\$102,080	\$101,976	\$97,181	\$97,180
Total long-term financial liabilities	\$0	\$0	\$0	\$0
Total revenue	\$3,039	\$3,121	\$2,833	\$2,473
Earnings from continuing operations	\$3,039	\$3,121	\$2,833	\$2,473
Net earnings	\$3,039	\$3,121	\$2,833	\$2,473
Earnings from continuing operations per trust unit:				
Basic	\$0.317	\$0.322	\$0.292	\$0.271
Diluted	\$0.317	\$0.322	\$0.292	\$0.271
Net earnings per trust unit:				
Basic	\$0.317	\$0.322	\$0.292	\$0.271
Diluted	\$0.317	\$0.322	\$0.292	\$0.271
Cash distribution per trust unit	\$0.404	\$0.297	\$0.292	\$0.193

## MANAGEMENT

### Trustees of the Fund

The names, province of residence and principal occupation for the five preceding years of the Trustees are shown below. All three Trustees have been Trustees of the Fund since the inception of the Fund on June 10, 2002. The Trustees are appointed at the annual meeting of Unitholders that will be held each year. The term of office for each Trustee will expire at the close of the next annual general meeting of the Fund or until the earlier of the Trustee's death, resignation or removal. The 2008 annual general meeting of the Fund is scheduled to be held on June 10, 2008.

<u>Trustee and Province of Residence</u>	<u>Principal Occupation for Previous Five Years</u>
William C. Brown British Columbia, Canada	Corporate Director
John L. Cowperthwaite British Columbia, Canada	Corporate Director
Robert L. Phillips British Columbia, Canada	President of R.L. Phillips Investments Inc. from 2000 – present; President and CEO, BCR Group of Companies from 2001 – 2004; Corporate Director

### *Remuneration of Trustees of the Fund and Directors of Boston Pizza GP Inc.*

Each of the Trustees is entitled to annual compensation of \$10,000 plus an additional \$1,000 for each regularly scheduled meeting of Trustees attended and \$500 for each extraordinary meeting of the Trustees attended, unless the extraordinary meeting is deemed to be substantive, as determined by the Chairman of such meeting, then each Trustee is entitled to \$1,000 for each extraordinary meeting of the Trustees attended. Each of the directors of Boston Pizza GP Inc. is entitled to annual compensation for their services as a director of \$10,000 per year plus an additional \$1,000 per director for attending each regularly scheduled meeting of the board of directors and \$500 per director for each extraordinary meeting of the board of directors or a committee of the board of directors, unless the extraordinary meeting is deemed to be substantive, as determined by the Chairman of such meeting, then each director is entitled to \$1,000 for each extraordinary meeting of the directors attended (in each case, except where the director attends a meeting of the Trustees on the same day and for which compensation is paid). Each of the directors of the Managing General Partner is reimbursed for general expenses as they arise from time to time. At present, neither Mr. Cordoba nor Mr. Powell received compensation for their roles as directors of the Boston Pizza GP Inc. For descriptions of Mr. Cordoba, Chief Executive Officer of Boston Pizza GP Inc. and Mr. Powell, Chief Financial Officer of Boston Pizza GP Inc. see "Directors and Officers of Boston Pizza GP Inc."

### *Units Held*

To the knowledge of the Fund, as at February 1, 2008, the Trustees together as a group, beneficially owned, directly or indirectly, or exercised control or direction over 28,100 Units representing 0.2% of outstanding Units of the Fund.

### *Corporate Cease Trade Orders, Bankruptcies, Penalties or Sanctions*

No Trustee of the Fund, Unitholder of the Fund holding a sufficient number of securities of the Fund to materially affect control of the Fund, director or officer of Boston Pizza GP Inc., is, or has been, within the past ten years: (a) a director or executive officer of any company, that while that person was acting in that capacity (i) was the subject of a cease trade or similar order or an order that denied that company access to any exemption under Canadian securities legislation, for a period of more than 30 consecutive days, (ii) was subject to an event that resulted, after the director or executive officer ceased to be a director or an executive officer, in the company being the subject to a cease trade order, similar order or order that

denied the relevant company access to any exemption under Canadian securities legislation for a period of more than 30 consecutive days; or (iii) within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver or receiver manager or trustee appointed to hold its assets; (b) bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or become subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold their assets.

*Conflicts of Interest*

To the knowledge of the Fund, no Trustee of the Fund has an existing or potential material conflict of interest with the Fund or any of its subsidiaries.

**Audit Committee of the Fund**

The Audit Committee is responsible for monitoring Boston Pizza GP Inc. and the Partnership’s financial reporting, accounting systems, internal controls and liaising with external auditors.

*Composition of the Audit Committee*

<b><u>Audit Committee Member</u></b>	<b><u>Is the member: (i) independent and (ii) financially literate?</u></b>
William C. Brown	Mr. Brown is independent and financially literate.
John L. Cowperthwaite	Mr. Cowperthwaite is independent and financially literate.
Robert L. Phillips	Mr. Phillips is independent and financially literate.

*Relevant Education and Experience*

<b><u>Audit Committee Member</u></b>	<b><u>Education and Experience</u></b>
William C. Brown	Mr. Brown served as Vice President of BC Sugar Refinery Ltd. from 1976 to 1988, President from 1988 to 1997, and Chief Executive Officer from 1990 to 1997. Mr. Brown was Chairman of BC Sugar Refinery Ltd. from 1997 to 1998. Mr. Brown has also acquired significant experience and exposure to accounting and financial reporting issues through his board appointments and serving on the audit committee at Union Gas Ltd. from 2002 to 2007, Harmac Pacific Inc. from 1998 to 1999, Westcoast Energy Inc. from 1995 to 2007, TimberWest Forest Corp. from 1993 to present, Duke Seabridge Ltd. from 1992 to 2002, Coast Tractor & Equipment Ltd. from 1992 to 2002 and Pacific Northern Gas Ltd. from 1985 to 1995. Mr. Brown has a Bachelor of Science degree from the University of New Brunswick.

## **Audit Committee Member**

## **Education and Experience**

John L. Cowperthwaite

Mr. Cowperthwaite graduated from University College high school in London, England in 1958 and obtained his professional qualification as a Chartered Accountant in 1965. He acquired significant experience with the audits of numerous public companies during his 42 years with Ernst & Young, LLP. While at Ernst & Young, LLP, Mr. Cowperthwaite was a senior executive partner and an office managing partner until October 2001. He subsequently became Chairman of the United Way of the Lower Mainland and Vice Chair of Simon Fraser University. Mr. Cowperthwaite also chairs the committee which advises the Government of British Columbia on accounting matters.

Robert L. Phillips

Mr. Phillips has acquired significant experience and exposure to accounting and financial reporting issues as the current President of R. L. Phillips Investments Inc., a private investment firm, as President and Chief Executive Officer of the BCR Group of Companies from 2001 to 2004, as Executive Vice President of MacMillan Bloedel Limited from 1999 to 2000, as President and Chief Executive Officer of PTI Group Inc. from 1998 to 1999, and as President and Chief Executive Officer of Dreco Energy Services Ltd. from 1994 to 1998 and as a director of several Canadian corporations including Canadian Western Bank, Epcor Utilities Inc., Precision Drilling Corporation and MacDonald Dettwiler & Associates Ltd. Mr. Phillips received Bachelor of Science, Chemical Engineering, and Bachelor of Laws degrees from the University of Alberta. In addition, prior to enrolling in the faculty of law, Mr. Phillips was enrolled in the Faculty of Business of the University of Alberta majoring in finance.

### *Terms of Reference for Audit Committee*

#### I. PURPOSE

The purpose of the Audit Committee (the "Committee") is to assist the board of directors (the "Board") of Boston Pizza GP Inc. (the "Corporation") in fulfilling its oversight responsibilities with respect to the Corporation, Boston Pizza Royalties Limited Partnership (the "Partnership"), Boston Pizza Holdings Trust (the "Trust") and Boston Pizza Royalties Income Fund (the "Fund"), by reviewing the financial information which will be provided to the shareholders of the Corporation and the unitholders of the Partnership, the Trust and the Fund and others, the systems of corporate financial controls which management and the Board have established and the audit process.

More specifically the purpose of the Committee is to satisfy itself that:

- A. The Corporation's, Partnership's, Trust's and Fund's annual financial statements are fairly presented in accordance with generally accepted accounting principles and to recommend to the Board or the trustees, as the case may be, whether the annual financial statements should be approved.
- B. The information contained in the Partnership's, the Trust's and the Fund's quarterly financial statements, the Fund's annual report to Unitholders of the Fund and other financial publications, such as management's discussion and analysis, is complete and accurate in all material respects and to recommend to the Board whether these materials should be approved.
- C. The Corporation has appropriate systems of internal control over the safeguarding of assets and financial reporting to ensure compliance by the Corporation, the Partnership, the Trust and the Fund with legal and regulatory requirements.
- D. The external audit functions with respect to the Corporation, Partnership, Trust and Fund have been effectively carried out and that any matter which the independent auditors wish to bring to the

attention of the Board has been addressed. The Committee will also recommend to the Board the re-appointment or appointment of auditors of the Corporation, the Partnership, the Trust and the Fund and their remuneration.

## II. COMPOSITION AND TERMS OF OFFICE

A. Following each annual meeting of Unitholders of the Fund, the Board shall appoint not less than three directors to serve on the Committee, a majority of whom shall not be officers or employees of the Corporation or its affiliates.

B. The Chair of the Committee shall be appointed by the Board and shall not be an officer or employee of the Corporation or its affiliates.

C. Any member of the Committee may be removed or replaced at any time by the Board and shall cease to be a member upon ceasing to be a director of the Corporation. Each member of the Committee shall hold office until the close of the next annual meeting of Unitholders of the Fund or until the member resigns or is replaced, whichever first occurs.

D. The Committee will meet at least four times per year. The meetings will be scheduled to permit timely review of the interim and annual financial statements. Additional meetings may be held as deemed necessary by the chair of the Committee or as requested by any member of the Committee or by the internal or external auditors.

E. If all members consent, and proper notice has been given, or waived, a member or members of the Committee may participate in a meeting of the Committee by means of such telephonic, electronic or other communication facilities as to permit all persons participating in the meeting to communicate adequately with each other, and a member participating in such a meeting by any such means is deemed to be present at that meeting.

F. A quorum for the transaction of business at all meetings of the Committee shall be a majority of the members of the Committee. Questions arising at any meeting shall be determined by a majority of votes of the members of the Committee present, and in case of an equality of votes the Chair of the Committee shall have a second casting vote.

G. The Committee may invite such directors, officers and employees of the Corporation as it may see fit from time to time to attend meetings of the Committee and assist in the discussion and consideration of the business of the Committee, but without voting rights.

H. The Committee shall keep regular minutes of proceedings and shall cause them to be recorded in books kept for that purpose, and shall report the same to the Board at such times as the Board may, from time to time, require.

I. Supporting schedules and information reviewed by the Committee will be available for examination by any director upon request to the Secretary of the Committee.

J. The Committee shall choose as its Secretary such person as it deems appropriate.

K. The external and internal auditors of the Corporation, Partnership, Trust and/or Fund shall be given notice of, and have the right to appear before and to be heard at, every meeting of the Committee, and shall appear before the Committee when requested to do so by the Committee.

## III. DUTIES AND RESPONSIBILITIES

Subject to the powers and duties of the Board, the Board hereby delegates to the Committee the following powers and duties to be performed by the Committee on behalf of and for the Board acting on behalf of the Corporation, Partnership, Trust and Fund:

A. Financial Reporting Control Systems

The Committee shall:

- (i) review reports from senior officers of the Corporation outlining any significant changes in financial risks facing the Corporation, the Partnership, the Trust and the Fund;
- (ii) review the management letter of the external auditors and the Corporation's responses to suggestions made;
- (iii) annually review the guidelines of the Committee; and
- (iv) obtain assurance from the external and internal auditors regarding the overall control environment and the adequacy of accounting system controls of the Corporation with respect to the financial information of the Corporation, the Partnership, the Trust and the Fund.

B. Interim Financial Statements

The Committee shall:

- (i) review interim financial statements of the Partnership, the Trust and the Fund with officers of the Corporation prior to their release and recommend their approval to the Board and the trustees, as the case may be; this will include a detailed review of quarterly and year-to-date results; and
- (ii) review narrative comment accompanying interim financial statements.

C. Annual Financial Statements and Other Financial Information

The Committee shall:

- (i) review any changes in accounting policies or financial reporting requirements that may affect the current year's financial statements;
- (ii) obtain summaries of significant transactions, and other potentially difficult matters whose treatment in the annual financial statements merits advance consideration;
- (iii) obtain draft annual financial statements in advance of the Committee meeting and assess, on a preliminary basis, the reasonableness of the financial statements in light of the analyses provided by officers of the Corporation;
- (iv) review a summary provided by the Corporation's legal counsel of the status of any material pending or threatened litigation, claims and assessments against the Corporation, the Partnership, the Trust and/or the Fund;
- (v) discuss any annual financial statements and the auditors' report thereon in detail with officers of the Corporation and the auditors;
- (vi) review the annual report of the Fund and other annual financial reporting documents including the management discussion and analysis;
- (vii) provide to the Board or the trustees, as the case may be, a recommendation as to whether any of the annual financial statements should be approved; and
- (viii) review insurance coverage including directors', officers' and trustees' liability coverage.

D. External Audit Terms of Reference, Reports, Planning and Appointment

The Committee shall:



- (i) review the audit plan with the external auditors;
- (ii) discuss in private with the external auditors matters affecting the conduct of their audit and other corporate matters;
- (iii) recommend to the Board and/or trustees each year the retention or replacement of the external auditors; if there is a plan to change auditors, review all issues related to the change and the steps planned for an orderly transition;
- (iv) annually review and recommend for approval to the Board the terms of engagement and the remuneration of the external auditor; and
- (v) approve in advance any non-audit services provided by the external auditors.

#### E. Disclosure Controls and Procedures

The Committee shall review, discuss with the Disclosure Policy Committee and, to the extent the Committee deems appropriate, the internal auditor and the external auditor, the Fund's and BPI's disclosure controls and procedures and make recommendations to the Board of Directors and the Board of Trustees respecting the Fund's and BPI's disclosure controls and procedures. More particularly, the Committee shall:

- (i) discuss and review the Disclosure Policy Committee's annual evaluation and certification process of the design and effectiveness of the disclosure policy and disclosure controls and procedures;
- (ii) discuss with the Disclosure Policy Committee at least annually the guidelines and policies with respect to financial, fraud and disclosure risk assessments; and
- (iii) receive updates from the Disclosure Policy Committee in the form of meeting minutes.

#### IV. ACCOUNTABILITY

A. The Committee shall report to the Board at its next regular meeting all such action it has taken since the previous report.

B. The Committee is empowered to investigate any activity of the Corporation, the Partnership, the Trust and the Fund and all employees are to co-operate as requested by the Committee. The Committee may retain persons having special expertise to assist it in fulfilling its responsibilities.

C. The Committee is authorized to request the presence at any meeting, but without voting rights, of a representative from the external auditors, senior management, internal audit, legal counsel or anyone else who could contribute substantively to the subject of the meeting and assist in the discussion and consideration of the business of the Committee, including directors, officers and employees of the Corporation.

#### **External Auditor Service Fees**

##### *Audit Fees*

The aggregate fees billed by the Fund's external auditor for fiscal 2007 is \$32,000.00 and for fiscal 2006 is \$31,000.00.

##### *Audit-Related Fees*

The aggregate fees billed for assurance and related services by the Fund's external auditor for the performance of the audit or review of the Fund's financial statements that are not part of the audit fees for fiscal 2007 is \$31,500.00 and for fiscal 2006 is \$31,500.00. The nature of the services comprising the fees are quarterly review engagements.

### *Tax Fees*

The aggregate fees billed for professional services rendered by the Fund's external auditor for tax compliance, tax advice and tax planning for fiscal 2007 is \$12,800.00 and for fiscal 2006 is \$12,000.00. The nature of the services comprising the fees are associated with the preparation of tax returns.

### *All Other Fees*

The aggregate fees billed for products and services provided by the Fund's external auditor other than audit fees, audit-related fees and tax fees for fiscal 2007 is \$48,136.00 and for fiscal 2006 is \$9,975.00. The nature of the services comprising the fees are assistance with accounting and disclosure-related issues, tax legislation changes, and internal controls review and disbursements.

### *Pre-Approval Policies and Procedures*

On January 1, 2004, the Canadian Institute of Chartered Accountants' revised Rules of Professional Conduct on auditor independence became effective. As they relate to public companies these new rules are very similar to the revised independence rules of the Securities and Exchange Commission (SEC) that became effective on May 6, 2003. They include prohibitions or restrictions on services that may be provided by auditors to their audit clients and require that all services provided to a listed entity audit client, including its subsidiaries, be pre-approved by the client's Board of Directors / Audit committee.

The Fund will not engage an auditor to carry out any prohibited service. The Trustees will consider the pre-approval of permitted services to be performed by the external auditor in each of the following broad categories:

#### Audit Services

#### Audit Related Services

#### Tax Services

- Compliance Services
- Canadian & US Tax Planning Services
- Commodity Tax Services
- Executive Tax Services

#### Other Services

- Valuation Services
- Information Technology Advisory and Risk Management Services
- Actuarial Services
- Forensic and Related Services
- Corporate Recovery Services
- Transaction Services
- Corporate Finance Services
- Project Risk Management Services
- Operational Advisory and Risk Management Services
- Regulatory and Compliance Services

For permitted services the following pre-approval policies will apply:

#### Audit Services

The Trustees will pre-approve all audit services provided by an auditor through their recommendation of an auditor to the Unitholders for appointment at the Fund's annual meeting and through the Trustees' review of the auditor's annual audit plan.

## Pre-Approval of Audit Related, Tax and Other Non-Audit Services

Annually, the Trustees will update a list of pre-approved services and pre-approve services that are recurring or otherwise reasonably expected to be provided. The Trustees will be subsequently informed (quarterly) of the services for which the auditor has been actually engaged. Any additional requests for pre-approval will be addressed on a case-by-case specific engagement basis.

## **Administration Agreement**

On July 8, 2002 the Fund entered into the Administration Agreement which was amended and restated as of July 17, 2002 among the Fund, the Trust and the Partnership. Under the Administration Agreement, the Partnership is obligated to provide or arrange for the provision of administrative services to the Fund and the Trust. With respect to the Fund the administrative services provided by the Partnership include without limitation, those necessary to: (i) ensure compliance by the Fund with continuous disclosure obligations under applicable securities legislation, including the preparation of financial statements relating thereto; (ii) provide investor relations services; (iii) provide or cause to be provided to Unitholders all information to which Unitholders are entitled under the Declaration of Trust, including relevant information with income taxes; (iv) call and hold all meetings of Unitholders and distribute required materials, including notices of meetings and information circulars, in respect of all such meetings; (v) provide for the calculation of distributions to Unitholders; (vi) attend to all administrative and other matters arising in connection with any redemption of Units; (vii) ensure compliance with the Fund's limitations on non-resident ownership; (viii) administer certain loans; and (ix) meet general accounting, bookkeeping and administrative needs. The Partnership is obligated to pay all expenses incurred by it and attributable to the exercise of its duties in the administration of the Fund and the Trust and no fee is payable to the Partnership for the services provided by it to the Fund or the Trust under the Administration Agreement.

## **Directors and Officers of Boston Pizza GP Inc.**

As the Managing General Partner of the Partnership, Boston Pizza GP Inc. has the authority to manage the business and affairs of the Partnership, including the authority to carry out the Partnership's obligations under the Administration Agreement. Thus, the Fund is managed and administered by the Partnership which, in turn, is managed by the Managing General Partner. Certain matters relating to the conduct of the business and affairs of the Managing General Partner are provided for in the Governance Agreement. See "Management – Governance Agreement".

The names, province of residence and principal occupation for the five preceding years of the directors and officers of Boston Pizza GP Inc., Managing General Partner of the Partnership, Administrator to the Fund are set out in the table below:

<b><u>Directors and Officers, Province of Residence</u></b>	<b><u>Office Held</u></b>	<b><u>Principal Occupation for Previous Five Years</u></b>
William C. Brown <sup>(1) (2)</sup> British Columbia, Canada	Director, June, 2002	Corporate Director
John L. Cowperthwaite <sup>(1) (2)</sup> British Columbia, Canada	Director, Chairman and Secretary, June, 2002	Corporate Director
Robert L. Phillips <sup>(1) (2)</sup> British Columbia, Canada	Director and President, June, 2002	President of R.L. Phillips Investments Inc. from 2000 – present; President and CEO, BCR Group of Companies from 2001 – 2004; Corporate Director
Michael Cordoba <sup>(3)</sup> British Columbia, Canada	Director, July, 2002	Director of BPI from Jan. 2001 – present; President of BPI from Jan. 2001 – Jan. 2004; CEO of BPI from Jan. 2004 – present

<b><u>Directors and Officers,</u></b> <b><u>Province of Residence</u></b>	<b><u>Office Held</u></b>	<b><u>Principal Occupation for Previous Five Years</u></b>
Mark Powell <sup>(3)</sup> British Columbia, Canada	Director, July, 2002	Chief Financial Officer of BPI from Jan. 2001 – present

(1) Also a Trustee of the Fund.

(2) Members of the Audit Committee and the Governance Committee.

(3) Nominees of BPI.

### **Governance Agreement**

On July 17, 2002 the Fund entered into the Governance Agreement among the Fund, the Trust, the Partnership, Boston Pizza GP Inc., BPI and certain related parties to BPI. Under the Governance Agreement three of the directors of the Managing General Partner are nominated by the Fund (each of whom may be a Trustee of the Fund and must be an “unrelated director” within the meaning of the TSX Guidelines in effect on July 17, 2002) and, for so long as BPI holds a 10% interest in the Fund, whether directly or indirectly through its Class B Units of the Partnership which are exchangeable for Units, two of the directors are nominated by BPI. In addition, the Governance Agreement provides for the establishment of an Audit Committee and a Governance Committee of the Managing General Partner, each of which are to be comprised solely of nominees of the Fund.

### **Governance Committee**

The Governance Committee is responsible for, among other things, overseeing the operations of the Partnership, addressing any conflicts of interest between the Partnership and BPI, annually reviewing the operations and performance of BPI and for assisting the board of Boston Pizza GP Inc. in establishing its approach to corporate governance issues and advising the board in filling vacancies. The corporate governance practices of the Managing General Partner are disclosed under the heading “Statement of Corporate Governance Practices” in the Information Circular for the Fund dated April 10, 2007.

### **TRANSFER AGENTS AND REGISTRARS**

The transfer agent and registrar of the Fund’s Units is Computershare Investor Services Inc. at its principal offices in Vancouver, British Columbia and Toronto, Ontario.

### **INTERESTS OF EXPERTS**

The auditors of the Fund, KPMG LLP (“KPMG”) have prepared the auditors’ report attached to the Fund’s annual consolidated financial statements for its most recently completed year end. To the knowledge of the Trustees, none of the partners of KPMG owned any Units of the Fund at the time of preparation of the Fund’s consolidated financial statements, or Annual Information Form, respectively.

### **ADDITIONAL INFORMATION**

Copies of the following documents may be obtained upon request from the administrative office of the Fund at 5500 Parkwood Way, Richmond, British Columbia, V6V 2M4 or may be found at [www.bostonpizza.com](http://www.bostonpizza.com), [www.bpincomefund.com](http://www.bpincomefund.com), or [www.sedar.com](http://www.sedar.com):

- (a) this Annual Information Form, together with one copy of any document, or the pertinent pages of any document, incorporated by reference in this Annual Information Form;
- (b) the Fund’s audited financial statements and management discussion and analysis for its most recently completed financial year for which financial statements have been filed,

together with the accompanying report of the auditor and a copy of the most recent unaudited interim financial statements and management discussion and analysis of the Fund that have been filed, if any, for any period after the end of its most recently completed financial year;

- (c) the Fund's information circular in respect of its most recent annual meeting of Unitholders that involved the appointment of Trustees;
- (d) a copy of the prospectus dated July 9, 2002; and
- (e) a copy of the audited financial statements and management discussion and analysis of Boston Pizza International Inc. for its most recently completed financial year and a copy of the most recent interim unaudited financial statements and management discussion and analysis for Boston Pizza International Inc.

A person who is not a Unitholder of the Fund may be required to pay a reasonable charge for such copies.

Additional information, including Trustees' remuneration and indebtedness, principal holders of the Fund's securities and interests of insiders in material transactions, where applicable, is contained in the Fund's information circular for its most recent annual meeting of Unitholders that involved the appointment of Trustees. Additional financial information is provided in the Fund's audited financial statements and management discussion and analysis for its most recently completed financial year.

#### **NOTE REGARDING FORWARD-LOOKING STATEMENTS**

Certain statements in this Annual Information Form may constitute "forward-looking" statements that involve known and unknown risks, uncertainties, future expectations and other factors which may cause the actual results, performance or achievements of the Fund, the Trust, the Partnership, BPI, Boston Pizza restaurants, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. When used in this Annual Information Form, such statements use such words as "may", "will", "expect", "believe", "plan" and other similar terminology. These statements reflect current expectations regarding future events and operating performance and speak only as of the date of this Annual Information Form. These forward looking statements involve a number of risks, uncertainties and future expectations. This Annual Information Form discusses some of the factors that could cause actual results to differ materially from those expressed in or underlying such forward-looking statements. Forward-looking statements are made as of the date hereof and we assume no obligation to update or revise them to reflect new events or circumstances. For risks related to the Fund, please see the Fund's management's discussion and analysis for the year ended December 31, 2007 filed on SEDAR at [www.sedar.com](http://www.sedar.com).