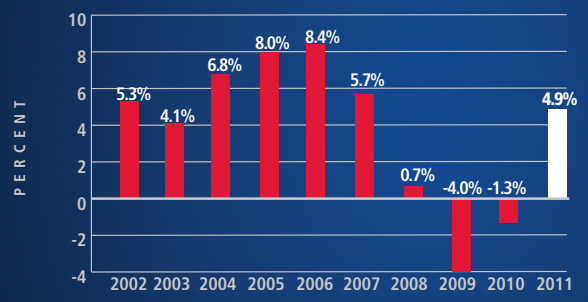
Boston Pizza Royalties Income Fund Annual Report 2011

Canada's #1 Casual Dining Brand

Boston Pizza Royalties Income Fund Annual Report 2011

Annual Gross Revenue per Location

Same Store Sales Growth



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Profile

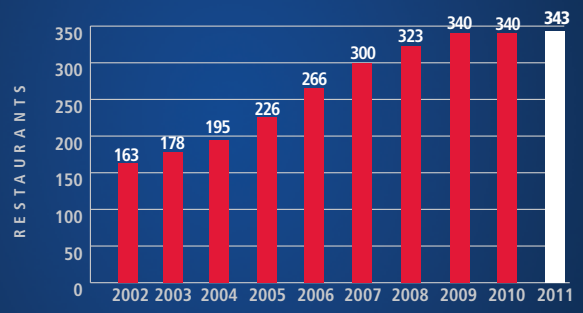
Founded in Alberta in 1964, Boston Pizza has grown to become Canada's #1 casual dining brand by continually improving its menu offerings, customer experience and restaurant design. Boston Pizza's success has allowed the concept to grow and prosper in new markets across Canada.

As at December 31, 2011 there were 343 Boston Pizza locations in Canada, stretching from Victoria to St. John's, with all but three of the restaurants owned and operated by independent franchisees.

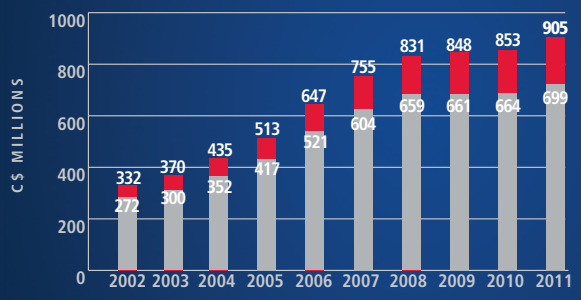
In every Boston Pizza location, customers enjoy a friendly atmosphere, professional service and an appealing and diverse menu. Whether it's a business lunch, a family dinner or watching the game with friends, Boston Pizza provides its guests the opportunity to enjoy good food in a relaxed, comfortable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




Total Number of Locations



System Wide Gross Sales & Franchise Sales



2011 Highlights

- Record system-wide gross sales of $905 million.
- 7 new full service Boston Pizza restaurants opened.
- 29 existing restaurants renovated to the latest Boston Pizza design standards.
- Number of restaurants in the Royalty Pool has more than doubled since the IPO in 2002 from 154 to 343 locations at January 1, 2012.
- Boston Pizza International Inc. named to the Platinum Club of "Canada's 50 Best Managed Companies" a prestigious designation that Boston Pizza is proud to have received consistently since 1994.
- Boston Pizza's "Flatties and Drummies" campaign was recognized by the Canadian Marketing Association with a Gold award for creativity, results and overall impact. The same campaign also received a highly coveted Silver Award at the 2012 CASSIES, which recognizes and rewards the business effectiveness of advertising.
- Boston Pizza Royalties Income Fund and Boston Pizza International Inc. adopts International Financial Accounting Standards (IFRS) beginning with Q1, 2011.

Stability

An Experienced Franchisor

The "Three Pillars" strategy is the backdrop of all decision making that has underpinned the development and success of Boston Pizza.

1. A Commitment to Franchisee Profitability

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

2. A Commitment to Building the Boston Pizza Brand

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

3. A Commitment to Continually Improving the Guest Experience

Boston Pizza has over 45 years of focus and effort toward improving the experience of our restaurant guests. A vibrant, colourful design in a casual and comfortable dining atmosphere, combined with a menu that features old favourites and new taste sensations, keeps guests coming back for more.

A Proven Restaurant Concept

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

Multiple Day Parts — Lunch, dinner, late nights and take-out & delivery.

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

A Successful Income Fund

On July 17th, 2002, Boston Pizza International Inc. sold the BP Rights to the Fund. The BP Rights include trademarks used in connection with the operation of Boston Pizza restaurants in Canada. BPI then entered into an agreement with the Fund which gives BPI the exclusive license to use the BP Rights for a period of 99 years, beginning in 2002, in exchange for a monthly royalty payment of 4% of the Franchise Sales of Boston Pizza Restaurants in the Royalty Pool. BPI remains a private company which continues to operate as the franchisor for Boston Pizza Restaurants and provides marketing, purchasing, and administrative support to existing franchisees. In addition, BPI seeks out new restaurant locations and potential franchisees in order to expand the chain and enter new markets. Any new stores opened during a calendar year are added to the Royalty Pool on January 1st of the following year. Since 2002, the Royalty Pool has expanded from 154 to 343 restaurants.

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

Demonstrated Consistency — The Fund has provided cash distributions to Unitholders in each month since the IPO in July 2002 and as at February 8, 2012, the Fund had paid out 114 consecutive monthly distributions totalling $140.4 million or $11.61 per Unit.

Demonstrated Growth — In 2011, the Fund increased the rate of monthly distributions by 9.5% to 9.2 cents per Unit. This was the fourteenth increase to monthly cash distributions since the Fund's initial public offering in 2002.

Growth

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

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

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

1986 – Boston Pizza debuts on the world stage as the official pizza supplier for Expo '86 in Vancouver, B.C. generating more than $8 million in sales. Operating at Expo gave the company worldwide exposure and set the stage for expansion into the U.S.

1990 – The Boston Pizza Foundation is established to raise funds for people of all ages living with difficult circumstances throughout Canada.

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

1994 – Named one of Canada's 50 Best Managed Companies by the Financial Post and Arthur Andersen & Co., a recognition for which Boston Pizza has officially re-qualified every subsequent year.

1996 – Boston Pizza opens its 100th store in Cold Lake, Alberta on September 24th, 1996.

1998 – Boston Pizza opens a regional office in Mississauga, Ontario, to support Eastern Canada expansion and two locations in the U.S. under the banner "Boston's The Gourmet Pizza."

1999 – Jim Treliving and George Melville earn the Ernst & Young Entrepreneur of the Year Award for commitment to hospitality and tourism.

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

2003 – Boston Pizza is named as a Platinum Club Member of "Canada's 50 Best Managed Companies" and has re-qualified for Platinum status every subsequent year.

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

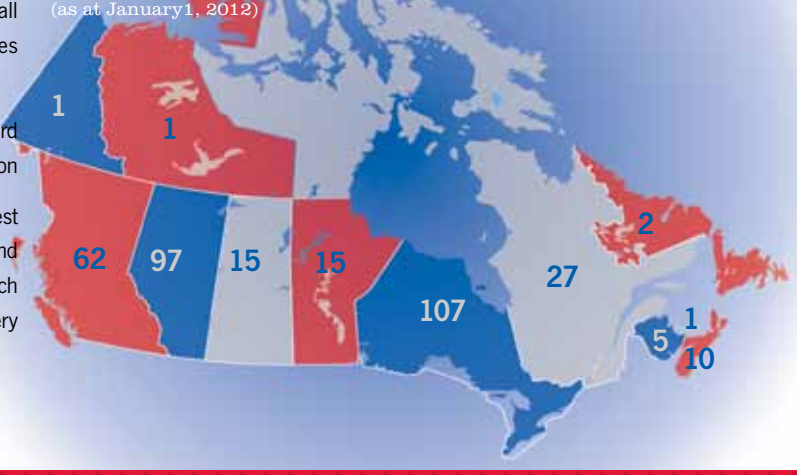
2005 – Boston Pizza locations across Canada serve more than 30 million customers and the 200th location opens in Kitchener, Ontario.

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

2008 – The 300th Boston Pizza location opens in Mississauga, Ontario.

2011 – Boston Pizza International achieves record system-wide sales of over $900 million and Boston Pizza Royalties Income Fund increases montly cash distribution to unit holders by 9.5%.

Boston Pizza Locations by Province
(as at January1, 2012)






BOSTON PIZZA FOUNDATION

Community

Since Boston Pizza first opened its doors in Edmonton, Alberta in 1964 a spirit of giving back to the communities in which we operate has been a philosophy and value we hold dear. To formalize the first 25 years of charitable activity, Boston Pizza in 1990 established the Boston Pizza Foundation, a public foundation focused on raising funds to make a difference in the lives of those in need across Canada and around the world.

The Boston Pizza Foundation is dedicated to programs and promotions that range from charity golf tournaments to national marketing programs such as our Valentine's Day Heart Shaped Pizza promotion, and BP Kids Cards program that all help raise much needed funds.

Since its inception, the Boston Pizza Foundation has raised more than $14 million for three national charities: Kids Help Phone, Juvenile Diabetes Research Foundation and the Heart & Stroke Foundation of Canada, as well as a host of other regional and national charity partners.

January 24, 2011 A person's life is saved by the use of an Automated External Defibrillator (AED) at the Boston Pizza South Common restaurant in Edmonton. Boston Pizza is a leader in the restaurant industry by being the first restaurant chain in Canada committed to placing AEDs in our restaurants and corporate offices across the country.

February 14, 2011 Boston Pizza's heart-shaped pizza campaign raises over $550,000 for Boston Pizza Foundation from the sales of our signature "heart-shaped" pizzas and paper hearts.

February 28, 2011 Boston Pizza Foundation breaks through the $12 million fundraising mark.

June 13, 2011 Boston Pizza Foundation Invitational golf tournament raises nearly $1 million dollars.

June 21, 2011 Boston Pizza Foundation announced a $360,000+ contribution to The Advanced Coronary Treatment (ACT) Foundation in support of highschool CPR and AED programs in Quebec. This contribution will support the establishment of ACT's CPR and AED training program in 70 high schools, beginning with 25 schools across three school boards in the fall of 2011.

August 2011 A group of 26 Boston Pizza franchisees, store and corporate staff, family and friends, embark on the 1st Annual Boston Pizza Foundation Hero Holiday humanitarian trip to the Dominican Republic. The group built three homes for very deserving local families.

September 2011 On September 8th, the Boston Pizza Foundation held the 1st Annual Divas on Tour Charity Golf Classic, a sold-out tournament of women golfers raising over $70,000 for the Zajac Ranch for Children, the Cures for Kids Foundation, and the Boston Pizza Foundation.

September 2011 Boston Pizza's Kids Cards raised a record setting $420,000.

November 2011 Boston Pizza Foundation is nominated for the AFP National Philanthropy Day Outstanding Corporation Category of the AFP Giving Hearts Award Program

November 2011 The Boston Pizza Foundation video in partnership with JDRF goes viral! In celebration of National Philanthropy Day, November 15, 2011, the Boston Pizza Foundation, in conjunction with Boston Pizza International chairmen and owners Jim Treliving and George Melville, created a video to highlight and celebrate our longstanding partnership with the Juvenile Diabetes Research Foundation

December 2011 The Boston Pizza Foundation continues to work with the Heart and Stroke Foundation of Canada to place AED's in public places across Canada. To date through our AED partnership, 120 AED's have been placed in public places across Canada, strengthening timely public access to these life saving devices throughout Canadian communities.

Letter from the Chairman of Boston Pizza Royalties Income Fund

On behalf of the Trustees, I am pleased to present the fourth quarter report for the Boston Pizza Royalties Income Fund (the "**Fund**"). This report covers the period from October 1, 2011 to December 31, 2011 (the "**Period**") and from January 1, 2011 to December 31, 2011 (the "**Year**").

Highlights

- Strong same store sales growth ("**SSSG**") of positive 6.4% for the Period and positive 4.9% for the Year.
- Record franchise sales from royalty pool restaurants of $177.5 million for the Period and $699.3 million for the Year, representing increases of 6.8% and 5.4%, respectively, compared to the same periods in 2010.
- Payout ratio of 98.3% for the Period and 95.7% for the Year.

Readers are cautioned that they should refer to the consolidated financial statements and Management's Discussion and Analysis of the Fund for the Period and the Year, available on SEDAR at www.sedar.com and on the Fund's website at www.bpincomefund.com, for a full description of the Fund's financial results.

Financial Highlights

Same store sales growth, a key driver of distribution growth for unitholders of the Fund, was positive 6.4% for the Period and positive 4.9% for the Year, compared to positive 1.3% and negative 1.3%, respectively, for the same periods in 2010. Franchise sales, the basis upon which royalties are paid by the franchisees to BPI, exclude revenue from the sale of liquor, beer, wine and tobacco and approved national promotions and discounts. On a franchise sales basis, SSSG was positive 5.8% for the Period and positive 4.9% for the Year, compared to positive 2.6% and negative 0.7%, respectively, for the same periods in 2010. The increases in SSSG for the Period and the Year were principally due to higher takeout and delivery sales resulting from continued promotion of Boston Pizza's online ordering system and higher sales of the new chicken wing product that was launched in early 2011 through successful national television, radio and online ad campaigns. Other key sales initiatives in the Period included a "Festive Favourites" menu feature sheet in December, and the sale of Boston Pizza Gift Cards throughout the fourth quarter. Franchise sales of restaurants in the royalty pool were a record $177.5 million for the Period and a record $699.3 million for the Year compared to $166.2 million and $663.8 million, respectively, in the same periods in 2010. The increases in franchise sales for the Period and Year are largely attributed to positive SSSG.

The Fund's net income was $0.3 million for the Period and $15.6 million for the Year compared to a loss of $1.8 million and a loss of $0.2 million, respectively, in the same periods in 2010. The Fund's net income under IFRS contains many non-cash items that do not affect the Fund's operations or its ability to pay distributions to unitholders. In the Fund's view, net income is not the only or most meaningful measurement of the Fund's ability to pay distributions. Consequently, the Fund has provided the non-International Financial Reporting Standards ("**IFRS**") metrics of distributable cash and payout ratio (as set forth herein) to provide investors with more meaningful information about the Fund's ability to pay distributions. Readers are cautioned that distributable cash and payout ratio are non-IFRS financial measures that do not have standardized meanings prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers. For reconciliation between cash flow from operating activities (the most directly comparable IFRS measure) and distributable cash, please see the table in the Financial Highlights section in the Fund's most recent Management's Discussion and Analysis. For a detailed discussion on the Fund's distributable cash and payout ratio, please refer to the Management's Discussion and Analysis for the Period and the Year as filed on SEDAR and posted on the Fund's website at www.bpincomefund.com.

The Fund's distributable cash was $4.1 million or $0.281 per unit of the Fund ("**Unit**") for the Period and $16.1 million or $1.104 per Unit for the Year compared to $5.0 million or $0.345 per Unit and $20.5 million or $1.413 per Unit for the same periods, respectively, in 2010. The decreases in distributable cash and distributable cash per Unit for the Period and the Year are a result of the Fund becoming taxable under the specified investment flow through tax ("**SIFT Tax**") beginning on January 1, 2011. For comparative purposes, if the Fund was not liable to pay SIFT Tax in respect of the Period and Year, distributable cash for the Period and Year would have been $5.5 million or $0.377 per Unit and $21.6 million or $1.480 per Unit, respectively. As a result of the SIFT Tax, the Fund pays tax at a rate approximately equal to the rate applicable to income earned by a Canadian corporation, and is prevented from deducting trust distributions when calculating taxable income. The SIFT Tax rate was 26.5% in 2011 and anticipated to be 25.0% for 2012. The Fund's liability to pay SIFT Tax reduces the amount available for distributions to unitholders. The SIFT Tax also recharacterizes such distributions as eligible dividends received from a Canadian corporation for individual tax purposes. Eligible dividend treatment for distributions to unitholders will generally be beneficial to Canadian resident investors holding their Units in taxable accounts

compared to the previous characterization primarily as other income because of the potential for individuals to claim a dividend tax credit. Distributions for the Period and the Year were funded entirely by cash flow from operations. No debt was incurred at any point during the Period or the Year to fund distributions. The table below sets out the Fund's distributable cash and distributable cash per Unit for the Period and Year along with comparable figures for the same periods one year ago.

Description	Q4 2011	Q4 2010	2011	2010
Distributable Cash	$4.1 million	$5.0 million	$16.1 million	$20.5 million
Distributable Cash per Unit	$0.281	$0.345	$1.104	$1.413
Distributable Cash without SIFT Tax†	$5.5 million	$5.0 million	$21.6 million	$20.5 million
Distributable Cash per Unit without SIFT Tax†	$0.377	$0.345	$1.480	$1.413

† These rows are provided for comparative purposes only and assume that the Fund was not liable to pay SIFT Tax in respect of the applicable periods

The Fund's payout ratio (amount distributed divided by distributable cash) was 98.3% for the Period and 95.7% for the Year compared to 100.0% and 98.1%, respectively, in the same periods one year ago. The Fund's payout ratio for the Period and for the Year decreased compared to the same periods one year ago primarily due to the impact of positive SSSG partially offset by the distribution increase beginning with the July 2011 distribution to unitholders. A key feature of the Fund is that it is a "top line" structure, in which BPI pays the Fund a royalty equal to 4% of franchise sales from restaurants in the Fund's royalty pool. Accordingly, Fund unitholders are not directly exposed to changes in the operating costs or profitability of BPI or of individual Boston Pizza restaurants. Given this structure, and that the Fund has no current mandate to retain capital for other purposes, it is expected that the Fund will maintain a payout ratio close to 100% over time as the trustees of the Fund continue to distribute all available cash in order to maximize returns to unitholders.

The trustees of the Fund announced a cash distribution to unitholders of 9.2 cents per Unit for January 2012. The distribution will be payable to unitholders of record at the close of business on February 21, 2012 and will be paid on February 29, 2012. The Fund periodically reviews distribution levels based on its policy of stable and sustainable distribution flow to unitholders.

Outlook

The Canadian Restaurant and Foodservices Association has forecast sales growth of 3.0% for the Canadian full-service restaurant sector in 2012. BPI's management believes that Boston Pizza is well positioned to continue outperforming this growth rate by attracting a wide variety of guests into the restaurant, sports bar and take-out/delivery parts of each location, offering a compelling value proposition to our guests and continuing to open new Boston Pizza locations across Canada.

The two principal factors that affect SSSG are changes in customer traffic and changes in average guest cheque. BPI's strategies to drive higher guest traffic include a larger marketing budget versus the previous year along with a revised calendar of national and local store promotions. Increased average cheque levels will be achieved through a combination of menu design and annual re-pricing. In addition, BPI's franchise agreement requires that each Boston Pizza restaurant undergo a complete store renovation every seven years and four locations have already completed renovations in 2012 with many more underway or planned for later this year. Restaurants typically close for two to three weeks to complete the renovation and experience an incremental sales increase in the year following the re-opening.

Boston Pizza remains well positioned for future expansion as evidenced by the seven new Boston Pizza restaurants that opened in 2011. Another new Boston Pizza restaurant has opened to date in 2012 and one more is currently under construction and scheduled to open in March 2012. BPI's management believe that Boston Pizza will continue to strengthen its position as the number one casual dining brand in Canada by pursuing further restaurant development opportunities across the country.

On behalf of the Board of Trustees,

John Cowperthwaite, FCA
Chairman, Boston Pizza Royalties Income Fund

Certain information in this letter may constitute "forward-looking information" that involves known and unknown risks, uncertainties, future expectations and other factors which may cause the actual results, performance or achievements of the Fund, Boston Pizza Holdings Trust, Boston Pizza General Partnership, Boston Pizza Holdings Limited Partnership, Boston Pizza Holdings GP Inc., Boston Pizza GP Inc., 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 information. When used in this letter, forward-looking information may include words such as "anticipate", "estimate", "may", "will", "expect", "believe", "plan" and other similar terminology. This information reflects current expectations regarding future events and operating performance and speaks only as of the date of this letter. Except as required by law, the Fund and BPI assume no obligation to update previously disclosed forward-looking information.

For a complete list of the risks associated with forward-looking information and with the business, please refer to the complete forward-looking information disclaimer included in the Fund's most recent Management's Discussion and Analysis for the Period available at www.sedar.com and www.bpincomefund.com.

Letter from the CEO of Boston Pizza International Inc.

On behalf of Boston Pizza International Inc. ("BPI"), its board of directors, management team and employees, I am pleased to present our 2011 Annual Report. This report covers the period from October 1, 2011 to December 31, 2011 (the "Period") and from January 1, 2011 to December 31, 2011 (the "Year").

Highlights

- Record system-wide gross sales of $905 million in 2011, an increase of 6.7% compared to 2010.
- Seven new full service Boston Pizza locations opened during 2011 and added to the Fund's royalty pool on January 1, 2012 bringing the total to 343 restaurants nationwide.
- Strong same store sales growth momentum leads Fund's trustees to announce in August 2011 the single largest increase to monthly cash distributions since the initial public offering in 2002.

Readers are cautioned that they should refer to the consolidated financial statements and Management's Discussion and Analysis of BPI for the Period and the Year, available on SEDAR at www.sedar.com and on the Fund's website at www.bpincomefund.com, for a full description of BPI's financial results.

2011 was an excellent year for Boston Pizza. We achieved record system-wide gross sales of $905 million, grew same store sales by 4.9% and opened seven new full service Boston Pizza restaurants to reach 343 locations in Canada as at December 31, 2011. Our strong sales growth results allowed the trustees of the Fund to provide Unitholders with our largest single increase to monthly distributions since the initial public offering in 2002.

Looking back, it took more than 30 years to reach $100 million in annual system-wide sales and we are very pleased to have been able to increase our annual sales by more than $600 million over just the last ten years. The rate of growth today is only possible because we have a proven business model, a commitment to continuous improvement and the right team to execute on our business strategy. Our daily focus is on providing our guests with the best casual dining experience and ensuring that our franchisees can run profitable restaurants. The result is Canada's #1 casual dining brand, serving over 40 million Canadians each year at 343 Boston Pizza restaurants from Victoria to St. John's and from Niagara Falls to Whitehorse.

Operational Highlights

Key achievements for BPI in 2011 included the highly successful introduction of our new chicken wing offering, the continued popularity of our online ordering website to drive take-out and delivery sales and the launch of a new brand tagline "Here to Make You Happy™", which captures our commitment to provide guests with an exceptional dining experience every time they visit Boston Pizza.

On the creative front, Boston Pizza executed a number of successful national and regional marketing campaigns in 2011, including the award winning "Crystal Wingy" advertisements featuring the "Flatties and Drummies" fictional wing critics. Another high profile campaign saw Boston Pizza temporarily change our brand name to Montreal Pizza and Vancouver Pizza in two regional markets to support the local NHL hockey teams involved in NHL playoff series against Boston at the time. The name change prompted significant local coverage and even became the #3 trending topic worldwide on Twitter in May 2011—a major coup for Boston Pizza and for our local sports fans in Quebec and British Columbia!

Outlook

The Canadian Restaurant and Foodservices Association has forecast sales growth of 3.0% for the Canadian full-service restaurant sector in 2012. BPI's management believes that Boston Pizza is well positioned to continue outperforming this growth rate by attracting a wide variety of guests into the restaurant, sports bar and take-out/delivery parts of each location, offering a compelling value proposition to our guests and continuing to open new Boston Pizza locations across Canada.

The two principal factors that affect SSSG are changes in customer traffic and changes in average guest cheque. BPI's strategies to drive higher guest traffic include a larger marketing budget versus the previous year along with a revised calendar of national and local store promotions. Increased average cheque levels will be achieved through a combination of menu design and annual re-pricing. In addition, BPI's franchise agreement requires that each Boston Pizza restaurant

undergo a complete store renovation every seven years and four locations have already completed renovations in 2012 with many more underway or planned for later this year. Restaurants typically close for two to three weeks to complete the renovation and experience an incremental sales increase in the year following the re-opening.

Boston Pizza remains well positioned for future expansion as evidenced by the seven new Boston Pizza restaurants that opened in 2011. Another new Boston Pizza restaurant has opened to date in 2012 and one more is currently under construction and scheduled to open in March 2012. BPI's management believe that Boston Pizza will continue to strengthen its position as the number one casual dining brand in Canada by pursuing further restaurant development opportunities across the country.

On behalf of the board of Boston Pizza International Inc.,

Mark Pacinda
President & CEO, Boston Pizza International Inc.

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For a complete list of the risks associated with forward-looking information and with the business, please refer to the complete forward looking information disclaimer included in the Fund's most recent Management's Discussion and Analysis for the Period available at www.sedar.com and www.bpincomefund.com.

Management's Discussion & Analysis

FINANCIAL HIGHLIGHTS

The tables below set out selected information from the consolidated financial statements of Boston Pizza Royalties Income Fund (the "**Fund**")[1], which includes the accounts of Boston Pizza Royalties Limited Partnership (the "**Partnership**"), together with other data and should be read in conjunction with the annual consolidated financial statements of the Fund for the twelve month period ended December 31, 2011. Except where otherwise noted, the financial information in the tables included in this Management's Discussion and Analysis are reported in accordance with IFRS (as defined herein), and as a result are not directly comparable to those figures contained within prior historical financial statements or Management's Discussion and Analysis of the Fund that were previously prepared in accordance with Canadian GAAP (as defined herein). Full particulars of the impact of the Fund's adoption of IFRS are set forth in the Management's Discussion and Analysis for the periods ended March 31, 2011 and June 30, 2011, copies of which were filed on SEDAR on May 10, 2011 and August 10, 2011, respectively, and the consolidated financial statements and accompanying notes of the Fund for the twelve month period ended December 31, 2011, a copy of which was filed on SEDAR on February 9, 2012, and are available at www.sedar.com and www.bpincomefund.com. The Fund's net income under IFRS contains many non-cash items that do not affect the Fund's ability to pay distributions, and as such, is not, in the Fund's view, the only or most meaningful measurement of the Fund's ability to pay distributions. Consequently, the Fund has provided the non-IFRS metrics of Distributable Cash[2] and Payout Ratio[3] (as set forth in the tables below) to provide investors with more meaningful information regarding the Fund's ability to pay distributions on the Units (as defined herein).

(in thousands of dollars – except restaurants, SSSG, payout ratio and per Unit items)	Jan 1, 2011 to Dec 31, 2011	Jan 1, 2010 to Dec 31, 2010 Proforma[4]	Jan 1, 2010 to Dec 31, 2010
Revenues			
Number of restaurants in Royalty Pool[5]	336	334	334
Franchise Sales[6] reported by restaurants in the Royalty Pool	699,329	663,758	663,758
Royalty revenue – 4% of Franchise Sales of Restaurants	27,973	26,550	26,550
Net interest income	1,815	1,803	1,803
Total revenues	29,788	28,353	28,353
Expenses			
Administrative expenses and interest on bank debt	(1,894)	(2,053)	(2,053)
Interest accrued to holders of Units[7]	—	—	(16,725)
Interest accrued to BPI on Class B Units and Class C Units[8]	(5,814)	(5,639)	(5,639)
Gain on retirement of Unit liability	—	46	46
Fair value adjustment on Class B Unit liability[9]	(731)	(3,703)	(3,703)
Subtotal	(8,439)	(11,349)	(28,074)
Current income tax expense	(5,474)	—	—
Deferred income tax expense	(290)	(490)	(490)
Total expenses	(14,203)	(11,839)	(28,564)
Net Income			
Net income (loss)	15,585	16,514	(211)
Basic and diluted earnings per Unit	1.186	1.245	0.091
Distributable Cash[2]/ Distributions / Payout Ratio[3]			
Cash flows from operating activities	27,490	26,185	26,185
BPI entitlement:			
Class C distributions	(1,800)	(1,800)	(1,800)
Class B entitlement	(4,130)	(3,911)	(3,911)
SIFT tax on Units	(5,474)	—	—
Distributable Cash[2]	16,086	20,474	20,474
Interest accrued[7] / distributions payable[10]	15,387	20,076	20,076
Payout Ratio[3]	95.7%	98.1%	98.1%
Distributable Cash per Unit[2]	1.104	1.413	1.413
Interest[7] / distributions payable per Unit[10]	1.056	1.380	1.380
Other			
Same store sales growth (SSSG)	4.9%	(1.3%)	(1.3%)
Number of restaurants opened during the period	7	6	6
Number of restaurants closed during the period	4	6	6

	Dec 31, 2011	Dec 31, 2010 Proforma[4]	Dec 31, 2010
Total assets	261,571	258,547	258,547
Total liabilities	99,794	96,968	96,968

The financial results reported in the table below are reported in accordance with Canadian GAAP and not IFRS, and as a result are not directly comparable to those figures contained herein that are reported in accordance with IFRS.

(in thousands of dollars – except restaurants, SSSG and per unit items)	Jan 1, 2009 Dec 31, 2009
Number of restaurants in Royalty Pool[5]	322
Franchise Sales[6] reported by restaurants in the Royalty Pool	644,091
Royalty Income – 4% of Franchise Sales of Restaurants	25,764
Administrative and interest expenses	1,449
Partnership earnings for the period before undernoted[11]	24,315
BPI's interest in the earnings of the Partnership	6,627
Equity income related to BPI royalties earned by the Fund	17,688
Net interest income	1,783
Earnings before undernoted[11, 12]	19,471
Dilution loss	(326)
Future income tax expense	(1)
Net earnings	19,144
Earnings before undernoted per Fund unit[11, 12]	1.347
Basic and diluted earnings per Fund unit[13]	1.325
Distributions declared per Fund unit	1.380
Same store sales growth (SSSG)	(4.0%)
Number of restaurants opened during the period	18
Number of restaurants closed during the period	1

	Dec 31, 2009
Total assets	171,046
Total liabilities	5,157

The financial results reported in the table below are reported in accordance with IFRS, and as a result are not directly comparable to those figures contained within historical financial statements or Management's Discussion and Analysis that were prepared in accordance with Canadian GAAP.

(in thousands of dollars – except restaurants, SSSG, payout ratio and per Unit items)	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Revenues				
Number of restaurants in Royalty Pool[5]	336	336	338	339
Franchise Sales[6] reported by restaurants in the Royalty Pool	177,465	183,163	175,568	163,133
Royalty revenue – 4% of Franchise Sales of Restaurants	7,098	7,327	7,023	6,525
Interest income	454	454	455	452
Total revenues	7,552	7,781	7,478	6,977
Expenses				
Administrative expenses and interest on bank debt	(432)	(449)	(511)	(502)
Interest accrued to BPI on Class B Units and Class C Units[8]	(2,042)	(1,447)	(1,388)	(937)
Fair value adjustment on Class B Unit liability[9]	(3,308)	1,148	2,707	(1,278)
Subtotal	(5,782)	(748)	808	(2,717)
Current income tax expense	(1,396)	(1,449)	(1,366)	(1,263)
Deferred income tax expense	(70)	(100)	(70)	(50)
Total expenses	(7,248)	(2,297)	(628)	(4,030)
Net Income				
Net income	304	5,484	6,850	2,947
Basic and diluted earnings per Unit	0.089	0.401	0.495	0.201
Distributable Cash / Distributions / Payout Ratio[2, 3]				
Cash flows from operating activities	7,037	7,266	6,922	6,265
BPI entitlement:				
Class C distributions	(450)	(450)	(450)	(450)
Class B entitlement	(1,099)	(1,077)	(1,023)	(952)
SIFT tax on Units	(1,396)	(1,449)	(1,366)	(1,263)
Distributable cash[2]	4,092	4,290	4,083	3,600
Interest accrued[7] / distributions payable[10]	4,021	4,021	3,672	3,672
Payout Ratio[3]	98.3%	93.7%	89.9%	102.0%
Distributable cash per Unit[2]	0.281	0.294	0.280	0.247
Interest[7] / distributions payable per Unit[10]	0.276	0.276	0.252	0.252

(in thousands of dollars – except restaurants, SSSG, payout ratio and per Unit items)	Q4 2010	Q3 2010	Q2 2010	Q1 2010
Revenues				
Number of restaurants in Royalty Pool[5]	334	335	338	340
Franchise Sales[6] reported by restaurants in the Royalty Pool	166,181	171,151	165,972	160,455
Royalty revenue – 4% of Franchise Sales of Restaurants	6,647	6,846	6,639	6,418
Interest income	452	451	450	450
Total revenues	7,099	7,297	7,089	6,868
Expenses				
Administrative expenses and interest on bank debt	(687)	(485)	(444)	(437)
Interest accrued to holders of Units[7]	(3,352)	(5,027)	(5,096)	(3,250)
Interest accrued to BPI on Class B Units and Class C Units[8]	(1,852)	(1,362)	(1,362)	(1,063)
Gain (Loss) on retirement of Unit liability	—	—	181	(135)
Fair value adjustment on Class B Unit liability[9]	(2,916)	(3,924)	1,056	2,081
Subtotal	(8,807)	(10,798)	(5,665)	(2,804)
Current income tax expense	—	—	—	—
Deferred income tax expense	(80)	(70)	(70)	(270)
Total expenses	(8,887)	(10,868)	(5,735)	(3,074)
Net Income				
Net income	(1,788)	(3,571)	1,354	3,794
Basic and diluted earnings per Unit	(0.058)	(0.218)	0.120	0.256
Distributable Cash / Distributions / Payout Ratio[2, 3]				
Cash flows from operating activities	6,425	6,963	6,554	6,243
BPI entitlement:				
Class C distributions	(450)	(450)	(450)	(450)
Class B entitlement	(948)	(1,000)	(931)	(1,067)
Distributable cash[2]	5,027	5,513	5,173	4,726
Interest accrued[7] / distributions payable[10]	5,027	5,027	5,068	4,953
Payout Ratio[3]	100.0%	91.2%	98.0%	104.8%
Distributable cash per Unit[2]	0.345	0.378	0.350	0.338
Interest[7] / distributions payable per Unit[10]	0.345	0.345	0.345	0.345

1 Any further references to the Fund refer to the Fund and its subsidiaries, as the financial results in this Management's Discussion and Analysis are presented on a consolidated basis unless expressly stated otherwise.

2 Distributable Cash is a non-IFRS financial measure that does not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers. This non-IFRS financial measure provides useful information to investors regarding the amount of cash the Fund has available for distribution on the Units. Investors are cautioned that this should not be construed as an alternative net income measure of profitability. The tables above provide a reconciliation from this non-IFRS financial measure to cash flows from operating activities, which is the most directly comparable IFRS measure. See the "Operating Results – Distributable Cash / Payout Ratio" section of this Management's Discussion and Analysis for more details.

3 Payout Ratio is calculated by dividing the interest / distributions payable by the Fund in respect of the applicable period by the Distributable Cash earned in that period. This non-IFRS financial measure provides investors with useful information regarding the extent to which the Fund distributes cash on the Units. Investors are cautioned that this should not be construed as an alternative net income measure of profitability.

4 The results shown in this column assume that the Units were classified under IFRS as equity at all times during the applicable period rather than as a financial liability and that amounts paid by the Fund to Unitholders during or in respect of the applicable period were classified under IFRS as distributions rather than interest expense. These results are not audited and are provided only for information purposes. See note 7 below and the "Operating Results – Expenses" and "Operating Results – Distributions" sections of this Management's Discussion and Analysis for more details.

5 Number of restaurants in the Royalty Pool (as defined herein) excludes restaurants that permanently closed during the applicable period.

6 Franchise sales is the basis on which the royalty is payable; it means the revenues of Boston Pizza Restaurants (as defined herein) in respect of which the royalty is payable ("**Franchise Sales**"). The term "revenue" refers to the gross revenue: (i) of the corporate Boston Pizza Restaurants in Canada owned by BPI (as defined herein); and (ii) reported to BPI by franchised Boston Pizza Restaurants in Canada, without audit or other form of independent assurance, and in the case of both (i) and (ii), after deducting revenue from the sale of liquor, beer, wine and tobacco and revenue from BPI approved national promotions and discounts and excluding applicable sales and similar taxes. Nevertheless, BPI periodically conducts audits of the Franchise Sales reported to it by its franchisees, and the Franchise Sales reported herein include results from sales audits of earlier periods conducted during the year.

7 Units are classified as a financial liability under IFRS in respect of the period from January 1, 2010 through December 6, 2010, and as a result the amounts paid by the Fund to Unitholders (as defined herein) in respect of that period are classified as interest expense of the Fund and not distributions. From and after December 7, 2010, amounts paid by the Fund to Unitholders are classified as distributions of the Fund as the Units are classified as equity from and after December 7, 2010. See "Operating Results – Expenses" and "Operating Results – Distributions" of this Management's Discussion and Analysis for more details.

8 The Class B general partner units of the Partnership (the "**Class B Units**") and the Class C general partner units of the Partnership (the "**Class C Units**") are classified as financial liabilities under IFRS, and as such, amounts paid by the Partnership to BPI in respect of the Class B Units and Class C Units are classified as interest expense and not distributions. See the "Operating Results – Expenses" section of this Management's Discussion and Analysis for more details.

9 Because the Class B Units are classified as a financial liability under IFRS, the Fund is required under IFRS to fair value that liability at the end of each period and adjust for any increase or decrease in the fair value of that liability as compared to the fair value of that liability at the end of the immediately preceding period. See the "Operating Results – Expenses" section of this Management's Discussion and Analysis for more details. This adjustment has no impact on the Fund's Distributable Cash.

10 Under the Declaration of Trust (as defined herein), the Fund pays interest / distributions on the Units in respect of any particular calendar month not later than the last business day of the immediately subsequent month. Accordingly, interest / distributions on the Units in respect of the calendar month of January are paid no later than the last business day of February, interest / distributions on the Units in respect of the calendar month of February are paid no later than the last business day of March and so forth. Consequently, interest / distributions payable by the Fund on the Units in respect of the Period (as defined herein) were the October 2011 distribution (which was paid on November 30, 2011), the November 2011 distribution (which was paid on December 30, 2011) and the December 2011 distributions (which was paid on January 31, 2012). Similarly, the interest / distributions payable by the Fund on the Units in respect of any other period are the interest / distributions paid in the immediately subsequent month of each month comprising such other period.

11 This is a non-Canadian GAAP financial measure that does not have a standardized meaning prescribed by Canadian GAAP and therefore is unlikely to be comparable to similar measures presented by other issuers. This non-Canadian GAAP financial measure provides useful information to investors and management by providing an indication of operating earnings. Investors are cautioned that this should not be construed as an alternative net income measure of profitability. The table above provides a reconciliation from this non-Canadian GAAP financial measure to the most directly comparable Canadian GAAP measure.

12 Earnings before dilution gain (loss) and future income tax expense.

13 This is a non-Canadian GAAP financial measure that does not have a standardized meaning prescribed by Canadian GAAP and therefore is unlikely to be comparable to similar measures presented by other issuers. This non-Canadian GAAP financial measure provides useful information to investors and management by providing an indication of operating earnings. Investors are cautioned that this should not be construed as an alternative net income measure of profitability. The table above provides a reconciliation from this non-Canadian GAAP financial measure to the most directly comparable Canadian GAAP measure.

OVERVIEW

General

This Management's Discussion and Analysis covers the three month period from October 1, 2011 to December 31, 2011 (the "**Period**") and the twelve month period from January 1, 2011 to December 31, 2011 ("**Year**") and is dated February 8, 2012.

The Fund is a limited purpose open-ended trust established in July 2002, and the units of the Fund trade on the Toronto Stock Exchange ("**TSX**") under the symbol BPF.UN (the "**Units**"). The Fund was created to acquire, indirectly through the Partnership and Boston Pizza Holdings Trust (the "**Trust**"), the Canadian trademarks owned by Boston Pizza International Inc. ("**BPI**") and used in connection with the operation of Boston Pizza restaurants in Canada (collectively the "**BP Rights**"[14]) and the business of BPI, its affiliated entities and franchisees (herein referred to as "**Boston Pizza**"). The Partnership licenses the BP Rights to BPI in return for a 4% royalty of Franchise Sales of those restaurants ("**Boston Pizza Restaurants**") included in the specific royalty pool (the "**Royalty Pool**"). As of December 31, 2011, there were 336[5] restaurants in the Royalty Pool.

A key attribute of the Fund's structure is that it is a "top-line" fund. Royalty (as defined below) revenue of the Fund is based on Franchise Sales of Royalty Pool restaurants and is not determined by the profitability of either BPI or the Boston Pizza Restaurants in the Royalty Pool. In addition, the Fund is not subject to the variability of earnings or expenses associated with an operating business. The Fund's only cash expenses are administrative expenses and interest on debt, amounts paid by the Partnership on the Class B Units and Class C Units, and income tax. Given this structure, the success of the Fund depends primarily on the ability of BPI to maintain and increase Franchise Sales of Boston Pizza Restaurants in the Royalty Pool.

Increases in Franchise Sales are derived from both new Boston Pizza Restaurants added to the Royalty Pool and same store sales growth ("**SSSG**"). SSSG, a key driver of distribution growth for individual unitholders of the Fund ("**Unitholders**"), is the change in gross revenues of Boston Pizza Restaurants as compared to the gross revenues for the same period in the previous year. The two principal factors that affect SSSG are changes in customer traffic and changes in average guest cheque. These factors are dependent upon existing restaurants maintaining operational excellence within each Boston Pizza Restaurant, general market conditions, pricing, and marketing programs undertaken by BPI. One of BPI's competitive strengths in increasing Franchise Sales of existing locations is that BPI's franchise agreement requires that each Boston Pizza Restaurant undergo a complete store renovation every seven years and complete any equipment upgrades as required by BPI. Locations typically close for two to three weeks to complete the renovation and experience an incremental sales increase in the year following the re-opening.

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

Addition of New Restaurants to Royalty Pool

On January 1 of each year (the "**Adjustment Date**"), an adjustment is made to add to the Royalty Pool new Boston Pizza Restaurants that opened and to remove any Boston Pizza Restaurants that permanently closed since the last Adjustment Date. In return for adding net additional royalty revenue, BPI receives the right to indirectly acquire additional Units (the "**Additional Entitlements**"). The adjustment for new Franchise Sales added to the Royalty Pool is designed to be accretive to Unitholders.

The Additional Entitlements for Adjustment Dates occurring on or before January 1, 2011 were calculated at 92.5% of the estimated royalty revenue added to the Royalty Pool, divided by the yield of the Fund, divided by the weighted average Unit price. BPI received 80% of the Additional Entitlements initially, with the balance received when the actual full year performance of the new restaurants is known with certainty. BPI receives 100% of distributions from the Additional Entitlements throughout the year. Once these new restaurants have been part of the Royalty Pool for a full year, an audit of the royalty revenues of these restaurants received from BPI is performed. At such time an adjustment is made to reconcile distributions paid to BPI and the Additional Entitlements received by BPI.

Amendment to Roll-in Mechanism

On January 2, 2011, the mechanism through which new Boston Pizza Restaurants are added to the Royalty Pool on each Adjustment Date was amended to adjust for the impact that the specified investment flow-through tax (the "**SIFT Tax**") has on the economics of such mechanism, commencing with the roll-in of new Boston Pizza Restaurants that occurred on January 1, 2012 and on each Adjustment Date thereafter (the "**Amendment**"). The Amendment adjusts the roll-in mechanism such that the addition of new Boston Pizza Restaurants to the Royalty Pool in the future will continue to be accretive to the Fund and Unitholders by reducing the net additional royalty revenue for the purpose of the calculation of Additional Entitlements by the effect of the SIFT Tax. Full particulars of the Amendment are set forth in the notice of meeting and information circular for the special meeting of Unitholders that was held on December 7, 2010, a copy of which was filed on SEDAR on November 5, 2010 and is available at www.sedar.com and www.bpincomefund.com.

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

Adoption of International Financial Reporting Standards

The Canadian Accounting Standards Board announced in February 2008 that publicly accountable entities would be required to adopt international financial reporting standards in place of Canadian generally accepted accounting principles for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. As a result, the Handbook of the Canadian Institute of Chartered Accountants (the "**CICA Handbook**") was amended to incorporate international financial reporting standards and to require publicly accountable entities to apply such standards for fiscal years beginning on or after January 1, 2011 (such standards as incorporated into the CICA Handbook, "**IFRS**"). Accordingly, the Fund adopted IFRS on January 1, 2011 and the financial results disclosed in this Management's Discussion and Analysis for all periods commencing on or after January 1, 2010 have all been prepared in accordance with IFRS, including International Accounting Standard 34 – *Financial Reporting* and International Financial Reporting Standard 1 – *First-time Adoption of IFRS*. In this Management's Discussion and Analysis, the term "**Canadian GAAP**" refers to Canadian generally accepted accounting principles before the Fund's adoption of IFRS.

The Fund's transition to reporting its financial results in accordance with IFRS from Canadian GAAP has resulted in the Fund now consolidating the accounts of the Partnership. The consolidated financial statements of the Fund therefore include the accounts of the Fund, the Partnership, the Fund's wholly-owned subsidiaries, the Trust, Boston Pizza Holdings GP Inc. ("**Holdings GP**"), Boston Pizza Holdings Limited Partnership ("**Holdings LP**"), and the Fund's 80% owned subsidiary Boston Pizza GP Inc. ("**BPGP**") (collectively, the "**Companies**"). BPGP is the managing general partner of the Partnership. All residual ownership of the Companies is either directly or indirectly controlled by BPI. The comparative financial results contained in this Management's Discussion and Analysis for periods in 2010 have been restated to conform to IFRS rather than Canadian GAAP. The Fund's financial results reported for periods ending on or before December 31, 2009 have been prepared in accordance with Canadian GAAP and therefore are not directly comparable with the financial results of the Fund reported in accordance with IFRS from January 1, 2010 onwards.

Readers are advised that the Fund's transition to reporting its financial results in accordance with IFRS from Canadian GAAP, including consolidating the Partnership's accounts with the Fund, has had no impact, nor is it expected to have any future impact, on the operations of the Fund's business, the amount of cash that is available to distribute to Unitholders or the contractual obligations between the Fund, the Partnership, BPI or any third parties. However, it has impacted the presentation of certain key financial metrics of the Fund and BPI.

Full particulars of the impact of the Fund's adoption of IFRS are set forth in the Management's Discussion and Analysis for the periods ended March 31, 2011 and June 30, 2011, copies of which were filed on SEDAR on May 10, 2011 and August 10, 2011, respectively, and the consolidated financial statements and accompanying notes of the Fund for the twelve month period ended December 31, 2011, a copy of which was filed on SEDAR on February 9, 2012, and are available at www.sedar.com and www.bpincomefund.com.

The following information provides additional analysis of the operations and financial position of the Fund and should be read in conjunction with the consolidated financial statements and accompanying notes. The consolidated financial statements are in Canadian dollars and have been prepared in accordance with IFRS.

OPERATING RESULTS

Same Store Sales Growth ("SSSG")

SSSG, a key driver of distribution growth for individual Unitholders, is the change in gross revenues of Boston Pizza Restaurants as compared to the gross revenues for the same period in the previous year, where restaurants were open for the full period in each year. The two principal factors that affect SSSG are changes in customer traffic and changes in average guest cheque. SSSG was positive 6.4% for the Period and positive 4.9% for the Year, compared to positive 1.3% SSSG reported in the fourth quarter of 2010 and negative 1.3% for 2010. SSSG is based on gross sales, including approved national promotions and discounts, of Boston Pizza Restaurants that have been open for a minimum of 24 months. Franchise Sales, the basis upon which royalties are paid by the franchisees to BPI, exclude revenue from the sale of liquor, beer, wine and tobacco and approved national promotions and discounts. On a Franchise Sales basis, SSSG for the Period was positive 5.8% (Q4 2010 – positive 2.6%) and positive 4.9% for the Year (2010 – negative 0.7%). The increase in SSSG for the Period and Year were principally due to higher take out and delivery sales resulting from continued promotion of Boston Pizza's online ordering system and higher sales of the new chicken wing product that was launched in early 2011 through a successful national television, radio and online ad campaign. Other sales initiatives in the Period included a new sports bar menu launched in November and a "Festive Favourites" menu promotion in December.

New Store Openings, Closures and Renovations

During the Period, two new Boston Pizza Restaurants opened and no Boston Pizza Restaurants closed. A total of seven new Boston Pizza Restaurants opened during the Year and four Boston Pizza Restaurants closed during the Year, two of which were Boston Pizza quick express restaurants. Unitholders are reminded that permanent restaurant closures are deducted from new store openings in the roll-in calculation (to determine net additional royalties) for the Fund's Royalty Pool. Subsequent to December 31, 2011, one new Boston Pizza Restaurant opened. As well during the Period, four (Year – 29) Boston Pizza Restaurants were renovated. Restaurants typically close for two to three weeks to complete the renovation and experience an incremental

sales increase in the year following the re-opening. The total number of restaurants in operation as of February 8, 2012 is 344, of which 343 are in the Royalty Pool.

Seasonality

Boston Pizza Restaurants experience seasonal fluctuations in Franchise Sales, which are inherent in the full service restaurant industry in Canada. Seasonal factors such as better weather allow Boston Pizza Restaurants to open their patios and generally increase Franchise Sales in the second and third quarters compared to the first and fourth quarters. Tourism is also a seasonal factor positively impacting the same time frames.

Revenues

Total revenue earned by the Fund was $7.6 million for the Period and $29.8 million for the Year compared to $7.1 million for the fourth quarter of 2010 and $28.4 million for 2010.

Royalty revenue earned by the Fund was $7.1 million for the Period and $28.0 million for the Year compared to $6.6 million for the fourth quarter of 2010 and $26.6 million for 2010. Royalty revenue was based on the Royalty Pool of 336[5] Boston Pizza Restaurants reporting record Franchise Sales of $177.5 million for the Period and record $699.3 million for the Year. In the fourth quarter of 2010, Royalty revenue was based on the Royalty Pool of 334[5] Boston Pizza Restaurants reporting Franchise Sales of $166.2 million and $663.8 million for 2010. The increase in Royalty revenue for the Period and Year compared to the same periods in 2010 was principally due to the increases in SSSG.

Net interest income earned by the Fund was $0.5 million for the Period (Q4 2010 – $0.5 million) and $1.8 million for the Year (2010 – $1.8 million). The Fund's interest income is mainly derived from the $24.0 million loan from the Fund to BPI, which bears interest at a rate of 7.5% per annum and is paid monthly by BPI in arrears.

Expenses

The Fund's expenses for the Period were $7.2 million consisting of $0.2 million for interest expense on the Term Loan (as defined herein) and NCIB Credit Facilities (as defined herein), $2.0 million for interest expense to BPI on the Class B Units and Class C Units, $1.5 million for SIFT Tax and deferred income taxes, $3.3 million fair value adjustment on the Class B Units held by BPI, and $0.2 million for general and administrative expenses. The general and administrative expenses were comprised mainly of professional fees, insurance premiums, transfer agent costs, and trustee fees. For the same period in 2010, the Fund's expenses were $8.9 million consisting of $0.3 million for interest expense on the Term Loan and NCIB Credit Facilities, $3.4 million for interest expense on Units, $1.9 million for interest expense to BPI on Class B Units and Class C Units, a $2.9 million fair value adjustment on the Class B Units held by BPI, and $0.4 million for general and administrative expenses.

The Fund's expenses for the Year were $14.2 million consisting of $1.0 million for interest expense on the Term Loan and NCIB Credit Facilities, $5.8 million for interest expense to BPI on the Class B Units and Class C Units, $5.8 million for SIFT Tax and deferred income taxes, $0.9 million for general and administrative expenses, and a $0.7 million fair value adjustment on the Class B Units held by BPI. For the same period in 2010, the Fund's expenses were $28.6 million consisting of $0.8 million for interest expense on the Term Loan and NCIB Credit Facilities, $5.6 million for interest expense to BPI on Class B Units and Class C Units, $16.7 million for interest expense on Units, $3.7 million fair value adjustment on the Class B Units held by BPI, $0.5 million for deferred income taxes and $1.3 million for general and administrative expenses.

The Fund's expenses for the Period were $1.7 million lower compared to the same period one year ago. Interest expense on the NCIB Credit Facilities decreased $0.1 million due to temporary repayment of the NCIB Credit Facilities in the Period, interest to BPI increased $0.1 million due to BPI's increased interest in the Partnership, interest on Units decreased $3.4 million as a result of distributions being classified as interest expense in 2010, tax expense increased $1.5 million as a result of the Fund being liable for SIFT tax in 2011, general and administrative expenses decreased by $0.2 million as 2010 included expenses related to the conversion to IFRS, the special meeting of Unitholders that was held on December 7, 2010 (the "**Special Meeting**"), and the fair market value adjustment increased $0.4 million due to the change in the fair value of the Class B unit liability.

The Fund's expenses for the Year were $14.4 million lower compared to the same period one year ago. Interest expense on the NCIB Credit Facilities increased $0.2 million due to higher balances over the Year, interest to BPI increased $0.2 million due to BPI's increased interest in the Partnership, interest on Units decreased $16.7 million as a result of distributions being classified as interest expense in 2010, tax expense increased $5.3 million as a result of the Fund being liable for SIFT tax in 2011, general and administrative expenses decreased by $0.4 million as 2010 included expenses related to the conversion to IFRS, the Special Meeting, and the fair market value adjustment decreased $3.0 million due to the change in the fair value of the Class B unit liability.

Under Canadian GAAP, the Units were presented as equity. Under IFRS, a financial instrument is treated as a financial liability when it contains a contractual obligation to deliver cash or another financial asset to another entity. Prior to December 7, 2010, the Fund's declaration of trust dated June 10, 2002 as amended and restated on September 22, 2008 contained a mandatory requirement to distribute all taxable income. On December 7, 2010, the Fund's declaration of trust was amended and restated (the "**Declaration of Trust**") to, among other things, remove the mandatory requirement to distribute all taxable income. More detailed particulars of this amendment are set forth in the notice of

meeting and information circular for the Special Meeting, a copy of which was filed on SEDAR on November 5, 2010 and is available at www.sedar.com and www.bpincomefund.com.

Consequently, at all times prior to December 7, 2010, the Units are classified under IFRS as a financial liability rather than equity and the amounts paid by the Fund to Unitholders are classified under IFRS as interest expense rather than distributions. Conversely, at all times on and after December 7, 2010, the Units are classified under IFRS as equity, and the amounts paid by the Fund to Unitholders are classified under IFRS as distributions from equity.

The result of the foregoing is that the comparative figures under IFRS for that portion of the year 2010 occurring before December 7, 2010 classify the Units as a financial liability rather than equity, and the amounts paid by the Fund to Unitholders are classified under IFRS as interest expense rather than distributions, thereby making the amounts of interest expense incurred by the Fund during the Period and Year not directly comparable to the amounts of interest expense incurred by the Fund during the same periods in 2010. This had no impact on the Fund's Distributable Cash.

The Class B Units and Class C Units are also classified as financial liabilities under IFRS, which impacts how the Fund records expenses since the accounts of the Partnership are consolidated with those of the Fund. Firstly, the amounts paid to BPI in respect of the Class B Units and Class C Units are classified under IFRS as interest expense whereas such amounts were eliminated on BPI's consolidation of the Partnership under Canadian GAAP. Secondly, IFRS requires that this financial liability be reported at fair value and any change in the fair value of the Class B Units must be reported on the Fund's statement of profit or loss. Accordingly, the Fund recognized unrealized losses of $3.3 million during the Period and $0.7 million for the Year in respect of the increase in the fair value of the Class B Unit liability. These unrealized losses had no impact on the Fund's Distributable Cash.

If the Units would have been classified as equity under IFRS for the fourth quarter of 2010, then the Fund's expenses for the fourth quarter of 2010 would have been $5.5 million. If the Units would have been classified as equity under IFRS for 2010, then the Fund's expenses for 2010 would have been $11.9 million.

Net Income

The Fund's net income during the Period was $0.3 million compared to a loss of $1.8 million during the same period in 2010. The Fund's net income for the Year was $15.6 million compared to a loss of $0.2 million during the same period in 2010. The Fund's basic and diluted earnings per Unit during the Period and Year were $0.089 and $1.186, respectively, compared to negative $0.058 and positive $0.091, respectively, during the same periods in 2010. See the "Operating Results – Revenues" and "Operating Results — Expenses" section for details.

While net income is the measurement of the Fund's earnings under IFRS, the Fund is of the view that it does not provide the most meaningful measurement of the Fund's ability to pay distributions as the calculation of net income contains many non-cash items that do not affect the Fund's ability to pay distributions, including gains or losses on the repurchase and cancellation of Units under the NCIBs, fair value adjustments on the Class B Unit liability, and deferred income tax. In addition, as noted above, the amounts paid by the Fund on the Units in respect of the period of January 1, 2010 to December 6, 2010 are classified under IFRS as interest expense due to the Units being classified as a financial liability under IFRS during that same period. Such classification dramatically reduces the Fund's net income under IFRS in respect of that same period. Consequently, the Fund has provided the non-IFRS metric of Distributable Cash[2] to provide, in the Fund's opinion, investors with more meaningful information regarding the Fund's ability to pay distributions on the Units. See the "Operating Results – Distributable Cash / Payout Ratio" section below for details.

Distributions

During the Period, the Fund declared distributions on the Units in the amount of $5.4 million or $0.368 per Unit compared to $3.4 million during the same period in 2010 (and also having accrued interest expense on the Units of $3.4 million or $0.460 per Unit). During the Year, the Fund declared distributions on the Units in the amount of $15.4 million or $1.056 per Unit compared to $3.4 million during the same period in 2010 (and also having accrued interest expense on the Units of $16.7 million or $1.380 per Unit). The total dollar value of distributions declared during the Period and the Year are significantly less than the amount of distributions declared and interest payable by the Fund on the Units in respect of the same periods in 2010 as a result of the Fund being liable to pay SIFT Tax from and after January 1, 2011. See the "Overview – Addition of New Restaurants to Royalty Pool" section above and the "Income Taxes" section below for more details about SIFT Tax.

If the Units would have been classified as equity under IFRS in 2010, then the amount of distributions declared by the Fund for the fourth quarter of 2010 and for 2010 would have been $6.7 million and $20.1 million, respectively.

On February 8, 2012, the trustees of the Fund approved a monthly cash distribution to Unitholders of $0.092 per Unit. The distribution will be effective for the period January 1, 2012 to January 31, 2012 and will be payable to Unitholders of record at the close of business on February 21, 2012, to be paid on February 29, 2012. Unitholders have received 14 distribution[15] increases since the Fund's initial public offering of Units ("**IPO**"). At the time of the IPO, the monthly distributions[15] were set at $0.0833 per Unit and on December 31, 2011, monthly distributions[15] were $0.092 per Unit. On February 10, 2011, the monthly distribution was adjusted to $0.084 per Unit to reflect

[15] This assumes that Units are classified as equity and not financial liabilities and that amounts paid by the Fund on Units are classified as distributions not interest expense.

that the Fund became liable to pay SIFT Tax from and after January 1, 2011, and remained at $0.084 per Unit until the trustees approved the most recent increase to $0.092 per Unit on August 9, 2011.

As at February 8, 2012, the Fund had paid out 114 consecutive monthly distributions[15] totalling $140.4 million or $11.61 per Unit.

Distributions for the Year were as follows:

PERIOD	PAYMENT DATE	AMOUNT/UNIT
January 1 – 31, 2011	February 28, 2011	8.40¢
February 1 – 28, 2011	March 31, 2011	8.40¢
March 1 – 31, 2011	April 29, 2011	8.40¢
April 1 – 30, 2011	May 31, 2011	8.40¢
May 1 – 31, 2011	June 30, 2011	8.40¢
June 1 – 30, 2011	July 29, 2011	8.40¢
July 1 – 31, 2011	August 31, 2011	9.20¢
August 1 – 31, 2011	September 30, 2011	9.20¢
September 1 – 30, 2011	October 31, 2011	9.20¢
October 1 – 31, 2011	November 30, 2011	9.20¢
November 1 – 30, 2011	December 30, 2011	9.20¢
December 1 – 31, 2011	January 31, 2012*	9.20¢

* Paid subsequent to the Period.

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

Distributable Cash / Payout Ratio

Distributable Cash

As noted above, the Fund's net income contains many non-cash items that do not affect the Fund's ability to pay distributions, and as such net income, is not, in the Fund's view, the only or most meaningful measurement of the Fund's ability to pay distributions. Consequently, the Fund has provided the non-IFRS metric of Distributable Cash[2] to provide investors with more meaningful information regarding the Fund's ability to pay distributions on the Units.

"**Distributable Cash**" is defined to be, in respect of any particular period, the Fund's cash flow from operations for that period minus (a) BPI's Class C distribution in respect of the period, minus (b) BPI's entitlement in respect of its Class B Units in respect of the period, minus (c) the amount of SIFT Tax payable by the Fund in respect of the period. Distributable Cash represents the amount of money that the Fund has available for distribution on the Units and reconciles to cash flows from operating activities, which is the most directly comparable IFRS measure.

Readers are cautioned that Distributable Cash is a non-IFRS financial measure and does not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers as the Fund may calculate Distributable Cash differently from such other issuers. A reconciliation of Distributable Cash to cash flows from operating activities, which is the most directly comparable IFRS measure, is included in the "Financial Highlights" section at the beginning of this Management's Discussion and Analysis.

The Fund had Distributable Cash of $4.1 million or $0.281 per Unit for the Period and $16.1 million or $1.104 per Unit for the Year compared to $5.0 million or $0.345 per Unit for the fourth quarter of 2010 and $20.5 million or $1.413 per Unit for 2010. For the Period and Year, Distributable Cash increased by $0.5 million and $1.1 million, respectively, on a pre-tax basis. The increases were largely driven by a $0.4 million increase in Royalty revenue versus the fourth quarter in 2010 and a $1.4 million increase in Royalty revenue year over year, partly offset by changes in non-cash working capital. After-tax Distributable Cash decreased for the Period and Year due to the implementation of the SIFT Tax. For comparative purposes, if the Fund was not liable to pay SIFT Tax, Distributable Cash for the Period and Distributable Cash per Unit for the Period would have been $5.5 million and $0.377, respectively, and Distributable Cash for the Year and Distributable Cash per Unit for the Year would have been $21.6 million and $1.480, respectively. See the "Overview – Addition of New Restaurants to Royalty Pool" section above and the "Income Taxes" section below for more details about SIFT Tax.

The Fund's Distributable Cash since January 1, 2010 is as follows:

DESCRIPTION	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Distributable Cash	$4.1 million	$4.3 million	$4.1 million	$3.6 million
Distributable Cash per Unit	$0.281	$0.294	$0.280	$0.247
Distributable Cash without SIFT Tax†	$5.5 million	$5.7 million	$5.4 million	$4.9 million
Distributable Cash per Unit without SIFT Tax†	$0.377	$0.394	$0.374	$0.334

†These rows are provided for comparative purposes only and assume that the Fund was not liable to pay SIFT Tax in respect of the applicable periods

DESCRIPTION	Q4 2010	Q3 2010	Q3 2010	Q1 2010
Distributable Cash	$5.0 million	$5.5 million	$5.2 million	$4.7 million
Distributable Cash per Unit	$0.345	$0.378	$0.350	$0.338
Distributable Cash without SIFT Tax†	$5.0 million	$5.5 million	$5.2 million	$4.7 million
Distributable Cash per Unit without SIFT Tax†	$0.345	$0.378	$0.350	$0.338

†These rows are provided for comparative purposes only and assume that the Fund was not liable to pay SIFT Tax in respect of the applicable periods

Payout Ratio

"**Payout Ratio**" is calculated by dividing the aggregate interest / distributions payable by the Fund in respect of the applicable period by the Distributable Cash earned in that period. Under the Declaration of Trust, the Fund pays interest / distributions on the Units in respect of any particular calendar month not later than the last business day of the immediately subsequent month. Accordingly, interest / distributions on the Units in respect of the calendar month of January are paid no later than the last business day of February, interest / distributions on the Units in respect of the calendar month of February are paid no later than the last business day of March and so forth. Consequently, for the purpose of calculating Payout Ratio for the Period, the distributions payable by the Fund on the Units in respect of the Period were the October 2011 distribution (which was paid on November 30, 2011), the November 2011 distribution (which was paid on December 30, 2011) and the December 2011 distribution (which was paid on January 31, 2012). Similarly, for the purpose of calculating Payout Ratio for any other period, the interest / distributions payable by the Fund on the Units in respect of such other period would be used, which would be the interest / distributions paid in the immediately subsequent month of each month comprising such other period.

The Fund believes that the Payout Ratio provides investors with useful information regarding the extent to which the Fund distributes cash on the Units. Readers are cautioned that Payout Ratio is a non-IFRS financial measure that does not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers as the Fund may calculate Payout Ratio differently from such other issuers.

The Fund's Payout Ratio for the Period was 98.3% compared to 100.0% in the same period one year ago. The Fund's Payout Ratio for the Year was 95.7% compared to 98.1% in the same period one year ago. The decrease in Payout Ratio for the Period and Year is a direct result of the combined effects of increases to SSSG and the accretive benefits of the Fund's previous NCIBs (as defined below), which have enabled the Fund to increase the monthly cash distributions to Unitholders from $0.084 per Unit to $0.092 per Unit (as discussed in the Operating Results – Distributions section above). A key feature of the Fund is that it is a "top line" structure, in which BPI pays the Fund a Royalty equal to 4% of Franchise Sales from Boston Pizza Restaurants in the Royalty Pool. Accordingly, Unitholders are not directly exposed to changes in the operating costs or profitability of BPI or of individual Boston Pizza Restaurants. Given this structure, and that the Fund has no current mandate to retain capital for other purposes, it is expected that the Fund will maintain a Payout Ratio close to 100% over time as the Trustees continue to distribute all available cash in order to maximize returns to Unitholders. The Fund's Payout Ratio since January 1, 2010 is as follows:

DESCRIPTION	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Payout Ratio	98.3%	93.7%	89.9%	102.0%

	Q4 2010	Q3 2010	Q2 2010	Q12010
Payout Ratio	100.0%	91.2%	98.0%	104.8%

Normal Course Issuer Bids

From October 1, 2008 through September 30, 2010, the Fund repurchased and cancelled 2,475,524 Units under two normal course issuer bids approved by the TSX (the "**NCIBs**") at an average price of $10.10. The Fund financed purchases under the NCIBs by drawing on the $25.0 million NCIB Credit Facilities (as defined below) previously established by the Fund with a Canadian Chartered Bank (the "**Lender**"). The difference between the distributions that the Fund would have paid on those cancelled Units and the interest that the Fund pays on the NCIB Credit Facilities is an accretive benefit that the NCIBs provide to Unitholders.

New Restaurants Added to the Royalty Pool

Boston Pizza Restaurants Added to Royalty Pool on January 1, 2011

On January 1, 2011, six new Boston Pizza Restaurants that opened across Canada between January 1, 2010 and December 31, 2010 were added to the Royalty Pool and the six restaurants that permanently closed during 2010 were removed from the Royalty Pool. The estimated annual gross franchise revenue for the six new Boston Pizza Restaurants that opened less the revenue from the six permanent closures was $2.2 million. The calculation for the number of Additional Entitlements received by BPI is designed to be accretive to existing Unitholders as the additional Royalty revenues from the new restaurants are valued at a 7.5% discount. The estimated 4% Royalty revenue the Fund was to receive in 2011 from these additional six new restaurants, less revenue from the six permanent closures, was $0.1 million. The Royalty revenue for the purposes of calculating the Additional Entitlements, therefore, was $0.1 million or 92.5% of $0.1 million. In return for adding the Royalty revenue from these six new restaurants, less Royalty revenue from the six permanent closures, to the Royalty Pool, BPI received the right to acquire an additional 46,387 Units, representing 80% of the Additional Entitlements with the balance to be received when the actual full year performance of the new restaurants is known with certainty. The 46,387 Additional Entitlements represented 0.3% of the total outstanding Units on a fully diluted basis on January 1, 2011. 11,597 Units, representing the remaining 20% of the Additional Entitlements, were "held back" until such time as the actual performance of these new Royalty Pool restaurants for 2011 was known. BPI received an increase in monthly distributions based on 100% of the Additional Entitlements, subject to a reconciliation of the distributions paid to BPI in respect of these Additional Entitlements that occurred once the actual performance of these new Royalty Pool restaurants for 2011 was known. See "Subsequent Events" below.

Audit of Boston Pizza Restaurants Added to Royalty Pool on January 1, 2010

In January 2011, an audit of the Royalty revenues of the 17 net new restaurants that were added to the Royalty Pool on January 1, 2010 was completed. The purpose of this audit was to compare actual Royalty revenue from these 17 net new restaurants to the estimated amount of Royalty revenue the Fund expected to receive. The original Royalty revenue the Fund expected to receive was $1.0 million and the actual royalty revenue that the Fund received was slightly greater. As a result, the Partnership made a nominal payment to BPI to reconcile distributions payable on the full number of Additional Entitlements. BPI received the right to acquire only 80% of the Additional Entitlements at the Adjustment Date in 2010. Following the audit, BPI received the right to acquire 164,033 Additional Entitlements.

Subsequent Events

Boston Pizza Restaurants Added to Royalty Pool on January 1, 2012

On January 1, 2012, seven new Boston Pizza Restaurants that opened across Canada between January 1, 2011 and December 31, 2011 were added to the Royalty Pool and the four restaurants that permanently closed during 2011 were removed from the Royalty Pool. The estimated annual gross franchise revenue for the seven new Boston Pizza Restaurants that opened less the revenue from the four permanent closures was $8.3 million. The calculation for the number of Additional Entitlements received by BPI is designed to be accretive to existing Unitholders as the additional Royalty revenues from the new restaurants are valued at a 7.5% discount. The estimated 4% Royalty revenue the Fund will receive in 2012 from these additional seven new restaurants, less revenue from the four permanent closures, is $0.3 million. The pre-tax Royalty revenue for the purposes of calculating the Additional Entitlements, therefore, is $0.3 million or 92.5% of $0.3 million. The estimated effective average tax rate that the Fund will pay in the calendar year 2012 is 25%. Accordingly, the after-tax Royalty revenue for the purposes of calculating the Additional Entitlements is $0.2 million ($0.3 million x (1 – 0.25)). In return for adding the Royalty revenue from these seven new restaurants, less Royalty revenue from the four permanent closures, to the Royalty Pool, BPI received the right to acquire an additional 174,533 Units, representing 80% of the Additional Entitlements with the balance to be received when the actual full year performance of the new restaurants is known with certainty. The 174,533 Additional Entitlements represented 1.2% of the total outstanding Units on a fully diluted basis on January 1, 2012. 43,633 Units, representing the remaining 20% of the Additional Entitlements, have been "held back" until such time as the actual performance of these new Royalty Pool restaurants for 2012 is known. BPI also receives an increase in monthly distributions based on 100% of the Additional Entitlements, subject to a reconciliation of the distributions paid to BPI in respect of these Additional Entitlements that will occur once the actual performance of these new Royalty Pool restaurants for 2012 is known. Once both the actual performance of these new restaurants for 2012 and the actual effective average tax rate paid by the Fund for 2012 are known, the number of Additional Entitlements will be adjusted in 2013 to reflect the actual Royalty revenue received by the Fund in 2012 and actual effective average tax rate paid by the Fund in 2012. As of January 1, 2012, there are 343 restaurants in the Royalty Pool.

Audit of Boston Pizza Restaurants Added to Royalty Pool on January 1, 2011

In January 2012, an audit of the royalty revenues of the six new restaurants that were added to the Royalty Pool on January 1, 2011 was completed. The purpose of this audit was to compare actual royalty revenue from these six new restaurants to the estimated amount of royalty revenue the Fund expected to receive. The original royalty revenue the Fund expected to receive from these six new restaurants less the royalty from the six permanent closures that occurred in 2010 was $0.1 million and the actual royalty revenue that the Fund received was slightly greater. As a result, the Partnership made a nominal payment to BPI to reconcile distributions payable on the full number of Additional Entitlements. BPI received the right to acquire only 80% of the Additional Entitlements at the Adjustment Date in 2011. Following the audit, BPI received the right to acquire 61,481 Additional Entitlements.

Units Outstanding

The table below sets forth a summary of the outstanding Units. BPI owns 100% of the Class B Units, 100% of the Class C Units and 1% of the ordinary general partner units of the Partnership. The Class B Units are exchangeable for Units. References to "BPI Additional Entitlements" in the table below are the number of Units into which the Class B Units held by BPI are exchangeable.

	Issued & Outstanding Units, & Additional Entitlements	Issued & Outstanding Units, Additional Entitlements, & Holdback of Additional Entitlements
Issued and Outstanding Units as of December 31, 2011	14,570,644	14,570,644
BPI Additional Entitlements — Outstanding as of December 31, 2011	2,723,861	2,723,861
BPI Additional Entitlements — Holdback as of December 31, 2011	N/A	11,597[1]
Number of Fully Diluted Units as of **December 31, 2011**	17,294,505	17,306,102
BPI Total Ownership as of December 31, 2011	15.7%	15.8%
Issued and Outstanding Units as of February 8, 2012	14,570,644	14,570,644
BPI Additional Entitlements — Outstanding as of December 31, 2011	2,723,861	2,723,861
BPI Additional Entitlements — Issued in respect of 2011 after the audit	61,481	61,481[2]
BPI Additional Entitlements — Issued & Outstanding as of January 1, 2012 (3 net new Restaurants added to Royalty Pool)	174,533	174,533[3]
BPI Additional Entitlements — Holdback as of January 1, 2012 (3 net new Restaurants added to Royalty Pool)	N/A	43,633[4]
Number of Fully Diluted Units as of **February 8, 2012**	17,530,519	17,574,152
BPI Total Ownership as of **February 8, 2012**	16.9%	17.1%

(1) Additional Entitlements from the 0 net new restaurants added to Royalty Pool on January 1, 2011 determined in 2012, prior to the audit of the 0 net new restaurants.
(2) Additional Entitlements from the 0 net new restaurants added to Royalty Pool on January 1, 2011 determined in 2012, once audited results of the 0 net new restaurants were known.
(3) Issued effective January 1, 2012.
(4) Holdback of Additional Entitlements from 3 net new restaurants added to Royalty Pool on January 1, 2012. Actual number of Additional Entitlements will be determined in early 2013, effective January 1, 2012, once audited results of the 3 net new restaurants are known.

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 that BPI would be entitled to receive if it exchanged all of its Class B Units for Units. As of February 8, 2012, BPI was entitled to 2,959,875 votes, representing 16.9% of the aggregate votes held by holders of Units and Special Voting Units (collectively, "**Voting Unitholders**"). The number of Units that BPI is entitled to receive upon the exchange of its Class B Units and the number of votes that BPI is entitled to in respect of its Special Voting Units is adjusted annually to reflect any additional Boston Pizza Restaurants that were added to the Royalty Pool.

TAX TREATMENT OF DISTRIBUTIONS

Of the $1.056 in distributions declared per Unit during the Year, 1.34% or $0.014 per Unit represents a tax deferred return of capital and 98.66% or $1.042 per Unit is taxable as eligible dividends.

LIQUIDITY & CAPITAL RESOURCES

The Fund's distribution policy is to distribute the total amount of cash received by the Fund from the Trust on the Trust Units (defined below) and the Trust Notes (defined below) and from BPI on the BP Loan (defined below), less the sum of: (a) administrative expenses and other obligations of the Fund; (b) amounts which may be paid by the Fund in connection with any cash redemptions of Units; (c) any interest expense incurred by the Fund; and (d) reasonable reserves established by the trustees of the Fund in their sole discretion, including, without

limitation, reserves established after January 1, 2011 to pay SIFT Tax, in order to maximize returns to Unitholders. In light of seasonal variations that are inherent to the restaurant industry, the Fund's policy is to make equal distribution payments to Unitholders on a monthly basis in order to smooth out these fluctuations. Any further change in distributions will be implemented in such a manner so that the continuity of uniform monthly distributions is maintained, while making provisions for working capital due to seasonal variations of Boston Pizza Restaurant sales. It is expected that future distributions will continue to be funded entirely by cash flows from operations. The Fund has reviewed its cash flows for general and administrative expenses and anticipates that it will have sufficient cash flows to cover these expenses, commitments and repayments for 2012.

Indebtedness

The Partnership has a $1.0 million operating line of credit (the "**Operating Loan**"), a $5.0 million term loan (the "**Term Loan**"), a $20.0 million credit facility (the "**NCIB Loan**") and a $5.0 million additional credit facility (the "**Supplementary NCIB Loan**", and together with the NCIB Loan, the "**NCIB Credit Facilities**") with the Lender. The Operating Loan, Term Loan and NCIB Credit Facilities all have a maturity date of September 22, 2012. Since the Fund's Operating Loan, Term Loan and NCIB Credit Facilities come due in less than one year on September 22, 2012, the Fund is required to present these as current liabilities on its balance sheet. The Fund plans to extend or refinance its debt prior to maturity and does not expect to be required to repay any of the principal amount outstanding.

The credit agreement (which covers the Operating Loan, Term Loan, NCIB Loan and Supplementary NCIB Loan) among the Partnership, BPGP, the Fund, the Trust, Holdings LP, Holdings GP and the Lender dated September 22, 2008, as amended May 10, 2010 (the "**Credit Agreement**") contains a number of covenants and restrictions including the requirement to meet certain financial ratios and financial condition tests. The Partnership was in compliance with all of its financial covenants and financial condition tests as of the end of the Period. For further details, see the section "Description of the Partnership – Term Loan, Operating Loan, NCIB Loan and Supplementary NCIB Loan" in the Fund's annual information form for the year ended December 31, 2011. A copy of the Fund's annual information form and the Credit Agreement is available at www.sedar.com.

During the Year, the Fund used $4.5 million of cash that it had allocated for the payment of SIFT Tax in February of 2012 to repay a portion of the NCIB Credit Facilities since the rate of interest payable under the NCIB Credit Facilities is higher than the rate of interest that the Fund receives for cash on deposit. The Fund anticipates that in February of 2012 it will drawdown the portion of the NCIB Credit Facilities that was repaid and use the proceeds therefrom for the purpose of paying SIFT Tax.

As of December 31, 2011, working capital of the Fund totalled negative $27.8 million (Q4 2010 – $1.0 million). As of December 31, 2011, no amount was drawn from the Operating Loan while the Term Loan was fully drawn and the NCIB Credit Facilities had an outstanding balance of $20.5 million. The Fund's working capital is in a negative position due to the requirement to present the Fund's debt as a current liability since the Term Loan and NCIB Credit Facilities matures on September 22, 2012. The Fund expects to extend or refinance its debt prior to maturity and does not expect to be required to repay any of the principal balance. Without the inclusion of the Fund's debt as a current liability, the Fund's working capital would be negative $2.3 million at December 31, 2011.

Principal repayments on the Fund's debt for the next five years ending December 31 are as follows:

Debt:

(in thousands of dollars)		
2012	$	30,000
2013		–
2014		–
2015		–
2016 and thereafter		–
	$	30,000

Cash Flows

Cash Flow from Operating Activities

During the Period, the Fund generated $7.0 million in cash from operating activities, and $27.5 million for the Year, compared to $6.4 million during the fourth quarter of 2010 and $26.0 million for 2010. The increase in cash flow from operating activities is primarily due to the increase in the Fund's Royalty revenue.

Cash Flow used in Financing Activities

During the Period, the Fund used $6.9 million in cash for financing activities, $4.0 million of which was used to pay distributions to Unitholders, $1.5 million was used to pay interest to BPI on the Class B Units and Class C Units, and $1.4 million was used to temporarily pay down debt. During the same period in 2010, the Fund used $6.4 million in cash for financing activities, $5.0 million of which was used to pay interest and distributions to Unitholders and $1.4 million to pay interest to BPI on the Class B Units and Class C Units. During the Year, the Fund used $25.9 million in cash for financing activities, $15.7 million of which was used to pay distributions to Unitholders, $5.7 million of which was used to pay interest to BPI on the Class B Units and Class C Units, and $4.5 million to temporarily pay down debt. During the same period in 2010, the Fund used $25.7 million in cash for financing activities, $20.0 million of which was used to pay interest and distributions to Unitholders, and $5.7 million to pay interest to BPI on the Class B Units and Class C Units, and $10.5 million to purchase Units under the NCIB offset by drawing $10.5 million on the NCIB Credit Facilities.

The Fund's most recent NCIB expired on September 30, 2010, and accordingly, no cash was borrowed by the Fund during the Period or Year to repurchase Units. The amount of cash used by the Fund to pay distributions to Unitholders during the Period and Year was down $1.0 million and $4.3 million, respectively, from the amount of cash used by the Fund to pay interest to Unitholders in the same periods one year ago largely due to the reduction in the distribution rate declared on the Units during the Period and Year, as compared to the same periods one year ago, as a result of the Fund being liable to pay SIFT Tax effective January 1, 2011.

Related Party Transactions

BPI is considered to be a related party of the Fund by virtue of common officers and directors in BPI and BPGP. The Fund has engaged the Partnership, its administrator to provide certain administrative services on behalf of the Fund. In turn, certain of the administrative services are performed by BPI as a general partner of the Partnership. Under the terms of the Partnership Agreement governing the Partnership, BPI is entitled to be reimbursed for certain out-of-pocket expenses incurred in performing these services. The total amount paid to BPI in respect of these services for the Period was $0.1 million (Q4 2010 – $0.1 million) and Year was $0.3 million (2010 – $0.3 million). As at December 31, 2011, interest payable by the Fund to BPI in respect of the Class B Units and Class C Units was $0.6 million (December 31, 2010 – $0.5 million). As at December 31, 2011, Royalty receivable from BPI was $2.8 million (December 31, 2010 – $2.5 million).

DISCLOSURE CONTROLS AND PROCEDURES

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

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

Internal Control over Financial Reporting

The CEO and CFO have designed or caused to be designed under their supervision, internal control over financial reporting to provide reasonable assurance regarding the reliability of the Fund's financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The Fund's internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management conducted an evaluation of the effectiveness of its control over financial reporting on a risk based approach using the elements of the framework in "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and COSO's guidance on how to apply the framework to smaller companies. Based on management's assessment, the Fund concluded that its internal control over financial reporting was effective as at December 31, 2011.

Changes in Internal Control over Financial Reporting

During the year ended December 31, 2011, there has been no change in the Fund's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Fund's internal control over financial reporting.

CRITICAL ACCOUNTING ESTIMATES

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

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

Deferred Income Tax Expense

The Fund uses the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the deferred tax consequences attributable to the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted or substantively

enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

The determination of deferred income taxes requires the use of judgment and estimates. If certain judgments or estimates prove to be inaccurate, or if certain tax rates or laws change, the Fund's results of operations and financial position could be materially impacted.

BP Rights

The Fund carries the BP Rights at historical cost comprising the amount of consideration paid for the BP Rights in 2002 as part of the Fund's IPO of Units, as well as the value of additional Boston Pizza Restaurants rolled into the Royalty Pool to date. The value of additional Boston Pizza Restaurants added to the Royalty Pool is determined on a formula basis that is designed to estimate the present value of the cash flows due to the Fund as a result of the new Boston Pizza Restaurants being added to the Royalty Pool. As such, the calculation is dependant on a number of variables including the estimated long-term sales of the new Boston Pizza Restaurants and a discount rate. The value assigned to the new Boston Pizza Restaurants, and as a result, the value assigned to the BP Rights, could differ from actual results.

Class B Unit Fair Value Adjustment

The Fund is required under IFRS to classify the Class B Units as a financial liability at fair value. This requires that the Fund use a valuation technique to determine the fair value of the Class B Units at the applicable reporting dates. The Fund estimates the fair value of this financial liability using the Fund's market capitalization at the end of the applicable period and allocating BPI's entitlement based upon its percentage ownership of the Fund on a fully-diluted basis. As at December 31, 2011, the Fund's closing price was $14.19 per Unit resulting in a market capitalization of $245.6 million. BPI's 15.8% ownership of the Fund (on a fully-diluted basis) was calculated to be $38.8 million. This valuation technique may not represent the actual value of the financial liability should such Class B Units be extinguished, and changes in the distribution rate on the Class B Units and the yield of the Fund's Units could materially impact the Fund's financial position and results of operations. The Class B Unit financial liability may only be settled by BPI exchanging the Class B Units for Units; therefore, there is no obligation for the Fund to settle this liability in cash.

ADOPTION OF NEW ACCOUNTING POLICIES

International Financial Reporting Standards

The Canadian Accounting Standards Board announced in February 2008 that publicly accountable entities would be required to adopt IFRS in place of Canadian GAAP for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011 (the "**Adoption Date**"). As noted previously, the Fund adopted IFRS effective the Adoption Date, however, has done so effective January 1, 2010 (the "**Transition Date**") in order to present comparative financial information under IFRS for the fiscal year 2011. Listed below are the various accounting policies that the Fund was required to adopt, and did adopt, on the Adoption Date but effective the Transition Date in connection with transitioning from Canadian GAAP to IFRS:

IAS 27 Consolidated and Separate Financial Statements

This standard applies to the preparation and presentation of consolidated financial statements for a group of entities under control of a parent entity and, in accordance with IFRS 1 *First Time Adoption of IFRS* ("**IFRS 1**"), the Fund has applied this standard prospectively effective the Transition Date. Under Canadian GAAP, the accounts of the Partnership were consolidated by BPI as a result of Accounting Guideline 15 *Consolidation of Variable Interest Entities*, however, since the Fund controls the Partnership, the Fund now consolidates the accounts of the Partnership in its financial statements. The Partnership's significant assets include cash, royalties receivable from BPI, and the BP Rights while its significant liabilities include long-term debt (i.e. the Term Loan and NCIB Credit Facilities, and the financial liabilities of the Class B Units and Class C Units). The Fund's consolidated statements of earnings and comprehensive income will no longer include equity income from the Partnership but rather the actual income and expenses of the Partnership. The Partnership's earnings are largely comprised of Royalty revenue earned from the BP Rights less administrative and interest expenses. The adoption of this accounting policy has not had any impact on the Fund's business.

IAS 32 Financial Instruments: Presentation

The purpose of this standard is to establish principles for presenting financial instruments as liabilities or equity from the perspective of the issuer and applies to the classification of related interest, dividends, and losses or gains on such financial instruments. In accordance with IFRS 1, the Fund has applied this standard prospectively effective the Transition Date. This standard requires any financial instrument that has an obligation to deliver cash or other financial asset to another entity to be classified as a financial liability and that any payments made to the holder of such a financial liability be recorded as interest expense on the statement of profit or loss. Since the Fund consolidates the accounts of the Partnership under IFRS, the result of the adoption of this standard is to record the Class B Units and Class C Units as financial liabilities and any payments in respect of these financial liabilities as interest expense. Additionally, the Units were classified as a financial liability for all periods before December 7, 2010 and all distributions were recorded as interest expense as a result of the mandatory requirement then existing in the Fund's Declaration of Trust for the Fund to distribute all taxable income to Unitholders. On December 7, 2010, the Declaration of Trust was amended to, among other things, remove the mandatory requirement to distribute all taxable

income, the result being that the Units qualify as an equity instrument under IFRS from and after December 7, 2010. Under Canadian GAAP, these financial instruments would have been classified as equity instruments and all associated distributions would have been charged to retained earnings (accumulated deficit). Despite the impacts on the Fund's financial statements described in the previous sections of this Management's Discussion and Analysis, there has been no effect on the Fund's business as a result of this new accounting standard.

IAS 39 Financial Instruments: Recognition and Measurement

The purpose of this standard is to establish principles for recognizing and measuring financial liabilities and, in accordance with IFRS 1, the Fund has applied this standard prospectively effective the Transition Date. Under IFRS, the Class B Units are classified as a financial liability and the Units were classified as a financial liability at all times prior to December 7, 2010. As a result of the embedded derivatives in the Class B Units, this standard requires that the Class B Unit liability be reported at fair value. The result of this standard is that on each reporting date, the Fund must estimate the fair value of the Class B Unit liability using a valuation technique. The change in fair value from one period to another will be reported on the statement of comprehensive income as a fair value adjustment. The requirement to record fair value adjustments though the Fund's statement of comprehensive income may give rise to material variations in the Fund's net earnings. Such adjustments had no impact on the Fund's cash flows or business.

IAS 38 Intangible Assets

The purpose of this standard is to prescribe the accounting treatment for intangible assets and, in accordance with IFRS 1, the Fund has applied this standard prospectively effective the Transition Date. This standard applies to the accounting for the BP Rights and is substantially the same as Canadian GAAP. Under IFRS, the value of the intangible asset was tested for indications of impairment on the Transition Date and, similar to Canadian GAAP, at least annually thereafter. If an indicator of impairment exists, then an analysis must determine if the asset is indeed impaired, and if so, the value of the asset is written down to its reduced value with the loss expensed in the statement of profit and loss. IFRS differs from Canadian GAAP, however, in that the value of previously impaired assets may be increased should certain conditions be met. A significant amount of disclosure is required if an entity reverses previous impairments. The Fund has not experienced any impact on its financial statements or business as a result of the adoption of this new standard.

IAS 12 Income Taxes

This standard governs the accounting treatment for current and deferred income taxes and, in accordance with IFRS 1, the Fund has applied this standard prospectively effective the Transition Date. The adoption of this standard is expected to have no significant impact on the Fund's financial statements. Financial statement readers will notice current income tax expense and corresponding current income tax liability in 2011 where none existed in prior periods. These current income tax amounts are as a result of the Fund being liable to pay SIFT Tax effective January 1, 2011 and are not the result of the adoption of IFRS. The Fund has not experienced any impact on its financial statements or business as a result of the adoption of this new standard.

IAS 18 Revenue

This standard governs the treatment of the Fund's revenue. The Fund's key source of revenue is the Royalty revenue earned from BPI's use of the BP Rights. IAS 18 states that revenue arising from the use by others of entity assets yielding royalties shall be recognized on an accrual basis in accordance with the relevant agreement. In accordance with IFRS 1 *First Time Adoption of IFRS*, the Fund has applied this standard prospectively effective the Transition Date. This standard as applied to the Fund is substantially the same as Canadian GAAP and has had no impact on the Fund's financial statements or its business.

INCOME TAXES

Current Income Taxes

On January 1, 2011, the Fund became subject to the SIFT Tax. The payment of the SIFT Tax reduces the amount of cash available for distributions to Unitholders. The SIFT Tax also recharacterizes such distributions as eligible dividends received from a taxable Canadian corporation. Eligible dividend treatment for distributions to Unitholders will generally be beneficial to Canadian resident investors holding their Units in taxable accounts compared to the previous characterization primarily as ordinary income. The trustees of the Fund previously announced that they had examined alternatives available to the Fund to maximize Unitholder value in the face of the legislative changes to the tax treatment of income trusts, which became effective on January 1, 2011, and believe that the Fund remaining a trust is in the best interest of Unitholders. The trustees will continue to examine alternatives for the structure of the Fund and can choose to convert to a new structure on a tax-deferred basis until December 31, 2012. If the trustees decide, in the future, to change the Fund's existing structure, there is no way of determining the potential impact (positively or negatively) that any such change might have on the value or trading price of Units or any publicly traded replacement securities.

The Fund recorded a current income tax expense of $1.4 million for the Period (Q4 2010 – nil) and $5.5 million for the Year (2010 – nil) as a result of the Fund being liable to pay SIFT Tax effective January 1, 2011.

Deferred Income Taxes

Deferred income taxes are recorded on the temporary differences arising between the accounting and tax bases of balance sheet assets and liabilities.

The Fund recorded a deferred income tax expense of $0.1 million for the Period (Q4 2010 – $0.1 million) and $0.3 million for the Year

(2010 – $0.5 million), and a corresponding increase in the deferred income tax liability as at December 31, 2011. The deferred income tax liability arises mainly as a result of the Fund recording, in the Period, its cumulative share of the temporary differences between the accounting and tax bases of the BP Rights owned by the Partnership generated since the inception of the Fund. The deferred income tax amounts had no impact on the Fund's cash flow for the Period.

OUTLOOK

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

The Canadian Restaurant and Foodservices Association has forecast sales growth of 3.0% for the Canadian full-service restaurant sector in 2012. BPI's management believes that Boston Pizza is well positioned to continue outperforming this growth rate by attracting a wide variety of guests into the restaurant, sports bar and take-out/delivery parts of each location, offering a compelling value proposition to our guests and continuing to open new Boston Pizza locations across Canada.

The two principal factors that affect SSSG are changes in customer traffic and changes in average guest cheque. BPI's strategies to drive higher guest traffic include a larger marketing budget versus the previous year along with a revised calendar of national and local store promotions. Increased average cheque levels will be achieved through a combination of menu design and annual re-pricing. In addition, BPI's franchise agreement requires that each Boston Pizza restaurant undergo a complete store renovation every seven years and four locations have already completed renovations in 2012 with many more underway or planned for later this year. Restaurants typically close for two to three weeks to complete the renovation and experience an incremental sales increase in the year following the re-opening.

Boston Pizza remains well positioned for future expansion as evidenced by the seven new Boston Pizza restaurants that opened in 2011. Another new Boston Pizza restaurant has opened to date in 2012 and one more is currently under construction and scheduled to open in March 2012. BPI's management believe that Boston Pizza will continue to strengthen its position as the number one casual dining brand in Canada by pursuing further restaurant development opportunities across the country.

RISKS & UNCERTAINTIES

Risks Related to the Casual Dining Restaurant Industry

The Restaurant Industry and its Competitive Nature

The performance of the Fund is directly dependent upon the Royalty and interest payments received from BPI on the BP Loan. The amount of the Royalty received from BPI is dependent on various factors that may affect the casual dining sector of the restaurant industry. The restaurant industry generally, and in particular the casual dining sector, is intensely competitive with respect to price, service, location and food quality. Competitors include national and regional chains, as well as independently owned restaurants. If BPI and the Boston Pizza franchisees are unable to successfully compete in the casual dining sector, Franchise Sales may be adversely affected; the amount of Royalty reduced and the ability of BPI to pay the Royalty or interest on the loan to BPI in the aggregate amount of $24.0 million held by the Fund (the "**BP Loan**") may be impaired. The restaurant industry is also affected by changes in demographic trends, traffic patterns, and the type, number, and location of competing restaurants. In addition, factors such as government regulations, smoking bylaws, inflation, publicity from any food borne illnesses, increased food, labour and benefits costs, continuing operations of key suppliers and the availability of experienced management and hourly employees may adversely affect the restaurant industry in general and therefore potentially affect Franchise Sales. BPI's success also depends on numerous factors affecting discretionary consumer spending, including economic conditions, disposable consumer income and consumer confidence. Adverse changes in these factors could reduce guest traffic or impose practical limits on pricing, either of which could reduce revenue and operating income, which could adversely affect Franchise Sales, the Royalty and the ability of BPI to pay the Royalty to the Partnership or interest on the BP Loan to the Fund.

Growth of the Royalty

The growth of the royalty and other amounts payable by BPI to the Partnership under the License and Royalty Agreement between the Partnership and BPI for the license to use the BP Rights in Canada for 99 years, commencing on July 17, 2002 (the "**Royalty**") is dependent upon the ability of BPI to (i) maintain and grow its franchised restaurants, (ii) locate new restaurant sites in prime locations, and (iii) obtain qualified operators to become Boston Pizza franchisees. BPI faces competition for restaurant locations and franchisees from its competitors and from franchisors of other businesses. BPI's inability to successfully obtain qualified franchisees could adversely affect its business development. The opening and success of a Boston Pizza Restaurant is dependent on a number of factors, including: availability of suitable sites; negotiations of acceptable lease or purchase terms for new locations; availability, training and retention of management and other employees necessary to staff new Boston Pizza Restaurants; adequately supervising construction; securing suitable financing; and other factors, some of which are beyond the control of BPI. Boston Pizza franchisees may not have all the business abilities or access to financial resources necessary to open a Boston Pizza Restaurant or to successfully develop or operate a Boston Pizza Restaurant in their franchise areas in a manner consistent with BPI's standards.

BPI provides training and support to Boston Pizza franchisees, but the quality of franchised operations may be diminished by any number of factors beyond BPI's control. Consequently, Boston Pizza franchisees may not successfully operate restaurants in a manner consistent with BPI's standards and requirements, or may not hire and train qualified managers and other restaurant personnel. If they do not, the image and reputation of BPI may suffer, and gross revenue and results of operations of the Boston Pizza Restaurants could decline.

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

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

Revenue from Franchisees

The ability of BPI to pay the Royalty is dependent, in part, on Boston Pizza franchisees' ability to generate revenue and to pay royalties to BPI. Failure of BPI to achieve adequate levels of collection from Boston Pizza franchisees could have a serious effect on the ability of BPI to pay the Royalty or interest on the BP Loan.

Intellectual Property

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

Government Regulation

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

Regulations Governing Alcoholic Beverages

The ability of Boston Pizza Restaurants to serve alcoholic beverages is an important factor in attracting customers. Alcoholic beverage control regulations require each Boston Pizza Restaurant to apply to provincial or municipal authorities, for a license or permit to sell alcoholic beverages on the premises and, in certain locations, to provide service for extended hours and on Sundays.

Typically, licenses must be renewed annually and may be revoked or suspended for cause at any time. Alcoholic beverage control regulations relate to numerous aspects of daily operations of Boston Pizza Restaurants, including minimum age of patrons and employees, hours of operation, advertising, wholesale purchasing, inventory control, and handling, storage and dispensing of alcoholic beverages.

The failure of BPI or a Boston Pizza franchisee to retain a license to serve liquor for a Boston Pizza Restaurant would adversely affect that restaurant's operations. BPI or a Boston Pizza franchisee may be subject to legislation in certain provinces, which may provide a person injured by an intoxicated person the right to recover damages from an establishment that wrongfully served alcoholic beverages to the intoxicated person. BPI carries host liquor liability coverage as part of its existing comprehensive general liability insurance. There is no assurance that such insurance coverage will be adequate.

Harmonized Sales Tax for British Columbia

Effective July 1, 2010, the British Columbia Ministry of Finance harmonized the federal Goods and Services Tax and the provincial sales tax ("**HST**"). HST imposes a 12% tax on restaurant services in British Columbia. Prior to July 1, 2010, restaurant services in British Columbia were exempt from provincial sales tax and were only subject to the 5% Goods and Services Tax. British Columbia will reinstate the 5% Goods and Services Tax and a provincial sales tax following the referendum decision by British Columbians on August 26, 2011 to extinguish the HST in British Columbia. This procedure will take a minimum 18 months and it is unknown to what extent restaurant services will be subject to the reinstated provincial sales tax. Meanwhile, the current HST system may continue to adversely affect guest traffic and sales in Boston Pizza Restaurants located in British Columbia and may result in a decrease of royalties received by BPI from Boston Pizza franchisees.

Laws Concerning Employees

The operations of Boston Pizza Restaurants are also subject to minimum wage laws governing such matters as working conditions, overtime and tip credits. Significant numbers of Boston Pizza Restaurants' food service and preparation personnel are paid at rates related to the minimum wage and, accordingly, further increases in the minimum wage could increase Boston Pizza Restaurants' labour costs.

Potential Litigation and Other Complaints

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

Risk Related to the Structure of the Fund

Investment Eligibility

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

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

The cash distributions to the Unitholders are entirely dependent on the ability of the Trust to pay its interest obligations, if any, under the Series 1 Trust Notes, Series 2 Trust Notes and Series 3 Trust Notes (collectively, the "**Trust Notes**"), and to make distributions on the units of the Trust (the "**Trust Units**") and upon the ability of BPI to pay the interest on the BP Loan and the ability of Holdings LP to meet its obligations to assume payment of the BP Loan as consideration for the purchase of 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 Holdings LP or a permitted transferee pursuant to the exchange agreement, as the case may be. The ability of the Trust to pay its interest obligations or make distributions on Trust Units held by the Fund is entirely dependent upon the ability of Holdings LP to make distributions on the limited partner units of Holdings LP held by the Trust. The ability of Holdings LP to make distributions on limited partner units held by the Trust is entirely dependent upon the ability of the Partnership to make distributions on the limited partner units of the Partnership held by Holdings LP.

The sole source of revenue of the Partnership and ultimately the Fund is the Royalty payable to the Partnership and the interest on the BP Loan payable to the Fund, by BPI. BPI collects franchise fees and other amounts from Boston Pizza franchisees and generates revenues from its corporate restaurants. In the conduct of the business, BPI pays expenses and incurs debt and obligations to third parties. These expenses, debts and obligations could impact the ability of BPI to pay the Royalty to the Partnership and interest on the BP Loan to the Fund.

The Partnership and the Fund are each entirely dependent upon the operations and assets of BPI to pay the Royalty to the Partnership and interest on the BP Loan to the Fund, and each is subject to the risks encountered by BPI in the operation of its business, including the risks relating to the casual dining restaurant industry referred to above and the results of operations and financial condition of BPI.

Leverage: Restrictive Covenants

The Partnership has third-party debt service obligations under the Operating Loan, the Term Loan and the NCIB Credit Facilities. The degree to which the Partnership is leveraged could have important consequences to Unitholders, including: (i) a portion of the Partnership's cash flow from operations could be dedicated to the payment of the principal of and interest on its indebtedness, thereby reducing funds available for distribution to the Fund; and (ii) certain of the Partnership's borrowings are at variable rates of interest, which exposes the Partnership to the risk of increased interest rates. The Term Loan, the Operating Loan and the NCIB Credit Facilities are due on September 22, 2012, at which time the loans can be extended at the request of the Partnership and with the consent of the Bank. If the Term Loan, the Operating Loan and the NCIB Credit Facilities are not extended, the Partnership will need to refinance such loans. There can be no assurance that either extension or refinancing of this indebtedness will be available to the Partnership, or available to the Partnership on acceptable terms. The Partnership's ability to make scheduled payments of principal or interest on, or to extend or refinance, its indebtedness depends on future cash flows, which is dependent on the Royalty payments it receives from BPI, prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond its control.

The Term Loan, the Operating Loan and the NCIB Credit Facilities contain numerous restrictive covenants that limit the discretion of the Partnership's management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of the Partnership to incur additional indebtedness, to create liens or other encumbrances, to pay distributions or make certain other

payments, investments, loans and guarantees, to sell or otherwise dispose of assets, to allow a change of control, to change the terms of the Partnership's limited partnership agreement and to merge or consolidate with another entity. A failure to comply with the obligations in the Term Loan, the Operating Loan or the NCIB Credit Facilities could result in an event of default which, if not cured or waived, could result in the acceleration of the relevant indebtedness. If the indebtedness under the Term Loan, the Operating Loan and the NCIB Credit Facilities were to be accelerated, there can be no assurance that the Partnership's and the Trust's assets would be sufficient to repay that indebtedness.

Current and future borrowings by BPI could adversely affect BPI's ability to pay the Royalty and interest on the BP Loan.

Cash Distributions are Not Guaranteed and Will Fluctuate with the Partnership's Performance

Although the Fund's policy is to distribute the total amount of cash received by the Fund from the Trust on the Trust Units and the Trust Notes and from BPI on the BP Loan, less the sum of: (a) administrative expenses and other obligations of the Fund; (b) amounts which may be paid by the Fund in connection with any cash redemptions of Units; (c) any interest expense incurred by the Fund; and (d) reasonable reserves established by the trustees of the Fund in their sole discretion, including, without limitation, reserves established after January 1, 2011 to pay SIFT Tax, in order to maximize returns to Unitholders, there can be no assurance regarding the amounts of income to be generated by the Fund or the Partnership. The actual amount distributed in respect of the Units will depend upon numerous factors, including payment of the Royalty and interest on the BP Loan by BPI.

Restrictions on Certain Unitholders and Liquidity of Units

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

Fund not a Corporation

Investors are cautioned that, although the Fund is a legal entity, it is not generally regulated by established corporate law and Unitholders' rights are governed primarily by the specific provisions of the Declaration of Trust of the Fund, which address such items as the nature of the Units, the entitlement of Unitholders to cash distributions, restrictions respecting non-resident holdings, meetings of Unitholders, delegation of authority, administration, Fund governance and liabilities and duties of the trustees to Unitholders. As well, under certain existing legislation such as the *Bankruptcy and Insolvency Act* and the *Companies' Creditor Arrangement Act*, the Fund is not a legally recognized entity within the definitions of these statutes. In the event of an insolvency or restructuring of the Fund, the rights of Unitholders will be different from those of shareholders of an insolvent or restructuring corporation.

Nature of Units

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

Possible Unitholder Liability

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

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

Distribution of Securities on Redemption or Termination of the Fund

Upon a redemption of Units or termination of the Fund, the trustees may distribute Series 2 Trust Notes and Series 3 Trust Notes directly to the Unitholders, subject to obtaining all required regulatory approvals. There is currently no market for Series 2 Trust Notes or Series 3 Trust Notes. In addition, the Series 2 Trust Notes and Series 3 Trust Notes are not freely tradable and are not currently listed on any stock exchange.

Securities of the Trust so distributed may not be qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans, registered education savings plans, registered disability savings plans or tax free savings accounts and may be prohibited investments for registered retirement savings plans, registered retirement income funds and tax free savings accounts depending upon the circumstances at the time.

The Fund May Issue Additional Units
Diluting Existing Unitholders' Interests

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

Income Tax Matters

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

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

On January 1, 2011, the Fund became liable to pay the SIFT Tax. The payment of the SIFT Tax will reduce the amount of cash available for distributions to Unitholders. The SIFT Tax may also adversely affect the marketability of the Units and the ability of the Fund to undertake financings and acquisitions. The trustees of the Fund have examined a number of alternatives available to the Fund to maximize Unitholder value in the face of the legislative changes to the tax treatment of income trusts, which became effective on January 1, 2011, and believe that the Fund remaining a trust is in the best interest of Unitholders and the business. The trustees will continue to examine alternatives for the structure of the Fund and can choose to convert to a new structure on a tax-deferred basis until December 31, 2012. If the trustees decide, in the future, to change the Fund's existing structure, there is no way of determining the potential impact (positively or negatively) that any such change might have on the value or trading price of Units or any publicly traded replacement securities.

ADDITIONAL INFORMATION

Additional information relating to the Fund, the Partnership, the Trust, Holdings LP and BPI, including the annual information form of the Fund, is available on SEDAR at www.sedar.com or on the Fund's website at www.bpincomefund.com.

NOTE REGARDING FORWARD-LOOKING INFORMATION

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

Forward-looking information in this Management's Discussion and Analysis includes, but is not limited to, such things as:

- the Fund retaining its current income trust structure;
- the characterization of the Fund's distributions as eligible dividends commencing January 1, 2011, and the ability of qualifying Unitholders to claim dividend tax credits in respect of such distributions;
- the future expansion of Boston Pizza Restaurants;
- Boston Pizza will continue to strengthen its position as the number one casual dining brand in Canada;
- estimates of the number of restaurant openings and estimates related to renovations (number of renovations, timeline of renovations and increased revenues following renovations);
- Boston Pizza is well positioned to outperform the Canadian Restaurant and Foodservices Association's forecasted sales growth rate of the full service restaurant sector in 2012; and
- the Fund being able to extend or refinance the Term Loan and NCIB Credit Facilities on or before September 22, 2012.

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

- absence of changes in law;
- protection of BP Rights;
- pace of commercial real estate development;
- franchisees' access to financing;
- franchisees' duly paying franchise fees and other amounts;
- there will be no closures of Boston Pizza Restaurants that materially affect the amount of Royalty paid by BPI to the Fund;
- speed of permitting;
- future results being similar to historical results; and
- expectations related to future general economic conditions.

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

- competition;
- changes in demographic trends;
- changes in consumer preferences and discretionary spending patterns;
- changes in national and local business and economic conditions;
- legislation and government regulation;
- cash distributions are not guaranteed;
- accounting policies and practices;
- the impact of new or increased or harmonization of sales taxes upon gross sales; and
- the results of operations and financial conditions of BPI and the Fund.

The foregoing list of factors is not exhaustive and should be considered in conjunction with the risks and uncertainties set out above in "Risks & Uncertainties".

This Management's Discussion and Analysis discusses some of the factors that could cause actual results to differ materially from those expressed in or underlying such forward-looking information. Forward-looking information is provided as of the date hereof and, except as required by law, we assume no obligation to update or revise forward-looking information to reflect new events or circumstances.

Management's Statement of Responsibilities

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

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

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

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

Mark Pacinda
Chief Executive Officer, Boston Pizza GP Inc.
on behalf of the Board of Directors

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

February 8, 2012

Independent Auditors' Report

To the Unitholders of Boston Pizza Royalties Income Fund

We have audited the accompanying consolidated financial statements of Boston Pizza Royalties Income Fund ("the Fund") which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, the consolidated statements of comprehensive income (loss), changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and notes, comprising of a summary of significant accounting policies and other explanatory information.

Managements Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Fund as at December 31, 2011, December 31, 2010 and January 1, 2010, and its consolidated results of operations and its consolidated cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants
February 8, 2012
Vancouver, Canada

Consolidated Statements of Financial Position

(in thousands of Canadian dollars)

	December 31 2011	December 31 2010	January 1 2010
Assets			
Current assets			
Cash and cash equivalents	$ 2,467	$ 939	$ 453
Interest receivable on note receivable from Boston Pizza International Inc. (note 6)	150	150	150
Royalty receivable from Boston Pizza International	2,803	2,522	2,171
Prepaid expenses	83	89	46
	5,503	3,700	2,820
Note receivable from Boston Pizza International Inc. (note 6)	24,000	24,000	24,000
Intangible assets – BP Rights (note 7)	232,068	230,847	224,825
Total assets	$ 261,571	$ 258,547	$ 251,645
Liabilities and Unitholders' Equity (Deficiency)			
Current liabilities			
Accounts payable and accrued liabilities	$ 426	$ 554	$ 502
Interest payable to Fund unitholders	–	–	1,619
Distributions payable to Fund unitholders	1,340	1,676	–
Interest payable on Class B and Class C units (note 11)	564	490	531
Current income tax payable (note 8)	5,474	–	–
Term loan (note 9)	5,000	–	–
NCIB Credit Facilities (note 9)	20,500	–	–
	33,304	2,720	2,652
Long-term debt:			
Term loan (note 9)	–	5,000	5,000
NCIB Credit Facilities (note 9)	–	25,000	14,509
	–	30,000	19,509
Deferred income taxes (note 8)	3,690	3,400	2,910
Fund unit liability (note 10)	–	–	172,717
Class B unit liability (note 11)	38,800	36,848	43,256
Class C unit liability (note 11)	24,000	24,000	24,000
Unitholders' equity (deficiency)			
Fund units (note 10)	178,540	178,540	–
Accumulated deficit	(16,763)	(16,961)	(13,399)
	161,777	161,579	(13,399)
Organization and nature of operations (note 1)			
Subsequent events (note 16)			
Total liabilities and unitholders' equity (deficiency)	$ 261,571	$ 258,547	$ 251,645

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

Approved on behalf of the Trustees:

John Cowperthwaite

William Brown

W. Murray Sadler

Consolidated Statements of Comprehensive Income (Loss)

For the years ended December 31, 2011 and 2010
(in thousands of Canadian dollars, except per Fund unit data)

	2011	2010
Revenue		
Royalty income (note 12)	$ 27,973	$ 26,550
Administration charge	300	300
Other administrative expenses	262	411
Trustee fees and expenses	192	199
Professional fees	170	313
	924	1,223
Profit before interest and undernoted	27,049	25,327
Net interest income	(1,815)	(1,803)
Interest expense on debt	970	830
Interest expense on Fund unit liability (note 10)	—	16,725
Interest expense on Class B and C unit liabilities (note 11)	5,814	5,639
Net interest expense	4,969	21,391
Gain on retirement of Fund unit liability (note 4)	—	(46)
Fair value adjustment on Class B unit liability (note 11)	731	3,703
Profit before income taxes	21,349	279
Current income taxes (note 8)	5,474	—
Deferred income taxes (note 8)	290	490
	5,764	490
Net income (loss) and comprehensive income (loss) for the period	$ 15,585	$ (211)
Weighted average units outstanding	14,570,644	14,489,534
Weighted average fully diluted units outstanding	17,306,102	17,410,025
Basic and diluted earnings per Fund unit (note 3(f))	$ 1.19	$ 0.09

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

Consolidated Statements of Changes in Equity (Deficiency)

(in thousands of Canadian dollars)

	Fund units	Accumulated Deficit	Total Equity
Balance – January 1, 2010	$ –	$ (13,399)	$ (13,399)
Net income (loss) for the period	–	(211)	(211)
Distributions declared	–	(3,351)	(3,351)
Reclassification of Fund units to equity	178,540	–	178,540
Balance – December 31, 2010	$ 178,540	$ (16,961)	$ 161,579
Balance – January 1, 2011	$ 178,540	$ (16,961)	$ 161,579
Net income for the period	–	15,585	15,585
Distributions declared	–	(15,387)	(15,387)
Balance – December 31, 2011	$ 178,540	$ (16,763)	$ 161,777

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

Consolidated Statements of Cash Flows

For the years ended December 31, 2011 and 2010
(in thousands of Canadian dollars)

	2011	2010
Cash flows provided by (used in)		
Operating activities		
Net income (loss) for the period	$ 15,585	$ (211)
Adjustments for:		
Deferred income taxes	290	490
Fair value adjustment on Class B unit liability	731	3,703
Gain on retirement of Fund unit liability	–	(46)
Interest expense on Fund unit liability	–	16,725
Interest expense on Class B and Class C unit liabilities	5,814	5,639
Changes in items of working capital:		
Royalty receivable from Boston Pizza International Inc.	(277)	(351)
Prepaid expenses	(8)	8
Accounts payable and accrued liabilities	(129)	279
Current income tax payable	5,474	–
Finance income	(1,815)	(1,803)
Finance expense	970	830
Interest received	1,811	1,803
Interest paid	(956)	(881)
Net cash generated from operating activities	27,490	26,185
Financing activities		
Proceeds from long-term debt	–	10,491
Distributions paid to Fund unitholders	(15,722)	(1,676)
Purchase of Fund units	–	(10,491)
Interest paid to Fund unitholders	–	(18,343)
Interest paid on Class B and Class C unit liabilities	(5,740)	(5,680)
Repayment of debt	(4,500)	–
Net cash used in financing activities	(25,962)	(25,699)
Increase in cash and cash equivalents	1,528	486
Cash and cash equivalents – beginning of period	939	453
Cash and cash equivalents – end of period	$ 2,467	$ 939

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

Notes to Consolidated Financial Statements

For the years ended December 31, 2011 and 2010

1. General information:

(a) Organization:

Boston Pizza Royalties Income Fund (the "**Fund**") is an unincorporated open-ended limited purpose trust established under the laws of the Province of British Columbia, Canada, and is governed by the Declaration of Trust signed June 10, 2002, and as amended and restated on July 17, 2002, September 22, 2008, and December 7, 2010. The Fund's principal business office is located at 5500 Parkwood Way, Richmond, BC.

The Fund was established to indirectly, through the Boston Pizza Royalties Limited Partnership (the "**Partnership**"), acquire the trademarks and trade names owned by Boston Pizza International Inc. ("**BPI**") used in connection with the operation of Boston Pizza restaurants in Canada (collectively, the "**BP Rights**"). The BP Rights do not include the rights outside of Canada to any trademarks or trade names used by BPI or any affiliated entities in its business, and in particular do not include the rights outside of Canada to the trademarks registered or pending registration under the Trade-Marks Act (Canada).

The Fund was also established to acquire, directly from a bank, the BPI loan (the "**BP Loan**") in the principal amount of $24.0 million.

(b) Nature of operations:

The Fund, as indirect owner of the BP Rights, has granted BPI exclusive license to the use of the BP Rights for a term of 99 years beginning in July, 2002 (the "**License and Royalty Agreement**"). In return, BPI pays the Fund a Royalty of 4% of Franchise Sales of Boston Pizza restaurants in the Royalty Pool. There are 336 Boston Pizza Restaurants in the Royalty Pool as at December 31, 2011 (December 31, 2010 – 334). BPI carries on business as a franchisor of casual dining pizza and pasta restaurants and operates only in Canada. The rights to operations outside of Canada, which are owned by an affiliated company and certain restaurants in Canada, are not included in the Royalty Pool of the Fund.

Substantially all of the Fund's revenues are earned from certain operations of BPI and, accordingly, the revenues of the Fund and its ability to pay distributions to Fund unitholders is dependent on the ongoing ability of BPI to generate and pay royalties to the Fund.

2. Basis of preparation and adoption of IFRS:

(a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**"). These are the Fund's first annual consolidated financial statements prepared in accordance with IFRS and, as a result, IFRS 1 *First time adoption of International Financial Reporting Standards* has been applied. In these financial statements, the term "**Canadian GAAP**" refers to Canadian GAAP before the adoption of IFRS. The Fund has consistently applied the accounting policies used in the preparation of its opening IFRS statement of financial position at January 1, 2010 throughout all periods presented, as if these policies had always been in effect.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Fund is provided in note 4. Note 4 includes reconciliations of equity and total comprehensive income for comparative periods and reconciliations of equity at the date of transition reported under Canadian GAAP to those reported for those periods and at the date of transition under IFRS.

The consolidated financial statements were authorized for issue by the Trustees on February 8, 2012.

(b) Functional and presentation currency:

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

(c) Use of estimates and judgments:

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

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

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

- **Deferred Income Taxes** (note 8)

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

  The determination of deferred income taxes requires the use of judgment and estimates. If certain judgments or estimates prove to be inaccurate, or if certain tax rates or laws change, the Fund's financial position and net income could be materially impacted.

- **Intangible Assets – the BP Rights** (note 7)

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

The Fund tests the BP Rights for impairment annually, which requires that the Fund use a valuation technique to determine if impairment exists. This valuation technique may not represent the actual net cash flows the Fund expects the BP Rights to generate.

- **Class B Unit Fair Value Adjustment** (note 11)
  The Fund classifies its Class B unit liabilities at fair value. This requires that the Fund use a valuation technique to determine the value of the Class B unit liability at each reporting date. The Fund estimates the fair value of the Class B unit liability using the Fund's market capitalization at the end of the applicable period and allocates BPI's entitlement based on its percentage ownership of the Fund on a fully-diluted basis. This valuation technique may not represent the actual value of the financial liability should such units be extinguished and changes in the distribution rate on the Class B units and the yield of the Fund's units could materially impact the Fund's financial position and net income.

3. Significant accounting policies:

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

(a) Basis of measurement:

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

- Class B unit liability is measured at fair value through the statement of comprehensive income.

(b) Consolidation:

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

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

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

(c) Cash and cash equivalents:

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

(d) Revenue:

Royalty revenue and interest revenue are recognized on an accrual basis as earned.

(e) Distributions on Fund Units:

Declarations of distributions from the Fund are at the discretion of the trustees of the Fund. For the year ended, December 31, 2011 $15.7 million (2010 — $20.0 million, $1.7 million in interest and $18.3 million in distributions) in discretionary cash distributions were paid to Fund unitholders.

The amount of cash available to be distributed to Fund unitholders is determined with reference to the Fund's net earnings adjusted for non-cash items such as deferred income taxes, fair value adjustments on the Class B unit financial liability (note 11), and gains or losses arising from the retirement or extinguishment of Fund unit financial liabilities. Adjustments are also made for changes in non-cash working capital, distributions and/or interest paid to Fund and Partnership unitholders, current income tax liabilities, and BPI's share of the Fund's available cash by virtue of BPI's Additional Entitlements (note 11).

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

(f) Earnings per Fund unit:

Basic earnings per Fund unit is based on the net income attributable to Fund unitholders and the weighted average number of Fund units outstanding during the period.

Basic earnings per Additional Entitlement is based on the net income attributable to BPI as holders of Class B units and the weighted average number of Additional Entitlements, and Holdback of Additional Entitlements outstanding during the period (note 11). Diluted earnings per unit is equal to basic earnings per Fund unit. If BPI exchanged all of its Additional Entitlements for Fund units at the end of the period there would be no dilutive impact to Fund unitholders because the Additional Entitlements are effectively Fund units on a consolidated basis.

(in thousands, except per Fund unit data)	2011	2010
Net income and comprehensive income for the period	$ 15,585	$ (211)
Adjusted for:		
Interest expense on Fund unit liability	—	16,725
Gain on retirement of Fund unit liability	—	(46)
Interest expense on Class B and C unit liability	5,814	5,639
Fair value adjustment on Class B unit liability	731	3,703
Current and deferred income taxes	5,764	490
Fund's net interest income	(1,804)	(1,789)
Net income of the Partnership	26,090	24,511
Fund's interest in the Partnership[1]	21,966	20,399
BPI's interest in the Partnership	$ 4,124	$ 4,112
Earnings per Fund unit before undernoted	$ 1.51	$ 1.41
Earnings per Additional Entitlement	$ 1.51	$ 1.41
Fund's interest in the Partnership	$ 21,966	$ 20,399
Fund's net interest income	1,804	1,789
Interest on Fund units	—	(16,725)
Gain on retirement of Fund unit liability	—	46
Fair value adjustment on Class B units	(731)	(3,703)
Current and deferred income taxes	(5,764)	(490)
Net income attributable to Fund unitholders	$ 17,275	$ 1,316
Earnings per Fund unit	$ 1.19	$ 0.09
Weighted average Fund units outstanding	14,570,644	14,489,534
Weighted average Additional Entitlements Outstanding including Holdback	2,735,458	2,920,490
	17,306,102	17,410,024

[1]The Fund's interest in the Partnership is determined as the weighted average Fund units outstanding as a proportion of the weighted average Fund units outstanding plus the weighted average Additional Entitlements including Holdback.

(g) Financial instruments:

Financial assets and liabilities are recognized when the Fund becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Fund has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

At initial recognition, the Fund classifies its financial instruments in the following categories depending on the purposes for which the instruments were acquired:

- Financial assets and liabilities at fair value through profit or loss: A financial asset or liability is generally classified in this category if acquired principally for the purposes of selling or repurchasing in the short-term. Derivatives are also included in this category unless they are designated as hedges. The Fund has classified the Class B unit liability (note 11) as a financial liability due to the contractual obligation to distribute cash.

  Financial instruments in this category are recognized initially and subsequently at fair value and transaction costs are expensed in the statement of comprehensive income in the period incurred. Gains and losses arising from changes in fair value are presented in the statement of comprehensive income in the period in which they arise. Financial assets and liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized or paid beyond twelve months of the balance sheet date, which is classified as non-current.

  Derivative financial instruments: The requirement of the Fund to settle its note receivable from BPI in exchange for Class C general partner units ("**Class C Units**", note 11) is classified as a derivative instrument. The Fund has reviewed the net impact of this potential exchange requirement on its cash flows and has determined there is no significant value applicable to this feature.

- Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Cash and cash equivalents, interest receivable on the note receivable from BPI, royalties receivable, and the note receivable from BPI are included in this category.

  Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method and, when material, an adjustment is made to loans and receivables to report fair value.

- Financial liabilities at amortized cost: Financial liabilities at amortized cost include accounts payable and accrued liabilities, interest payable to Fund unitholders, interest payable to BPI, Class C unit liability, Fund unit liability, debt and distributions payable to Fund unitholders. These items are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables to fair value or transaction costs incurred. Subsequently, these items are measured at amortized cost using the effective interest rate method.

  Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

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

(h) Impairment of financial assets:

At each reporting date, the Fund assesses whether there is objective evidence that a financial asset is impaired.

The criteria used to determine if objective evidence of an impairment loss exists include:

- Significant financial difficulty of the Fund's counterparty;
- Delinquencies in interest or principal payments; and
- It becomes probable that the borrower will enter into bankruptcy or other financial reorganization.

If such evidence exists, the Fund recognizes an impairment loss as follows:

- Financial assets carried at amortized cost: the loss is the difference between the amortized costs of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate.
- Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

The Fund has tested its interest receivable on note receivable from BPI, the royalty receivable from BPI, and the note receivable from BPI and has determined that no indicators of impairment exist.

(i) Impairment of non-financial assets:

Intangible assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Long-lived assets that are not amortized, such as the BP Rights, are subject to an annual impairment test (note 7). For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. Impairment losses may be reversed if the fair value of the asset is determined to be greater than its carrying amount. Any reversal of impairments losses requires a significant amount of disclosure.

The Fund tested the BP Rights for impairment at December 31, 2011 and determined no impairment exists (note 7).

(j) Financial risk management:

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

Credit risk

Credit risk is defined as an unexpected loss in cash and earnings if another party is unable to pay its obligations in due time. The Fund's exposure to credit risk arises from its royalties receivable, interest receivable and notes receivable, all being due from BPI. The Fund monitors this risk through its regular review of operating and financing activities of BPI. Since its inception, the Fund has never failed to collect its interest or royalties receivable on a timely basis.

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

As at December 31, 2011, the Fund had no provision for credit risk recorded in its financial statements.

Liquidity risk

Liquidity risk results from the Fund's potential inability to meet its financial obligations. Beyond effective net working capital and cash management, the Fund constantly monitors its operations and cash flows to ensure that current and future distributions to Fund unitholders will be met. At December 31, 2011, all current liabilities with the exception of the term loan and NCIB Credit Facilities had a maturity of less than three months.

The Fund's capital resources are comprised of its cash and cash equivalents, its undrawn $1.0 million operating line of credit (the "**Operating Line**"), its $5.0 million term loan (the "**Term Loan**") and its $20.0 million and $5.0 million term loans related to the Fund's 2008 and 2009 Normal Course Issuer Bids (the "**NCIB Credit Facility**", and "**Supplementary NCIB Credit Facility**," respectively, or together, the "**NCIB Credit Facilities**"). The Operating Line bears interest at the bank's prime rate; the Term Loan and NCIB Credit Facility bear interest at bankers' acceptance rates plus 2.0% and the Supplemental NCIB Credit Facility bears interest at bankers' acceptance rates plus 3.0%, or other variable interest rates as selected by the Fund.

The NCIB Credit Facilities are secured by a first charge over the assets of the Fund, mature September 22, 2012, and have no scheduled repayment terms before maturity. The Fund intends to refinance its Term Loan and NCIB Credit Facilities on similar terms before maturity. As at December 31, 2011, $20.0 million (December 31, 2010 – $20.0 million) has been drawn from the NCIB Credit Facility and $0.5 million (December 31, 2010 – $5.0 million) has been drawn on the Supplementary NCIB Credit Facility.

The Fund is subject to certain guarantor covenants and reporting requirements arising from the Operating Line, Term Loan, and its NCIB Credit Facilities and are further described in note 3(l).

Interest rate risk

The Fund's exposure to interest rate risk is mainly through the Term Loan and NCIB Credit Facilities. The Fund has entered into an International Swap Dealers Association Master Agreement (the "**ISDA Agreement**") which provides the Fund with the capability of entering into interest rate swaps and establishes the legal framework that will govern any such swaps. Under the ISDA Agreement, the Fund can enter into swap transactions to effectively convert variable interest bearing debt to fixed interest bearing debt or vice versa. The Fund monitors the interest rate environment regularly and as at December 31, 2011, has not entered into any swap transactions under the ISDA Agreement. Other amounts impacted by interest rate risk include the interest-bearing note receivable from BPI. The note receivable has a fixed interest rate of 7.5%, is from a related party, and is due in July 2042. The Fund currently has $25.5 million in variable rate debt. The annual impact for every 1% increase in the prime rate would be $0.3 million of additional interest expense.

(k) Identifiable intangible assets:

Intangible assets consist of the BP Rights (note 7).

(l) Capital disclosures:

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

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

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

The Fund had debt of $25.5 million at December 31, 2011 (December 31, 2010 — $30.0 million). In addition, the Fund's banking covenants currently require it to limit its funded debt to rolling 12 month EBITDA to 1.25:1. The Fund's funded debt to EBITDA ratio at December 31, 2011 was 1.11:1 (December 31, 2010 — 1.18:1) which is below its banking covenant requirements.

The Fund is not subject to any other statutory capital requirements and has no commitments to sell or otherwise issue Fund units, other than the commitment to exchange Class B units held by BPI for Fund units, as described in notes 10 and 11.

(m) Accounting standards and amendments issued but not yet adopted:

Unless otherwise noted, the following revised standards and amendments are effective for annual periods beginning on or after January 1, 2013 with earlier adoption permitted. The Fund has not yet assessed the impact of these standards and amendments or determined whether they will be adopted early.

(i) IFRS 9, *Financial Instruments*, was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39, *Financial Instruments – Recognition and Measurement*, for debt instruments with a new mixed measurement model having only two categories: amortized costs and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39 except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income.

(ii) IFRS 10, *Consolidated Financial Statements*, requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12*, Consolidation – Special Purpose Entities* and parts of IAS 27, *Consolidated and Separate Financial Statements*. IFRS 12, *Disclosure of Interests in Other Entities*, establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure that address the nature of, and risks associated with, an entity's interest in other entities.

(iii) IFRS 13, *Fair Value Measurement*, is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures.

(iv) There have been amendments to existing standards, including IAS 27, *Separate Financial Statements*, and IAS 28, *Investments in Associated and Joint Ventures*. IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 – 13.

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

4. Transition to IFRS:

As stated in note 2, these are the Fund's first annual consolidated financial statements prepared in accordance with IFRS.

The accounting policies set out in note 3 have been applied in preparing the financial statements for the year ended December 31, 2011, the comparative year period ended December 31, 2010, the comparative information presented in these financial statements for the year ended December 31, 2010 and in the preparation of an opening IFRS statement of financial position at January 1, 2010 (the "**Transition Date**").

The effects of the Fund's transition to IFRS are summarized in this note as follows:

(a) Transition elections

The Fund has not taken any elective exemptions available under IFRS 1 on its transition to IFRS.

(b) Reconciliation of equity and comprehensive income as previously reported under Canadian GAAP to IFRS:

(in thousands)	4(b)	December 31, 2010	January 1, 2010
EQUITY			
Equity as reported under Canadian GAAP		$ 171,926	$ 165,889
IFRS adjustment increase (decrease):			
Impact of consolidation of the Partnership	(i)	50,051	60,284
Re-classification of Fund units to financial liability	(ii)	–	(166,202)
IFRS adjustment for issue costs	(iii)	–	(6,514)
Re-classification of Class B units to financial liability	(iv)	(24,100)	(34,211)
Re-classification of Class C units to financial liability	(iv)	(24,000)	(24,000)
Fair value adjustment on Class B unit liability	(iv)	(9,045)	(9,045)
Fair value adjustment on Class B unit liability	(xii)	(3,703)	–
IFRS adjustment for deferred income taxes	(xiv)	450	400
Equity as reported under IFRS		$ 161,579	$ (13,399)

(in thousands)	4(b)	December 31, 2010
COMPREHENSIVE INCOME		
As reported under Canadian GAAP		$ 20,245
Eliminate equity income	(v)	(18,675)
Partnership interest income	(vi)	13
Partnership royalty income	(vii)	26,550
Partnership expenses	(viii)	(1,224)
Partnership interest expense on long-term debt	(ix)	(830)
Interest expense on Fund unit liability	(x)	(16,725)
Interest expense on Class B unit liability	(x)	(3,839)
Interest expense on Class C unit liability	(x)	(1,800)
Gain (loss) on retirement of Fund unit liability	(xi)	46
Fair value adjustment on Class B unit liability	(xii)	(3,703)
Elimination of dilution gain	(xiii)	(318)
IFRS adjustment for deferred income taxes	(xiv)	49
		(20,456)
As reported under IFRS		$ (211)

Explanatory Notes

(i) The Fund previously recognized its investment in the Partnership using the equity method of accounting as BPI had consolidated its interest in the Partnership, a variable interest entity, under previous Canadian GAAP. Under IFRS the Fund is required to consolidate the Partnership as the Fund controls it. These adjustments pertain to the consolidation of the Partnership accounts.

(ii) At January 1, 2010, the Fund units were classified as equity under Canadian GAAP but under IFRS, the Fund units were classified as a financial liability up to December 7, 2010 (note 10(b)). While classified as a financial liability, the Fund measured its Fund unit liability at amortized cost and previously capitalized issue costs were written off.

(iii) IFRS requires that costs related to the issuance of debt be amortized over the term of the financial liability. Due to the fact that the term of the Fund unit liability is indefinite, the Fund has written-off the issue costs of $6.5 million related to the initial public offering directly to accumulated deficit. Under Canadian GAAP the Fund previously reported Fund units net of these issue costs.

(iv) The Fund recorded a $34.2 million adjustment at the Transition Date representing BPI's residual interest in the Fund on consolidation in respect of Class B units held by BPI. These Class B units are classified as a financial liability under IFRS and must therefore be deducted from equity. Due to fact that the Class B units are convertible into Fund units, IFRS deems that the Class B units contain a derivative. As a result, the Fund has measured these units at fair value. An adjustment of $9.0 million has been recorded to adjust these units to fair value on the Transition Date.

The Fund recorded a $24.0 million adjustment at the Transition Date representing BPI's residual interest in the Fund on consolidation in respect of Class C units held by BPI. These Class C units are classified as a financial liability under IFRS and must therefore be deducted from equity. These units are measured at amortized cost.

(v) To eliminate previously reported equity income from the Fund's investment in the Partnership on consolidation.

(vi) To recognize the Partnership's interest revenue related to bank interest on consolidation.

(vii) To recognize the Partnership's Royalty revenue on consolidation.

(viii) To recognize the Partnership's other administrative expenses on consolidation.

(ix) To recognize the Partnership's interest expense on long-term debt on consolidation.

(x) To recognize the Partnership's distributions paid to BPI, on Class B and C units as interest expense.

(xi) Net impact of the change in the carrying value of Fund units cancelled in 2010 under the 2009 NCIB reported on the statement of comprehensive income under IFRS.

(xii) Impact of fair value adjustment on Class B units.

(xiii) Previously reported dilution gain or loss on the return of capital from the Partnership to the Fund eliminated on consolidation.

(xiv) IFRS adjustment for deferred income taxes.

(c) Adjustments to the statement of cash flows

The transition from Canadian GAAP to IFRS resulted in the consolidation of the accounts of Partnership. The impact on the cash flows of the Fund is the inclusion of the Partnership's cash in the Fund's statement of financial position and the sources and uses of the Partnership's cash in the Fund's statement of cash flows.

For the year ended December 31, 2010, the effect of including the Partnership's cash sources and uses was an increase of $6.2 million in cash flows from operating activities, the elimination of $10.5 million in cash received on return of capital from the Partnership eliminated on consolidation, and a $4.8 million reduction in cash used in investing activities. The $4.8 million reduction in cash used in investing activities is the net result of including the Partnership's proceeds of long-term debt of $10.5 million less $5.7 million in interest paid to BPI on Class B and Class C units. The net impact was a $0.5 million increase in cash for the year which represents the Partnership's net increase in cash.

5. Additional IFRS information for the year ended December 31, 2010:

The following IFRS disclosures relating to the year ended December 31, 2010 are material to an understanding of these annual consolidated financial statements. In preparing its opening IFRS statement of financial position, the Fund has adjusted amounts reported previously in financial statements in accordance with Canadian GAAP. An explanation how the transition from Canadian GAAP to IFRS has affected the Fund's financial position, performance and cash flows is set out in the following tables and notes.

As at January 1, 2010 (in thousands)	As previously reported	5	Adjustment	Reported under IFRS
ASSETS				
Current Assets				
Cash and cash equivalents	$ 3	(i)	$ 450	$ 453
Interest receivable on note receivable from Boston Pizza International Inc.	150		–	150
Royalty receivable from Boston Pizza International	–	(i)	2,171	2,171
Distributions and other receivables from Boston Pizza Royalties Limited Partnership	1,697	(i)	(1,697)	–
Prepaid expenses	–	(i)	46	46
Investment in Boston Pizza Royalties Limited Partnership	145,196	(ii)	(145,196)	–
Note receivable from Boston Pizza International Inc.	24,000	(i)	–	24,000
Intangible assets – BP Rights	–	(i)	224,825	224,825
Total assets	$ 171,046		$ 80,599	$ 251,645
LIABILITIES AND UNITHOLDERS' EQUITY (Deficiency)				
Current liabilities				
Accounts payable and accrued liabilities	$ 228	(i)	$ 274	$ 502
Distributions and interest payable to Fund unitholders	1,619		–	1,619
Interest payable on Class B and Class C units	–	(i)	531	531
Long-term debt:				
Term loan	–	(i)	5,000	5,000
NCIB Credit Facility	–	(i)	14,509	14,509
Deferred income taxes	3,310	(vii)	(400)	2,910
Fund unit liability	–	(iii)	172,717	172,717
Class B unit liability	–	(iv)	43,256	43,256
Class C unit liability	–	(v)	24,000	24,000
Unitholders' equity (deficiency)	165,889	(vi)	(179,288)	(13,399)
Total liabilities and unitholders' equity (deficiency)	$ 171,046		$ 80,599	$ 251,645

As at December 31, 2010 (in thousands)	As previously reported	5	Adjustment	Reported under IFRS
ASSETS				
Current Assets				
Cash and cash equivalents	$ 4	(i)	$ 935	$ 939
Interest receivable on note receivable from Boston Pizza International Inc.	150		–	150
Royalty receivable from Boston Pizza International	–	(i)	2,522	2,522
Distributions and other receivables from Boston Pizza Royalties Limited Partnership	1,526	(i)	(1,526)	–
Prepaid expenses	–	(i)	89	89
Investment in Boston Pizza Royalties Limited Partnership	151,772	(ii)	(151,772)	–
Note receivable from Boston Pizza International Inc.	24,000	(i)	–	24,000
Intangible assets – BP Rights	–	(i)	230,847	230,847
Total assets	$ 177,452		$ 81,095	$ 258,547
LIABILITIES AND UNITHOLDERS' EQUITY (Deficiency)				
Current liabilities				
Accounts payable and accrued liabilities	$ –	(i)	$ 554	$ 554
Distributions and interest payable to Fund unitholders	1,676		–	1,676
Interest payable on Class B and Class C units	–	(i)	490	490
Long-term debt:				
Term loan	–	(i)	5,000	5,000
NCIB Credit Facility	–	(i)	25,000	25,000
Deferred income taxes	3,850	(vii)	(450)	3,400
Fund unit liability	–	(iii)	–	–
Class B unit liability	–	(iv)	36,848	36,848
Class C unit liability	–	(v)	24,000	24,000
Unitholders' equity (deficiency)	171,926	(vi)	(10,347)	161,579
Total liabilities and unitholders' equity (deficiency)	$ 177,452		$ 81,095	$ 258,547

Explanatory notes

(i) Under Canadian GAAP, the accounts of the Partnership were consolidated by BPI. IFRS requires the Fund to consolidate the Partnership and these adjustments pertain to the Fund's consolidation of the Partnership's accounts.

(ii) Under Canadian GAAP, the Fund's investment in the Partnership was accounted for using the equity method. Since the Fund now consolidates the accounts of the Partnership the Fund's equity investment in the Partnership is eliminated.

(iii) The adjustment pertains to the re-classification of Fund units to a financial liability for $166.2 million (note 4(b)) and the adjustment to expense issuance costs of these units of $6.5 million at the Transition Date. No such adjustment or reclassification is required at December 31. As the Fund has changed the terms of the units such that they receive equity treatment (note 10(b)).

(iv) The adjustment pertains to the re-classification of the Class B units to a financial liability and the required fair value adjustment (note 4(b)).

(v) The adjustment pertains to the re-classification of the Class C units to a financial liability.

(vi) Refer to reconciliations provided in note 4.

(vii) IFRS adjustment for deferred income taxes

6. Note receivable from Boston Pizza International Inc.:

(in thousands)	December 31, 2011	January 1 2010 and December 31, 2010
Note receivable with interest payable monthly at 7.5% per annum, due July 17, 2042	$ 24,000	$ 24,000

The note originated at the time of the Fund's indirect acquisition of the BP Rights from BPI in July 2002 and is secured by a general security agreement. The note may not be assigned without the prior consent of BPI.

BPI, as the holder of 2,400,000 Class C Units, has the right to transfer the Class C Units to the Fund in consideration for the assumption by the Fund of, and the concurrent release of BPI of its obligations with respect to, an amount of the indebtedness under the BP Loan equal to $10.00 for each Class C Unit transferred.

Interest receivable on the note receivable was $0.2 million at December 31, 2011 (December 31, 2010 — $0.2 million; January 1, 2010 — $0.2 million).

7. Intangible assets – BP Rights:

The BP Rights are trademarks registered in Canada including "Boston Pizza" and other similar related terms, logos and designs that are the property of the Partnership. The Partnership and BPI entered into a license and royalty agreement to allow BPI the use of the BP Rights for a term of 99 years beginning in July 2002, for which BPI pays a royalty equal to 4% of the franchise revenues of the restaurants in the Royalty Pool. Since the trademarks may remain in force indefinitely, the BP Rights have an indefinite life, are recognized at cost and are not amortized but are tested for indicators of impairment at each reporting date and tested for impairment annually on December 31. In January of each year, new restaurants are added to the Royalty Pool. In exchange for adding new stores into the Royalty Pool, BPI is granted the Additional Entitlements (note 11), the fair value of which are determined using the expected annual sales of the new stores discounted by the yield of the Fund's units. The value of the Additional Entitlements is adjusted in the following year once the annual sales of the new stores are known for certain.

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

(in thousands)	
Balance, January 1, 2010	$ 224,825
Additional Entitlement for 17 net new restaurants opened in 2009 and added to the Royalty Pool in 2010 – granted January 1, 2010	7,844
Adjustment to prior year Additional Entitlement for actual performance of new restaurants opened in 2008 and added to the Royalty Pool in 2009	(1,822)
Balance, December 31, 2010	$ 230,847
Additional Entitlement for net zero new restaurants opened in 2010 and added to the Royalty Pool in 2011 – granted January 1, 2011	805
Adjustment to prior year Additional Entitlement for actual performance of new restaurants opened in 2009 and added to the Royalty Pool in 2010	416
Balance, December 31, 2011	$ 232,068

Each year on December 31, the Fund tests the carrying value of the BP Rights for impairment. Impairment exists if the present value of the net cash flows the Fund expects the BP Rights to generate over the next fifty years (the "value in use", or "recoverable amount") exceeds their carrying value. A fifty year period is appropriate as the BP Rights are registered trademarks that do not expire. The license and royalty agreement between the Fund and BPI expires on December 31, 2101.

The Fund determines the net cash flows it expects to receive from the licensing of the BP Rights by taking the Fund's budgeted royalty revenue for the next year less budgeted operating expenses (administration charge, trustee fees and expenses, professional fees, and other administrative expenses). Since the Fund's operating expenses are relatively static, the key assumptions in determining the recoverable amount are budgeted royalty revenue and the discount rate used to determine the net present value of the net cash flows. The Fund bases its budgeted royalty revenue on past experience and future expectations formed using third party economic forecasts and industry publications. Using budgeted royalty revenue and operating expenses as a base, these amounts are projected to grow at an annual rate of 2% (the midpoint of the Bank of Canada's inflation target range of 1% to 3%) over the following forty-nine years. These projected cash flows are discounted at the Fund's estimated before-tax yield of 10.4% to arrive at the recoverable amount. The Fund's estimated pre-tax yield is determined using the Fund's closing price at December 31, 2011, the annualized distribution rate of $1.104, and SIFT Tax rate of 25.0% in effect January 1, 2012.

The Fund also considers other reasonably possible scenarios where forecasted revenue is less than budget along with other reasonably possible higher discount rates to determine whether the BP Rights would be impaired under those scenarios.

As at December 31, 2011, the Fund has tested the BP Rights for impairment in the manner described above and has determined that the recoverable amount exceeds the carrying value using budgeted royalty revenue as well as forecasted royalty revenue for other reasonably possible scenarios and discount rates. The Fund has determined that no impairment exists.

8. Income taxes:

On August 12, 2010 the Fund announced its intention to maintain its current income trust structure beyond January 1, 2011 when legislative changes to the tax treatment of income trusts (the SIFT Tax), became effective. Under SIFT Tax legislation, the Fund is subject to tax at the prevailing corporate rate beginning on January 1, 2011. The SIFT Tax rate is 26.5% for 2011 and 25% for 2012 and later taxation years.

Deferred income taxes are recorded on temporary differences arising between the accounting and tax bases of balance sheet assets and liabilities.

The Fund has recorded a deferred income tax expense of $0.3 million for the year ended December 31, 2011 (2010 – $0.5 million) and a corresponding change in the future income tax liability from $3.4 million at December 31, 2010 to $3.7 million at December 31, 2011. The deferred income tax liability arises mainly as a result of the Fund recording, in the current period, its cumulative share of the temporary differences between the accounting and tax bases of the BP Rights owned by the Partnership generated since the inception of the Fund. This expense had no impact on the Fund's cash flow for the period.

The reconciliation to statutory tax rate is as follows:

(in thousands, except tax rate)	2011	2010
Earnings before income taxes	$ 21,349	$ 279
Combined Canadian federal and provincial rate	26.5%	0.0%
Computed expected tax expense	5,657	–
Decreased by:		
Current year's earnings not taxable	(1,919)	–
Increased by:		
Current year's earnings that are taxable	1,735	–
Change in the tax base of the BP Rights	290	490
Total tax expense per statement of income	$ 5,764	$ 490

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

(in thousands)	2011	2010
Deferred income tax liabilities:		
Difference related to the BP Rights	$ 3,690	$ 3,400
Net deferred tax liability	$ 3,690	$ 3,400

9. Operating line of credit, term loan and NCIB credit facilities:

The Partnership has an available line of credit in the amount of $1.0 million with a 364 day term to finance its operations. This line of credit is with a Canadian Chartered Bank to fund seasonal variations between royalty revenues and distributions to its partners. The line of credit has a term that expires on September 22, 2012. Since the formation of the Partnership in July 2002, the operating line of credit has been maintained with a nil balance.

The Fund maintains a $5.0 million term loan which is secured by a first charge over the assets of the Partnership, and is repayable in interest only installments until maturity on September 22, 2012.

The NCIB Credit Facilities are credit facilities in an amount up to $25.0 million in loans at variable and fixed interest rates as selected by the Fund to finance purchases under the NCIB and are secured by a first charge over the assets of the Fund. The Fund had drawn $25.0 million on the NCIB Credit Facilities as at December 31, 2010. During the year ended December 31, 2011, the Fund used $4.5 million of cash it had allocated for the payment of SIFT tax in February 2012 to temporarily repay a portion of the NCIB Credit Facilities since the rate of interest payable under the NCIB Credit Facilities is higher than the rate of interest that the Fund receives for cash on deposit. The Fund intends to draw the full amount repaid on the NCIB Credit Facilities again in February 2012 when payment of the SIFT tax liability comes due.

(in thousands)	December 31, 2011	December 31, 2010	January 1, 2010
Bank of Montreal Term Loan bearing interest at bankers' acceptance rates plus 2.00% per annum, with a maturity date of September 22, 2012	$ 5,000	$ 5,000	$ 5,000
Bank of Montreal NCIB Credit Facility bearing interest at plus bankers' acceptance rates 2.00% per annum, with a maturity date of September 22, 2012	20,000	20,000	14,509
Bank of Montreal Supplementary NCIB Credit Facility bearing interest at bankers' acceptance rates plus 3.00% per annum, with a maturity date of September 22, 2012	500	5,000	–
	$ 25,500	$ 30,000	$ 19,509

The fair value of the Fund's debt is $25.5 million since the debt has variable interest rates. Accordingly, the impact of a 1% change in the prime rate would not result in any change in the fair value of the debt.

Principal repayments on debt for the years ending December 31 are as follows:

(in thousands)	
2011	$ –
2012	30,000
	$ 30,000

The Fund plans to refinance its long-term debt before maturity and does not expect to be required to repay any portion of the principal amount outstanding.

10. Fund units:

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

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

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

(b) Fund units outstanding:

As at January 1, 2010, these items were classified as a financial liability because of specific distribution requirements set out in the Declaration of Trust. The Fund unit liability was initially measured at fair value and subsequently at amortized cost.

On December 7, 2010, the Fund held a special meeting of its unitholders whereby the unitholders amended the terms of Declaration of Trust and removed the specific distributions requirements. Upon this amendment, the March 31, 2011 interim consolidated financial statements of the Fund disclosed that the $25.2 million difference between the carrying amount of Fund units ($178.5 million) and the fair value of the Fund units as the close of business on December 7, 2010 ($203.7 million) was recognized as a loss on the extinguishment of the Fund unit liability in net and comprehensive loss for the year ended December 31, 2010. Subsequent to March 31, 2011, the Fund has amended this treatment to account for the transaction on the carry over basis based on guidance received on the application of IFRS in this circumstance. This amendment removes this IFRS to Canadian GAAP difference in net and comprehensive loss and accumulated deficit related to the reclassification of Fund Units from a liability to equity for the year ended December 31, 2010 as previously disclosed in the March 31, 2011 financial statements. The amendment results in a reclassification between Fund Units and Accumulated Deficit as at December 31, 2010 with no change to the total reported Unitholders' equity. The impact on the disclosed net and comprehensive loss for the year ended December 31, 2010 is quantified below.

(in thousands)	
December 31, 2010 Net and Comprehensive Loss under IFRS:	
As previously reported in March 31, 2011 financial statements	$ (25,369)
Effect of adjustment described above	25,158
Adjusted	$ (211)

Prior to this meeting date for the year ended December 31, 2010, $16.7 million was recognized as interest expense in the statement of comprehensive income for the year ended December 31, 2010.

(in thousands, except unit data)	Number of Fund units	Fund unit liability	Fund units as equity
Opening balance at January 1, 2010	14,060,544	$ 172,717	$ –
Exchange of Class B Units for Fund units	1,350,000	16,133	–
Acquisition and cancellation of Fund units	(839,900)	(10,310)	–
Re-classification of units to equity	–	(178,540)	178,540
Balance at December 31, 2010 & December 31, 2011	14,570,644	$ –	$ 178,540

(c) Distributions declared to Fund unitholders during the year ended December 31, 2011 totaled $15.4 million (2010 – $3.3 million and $16.7 million expensed in the statement of comprehensive income) or $1.06 per Fund unit (2010 – $1.38).

11. Partnership unit liabilities:

(a) Class B units

"**Class B units**" are those units which have been issued to and are held by BPI and are presented in the Fund's financial statements as a result of the Fund consolidating the accounts of the Partnership under IFRS. The Class B units are classified as a financial liability and are initially and subsequently reported at fair value. The determination of the fair value of the Class B unit liability is described later in this note.

BPI has the right to exchange Class B units for a number of Fund units based, at any time, on a defined calculation which is based in part on the net franchise sales from restaurants added to the Royalty Pool. On January 1 of each year (the "**Adjustment Date**"), an adjustment is made to add to the Royalty Pool new Boston Pizza Restaurants that opened and to remove any Boston Pizza Restaurants that permanently closed since the previous Adjustment Date. In return for adding net additional royalty revenue, BPI receives the right to indirectly acquire additional Fund units (the "**Additional Entitlements**"). BPI receives 80% of the Additional Entitlements on the Adjustment Date with the balance (the "**Holdback**") received once the performance of the new stores is known for certain. BPI receives 100% of the distributions from the Additional Entitlements throughout the year. Once the new restaurants have been in the Royalty Pool for a full year, an audit of the royalty revenues of the new restaurants received from BPI is performed. At such time, an adjustment is made to reconcile the number of Additional Entitlements and associated distributions to the actual performance of the new stores. Class B units held by BPI carry voting rights equivalent to the number of fully entitled Additional Entitlements outstanding at that time.

(in thousands, except unit data)	Issued and outstanding Additional Entitlements	Issued and outstanding Additional Entitlements including Holdback	Class B unit liability
Opening balance at January 1, 2010	3,329,106	3,564,127	$ 43,256
Additional Entitlement for addition of 17 net new restaurants to the Royalty Pool in 2009 – granted January 1, 2010	518,607	648,259	7,844
Adjustment to prior year Additional Entitlement for actual performance of new restaurants added to Royalty Pool in 2008	15,728	(219,293)	(1,822)
Exchange of Class B Units for Fund units	(1,350,000)	(1,350,000)	(16,133)
Fair value adjustment	—	—	3,703
Balance at December 31, 2010	2,513,441	2,643,093	$ 36,848
Additional Entitlement for addition of zero net new restaurants to the Royalty Pool in 2010 – granted January 1, 2011	46,387	57,984	805
Adjustment to prior year Additional Entitlement for actual performance of new restaurants added to Royalty Pool in 2009	164,033	34,381	416
Fair value adjustment	—	—	731
Balance at December 31, 2011	2,723,861	2,735,458	$ 38,800

On January 1, 2011, 6 new Boston pizza restaurants that opened during the period from January 1, 2010 to December 31, 2010 were added to the Royalty Pool while 6 restaurants that closed during the period were removed. The Franchise Sales of these zero net new restaurants have been estimated at $2.2 million. The total number of restaurants in the Royalty Pool remained at 340. As a result of the contribution of the additional net sales to the Royalty Pool, and assuming 100% of the Additional Entitlement, BPI's Additional Entitlement is equivalent to 57,984 (2010 – 648,259) Fund units. BPI will also receive a proportionate increase in monthly distributions from the Partnership. Of the Additional Entitlement, 20% (2011 – 11,597 units; 2010 – 129,652 units), remain unissued and are not eligible for exchange into Fund units until January 1, 2012 (2010 units – January 1, 2011) based on the actual performance of the new stores.

In early 2011, adjustments to royalty payments and Additional Entitlements were made based on the actual performance of 17 net new restaurants added to the Royalty pool on January 1, 2010. Based on these adjustments, BPI received its pro rata portion of the remaining Additional Entitlement, 164,033 (January 1, 2010 – 15,728) Fund units. As at December 31, 2011, BPI was fully entitled to 2,723,861 Additional Entitlements (2010 – 2,513,441), not including the Holdback of 11,597 Additional Entitlements (2010 – 129,652). For the year ended December 31, 2011, the Fund declared a total of $4.0 million in Class B distributions to BPI (2010 – $3.8 million).

The fair value of the Class B unit liability is determined by calculating BPI's share of the Fund as determined by the Fund's closing market price on the reporting date. The Fund's closing market price on December 31, 2011 was $14.19 (2010 – $13.90) and as of this date there were 14,570,644 Fund units and 2,735,458 Additional Entitlements outstanding, including the Holdback (2010 – 14,805,744 and 2,643,093, respectively) resulting in a market capitalization of $245.6 million (2010 – $239.3 million). Through its ability to convert its Additional Entitlements into Fund units, BPI owns approximately 15.8% (2010 – 15.4%) of the Fund resulting in a fair value of the Class B unit liability of $38.8 million (2010 – $36.8 million). The Fund has no obligation to settle this financial liability in cash. If BPI were to exchange all of its Additional Entitlements for Fund units on December 31, 2011, the Fund would simply issue the equivalent number of Fund units and the Class B unit liability would be extinguished.

(b) Class C units

"**Class C units**" are those units which have been issued to and are held by BPI. These units have an obligation to pay the Class C distribution of $0.0625 per unit on a monthly basis as long as the note receivable from BPI (note 6) is outstanding. Accordingly, this item is classified as a financial liability and is measured at amortized cost.

The requirement of the Fund to settle its note receivable from BPI in exchange for Class C units represents an embedded derivative. The Fund has reviewed the net impact of this potential exchange requirement on its cash flows and has determined there is no significant value applicable to this feature.

12. Operations:

(in thousands, except number of restaurants in the Royalty Pool)	2011	2010
Restaurants in the Royalty Pool	336	334
Franchise sales reported by restaurants in the Royalty Pool	$ 699,329	$ 663,758
Royalty income – 4% of Franchise sales	27,973	26,550

13. Related party transactions:

BPI is considered to be a related party of the Fund by virtue of common officers and directors in the Partnership and BPI. The Fund has engaged BPI to provide certain administrative services on behalf of the Fund. The total amount paid to BPI in respect of these services for the year ended December 31, 2011 was $0.3 million (2010 – $0.3 million). As at December 31, 2011, interest payable to BPI on Class B and Class C units was $0.6 million (December 31, 2010 – $0.5 million) and royalty receivable from BPI was $2.8 million (December 31, 2010 – $2.5 million).

14. Compensation of key management

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

(in thousands)	For the year ended December 31, 2011	For the year ended December 31, 2010
Remuneration paid to Trustees	$ 174	$ 186

15. Supplemental cash flow information:

(in thousands)	For the year ended December 31, 2011	For the year ended December 31, 2010
Non-cash transactions:		
Roll-in of new stores – January 1, net	$ 1,221	$ 6,022
Unit exchange	—	16,133

16. Subsequent events:

(a) On January 1, 2012, 7 new Boston Pizza restaurants that opened during the period from January 1, 2011 to December 31, 2011 were added to the Royalty Pool while two full service and two quick express locations that closed during the period were removed. The Franchise Sales of these 3 net new restaurants has been estimated at $8.3 million. The total number of restaurants in the Royalty Pool was increased to 343. As a result of the contribution of the additional net sales to the Royalty Pool, and assuming 100% of the Additional Entitlement, BPI's Additional Entitlement is equivalent to 218,166 (2010 – 57,984) Fund units. BPI will also receive a proportionate increase in monthly distributions from the Partnership. Of the Additional Entitlement, 20% (2012 – 43,633 units; 2011 – 11,597 units), remain unissued and are not eligible for conversion to Fund units until January 1, 2013 (2011 units – January 1, 2012) based on the actual performance of the new stores.

(b) In early 2012, adjustments to royalty payments and Additional Entitlements were made based on the actual performance of zero net new additional restaurants added to the Royalty Pool on January 1, 2011. Based on these adjustments, BPI will receive its pro rata portion of the remaining Additional Entitlements, 61,481 Fund units.

Management's Discussion & Analysis

FINANCIAL HIGHLIGHTS

The tables below set out selected information from the consolidated financial statements of Boston Pizza International Inc. ("**BPI**"), together with other data and should be read in conjunction with the annual consolidated financial statements of BPI for the twelve month period ended December 31, 2011 included in this Management's Discussion and Analysis. Except where otherwise noted, the financial results reported in the tables are reported in accordance with IFRS (as defined herein), and as a result are not directly comparable to those figures contained within prior historical financial statements or Management's Discussion and Analysis of BPI that were previously prepared in accordance with Canadian GAAP (as defined herein). Full particulars of the impact of BPI's adoption of IFRS are set forth in the Management's Discussion and Analysis and consolidated financial statements and accompanying notes of BPI for the period ended March 31, 2011, a copy of which was filed on SEDAR on May 10, 2011, and the consolidated financial statements and accompanying notes of BPI for the twelve month period ended December 31, 2011, a copy of which was filed on SEDAR on February 9, 2012, and are available at www.sedar.com and www.bpincomefund.com.

(in thousands of dollars except number of restaurants)	Jan 1, 2011 to Dec 31, 2011	Jan 1, 2010 to Dec 31, 2010
Number of Boston Pizza Restaurants[1]	343	340
Franchise Sales reported by Boston Pizza Restaurants[2]	707,086	667,905
System-wide Gross Sales[3]	904,872	853,460
Income Statement Data		
Total revenues	71,050	68,278
Royalty expense	27,973	26,550
Other expenses	38,894	38,174
Earnings before undernoted[4]	4,183	3,554
Depreciation, management fee and amortization of deferred gain	1,235	515
Operating profit[4]	2,948	3,039
Net interest income	3,994	3,784
Net income before fair value adjustment on Class B Units and income taxes[4]	6,942	6,823
Fair value gain on Class B Units	731	2,609
Net income before income tax[4]	7,673	9,432
Current and deferred income tax expense	2,098	647
Net income and comprehensive income	5,575	8,785
Basic and diluted earnings per share	0.05	0.08
Dividends per share	0.05	0.14

Balance Sheet Data	Dec 31, 2011	Dec 31, 2010
Total assets	154,871	152,601
Total liabilities	256,107	254,412

The financial results in the table below are reported in accordance with Canadian GAAP and not IFRS, and as a result are not directly comparable to those figures contained herein that are reported in accordance with IFRS.

(in thousands of dollars)	Jan 1, 2009 to Dec 31, 2009
Restaurant System Franchise Sales[2]	660,634
Income Statement Data	
Total revenue	70,189
Non-controlling interest related to royalty expense	17,956
Earnings before loss on sale of units and income taxes[5]	4,882
Net earnings and comprehensive income	2,344
Dividends declared per share	—

(in thousands of dollars)	Dec 31, 2009
Total assets	95,958
Total long-term liabilities	48,947
Deferred gain	128,203

1 As at the end of the applicable period.

2 Franchise sales is the basis on which the royalty is payable; it means the revenues of Boston Pizza Restaurants (as defined herein) in respect of which the royalty is payable ("**Franchise Sales**"). The term "revenue" refers to the gross revenue: (i) of the corporate Boston Pizza Restaurants in Canada owned by BPI; and (ii) reported to BPI by franchised Boston Pizza Restaurants in Canada, without audit or other form of independent assurance, and in the case of both (i) and (ii), after deducting revenue from the sale of liquor, beer, wine and tobacco and revenue from BPI approved national promotions and discounts and excluding applicable sales and similar taxes. Nevertheless, BPI periodically conducts audits of the Franchise Sales reported to it by its franchisees, and the Franchise Sales reported herein include results from sales audits of earlier periods conducted during the year.

3 System-wide gross sales means the gross revenue: (i) of the corporate Boston Pizza Restaurants in Canada owned by BPI; and (ii) reported to BPI by franchised Boston Pizza Restaurants in Canada, without audit or other form of independent assurance, and in the case of both (i) and (ii), including revenue from the sale of liquor, beer, wine and tobacco and revenue from BPI approved national promotions and discounts and excluding applicable sales and similar taxes ("**System-wide Gross Sales**").

4 This is a non-IFRS financial measure that does not have a standardized meaning prescribed by IFRS and therefore is unlikely to be comparable to similar measures presented by other issuers. Readers are cautioned that this should not be construed as an alternative net income measure of profitability. The applicable table provides a reconciliation from this non-IFRS financial measure to net income, which is the most directly comparable IFRS measure.

5 This is a non-Canadian GAAP financial measure that does not have a standardized meaning prescribed by Canadian GAAP (as defined herein) and therefore is unlikely to be comparable to similar measures presented by other issuers. This non-Canadian GAAP financial measure provides useful information to investors and management by providing an indication of operating earnings. Investors are cautioned that this should not be construed as an alternative net income measure of profitability. The table above provides a reconciliation from this non-Canadian GAAP financial measure to the most directly comparable Canadian GAAP measure.

The financial results reported in the table below are reported in accordance with IFRS, and as a result are not directly comparable to those figures contained within historical financial statements or Management's Discussion and Analysis of BPI that were previously prepared in accordance with Canadian GAAP.

(in thousands of dollars except number of restaurants)	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Number of Boston Pizza Restaurants[1]	343	341	343	341
Franchise Sales reported by Boston Pizza Restaurants[2]	180,590	185,673	177,354	163,469
System-wide Gross Sales[3]	232,713	235,911	228,766	207,482
Income Statement Data				
Total revenues	17,928	18,411	18,118	16,593
Royalty expense	7,098	7,327	7,023	6,525
Other expenses	9,884	9,708	9,465	9,837
Earnings before undernoted[4]	946	1,376	1,630	231
Depreciation, management fee and amortization of deferred gain	439	277	308	211
Operating profit[4]	507	1,099	1,322	20
Net interest income	1,622	981	460	931
Net income before fair value adjustment on Class B Units and income taxes[4]	2,129	2,080	1,782	951
Fair value gain (loss) on Class B Units	3,308	(1,148)	(2,707)	1,278
Net income (loss) before income tax[4]	5,437	932	(925)	2,229
Current and deferred income tax expense (recovery)	1,324	317	(77)	534
Net income (loss) and comprehensive income (loss)	4,113	615	(848)	1,695
Basic and diluted earnings (loss) per share	0.04	0.01	(0.01)	0.02

(in thousands of dollars except number of restaurants)	Q4 2010	Q3 2010	Q2 2010	Q1 2010
Number of Boston Pizza Restaurants[1]	340	339	340	342
Franchise Sales reported by Boston Pizza Restaurants[2]	168,151	172,688	167,049	160,017
System-wide Gross Sales[3]	215,303	218,335	215,336	204,486
Income Statement Data				
Total revenues	16,752	17,466	17,098	16,962
Royalty expense	6,647	6,846	6,639	6,418
Other expenses	9,338	9,188	9,908	9,740
Earnings before undernoted[4]	767	1,432	551	804
Depreciation, management fee and amortization of deferred gain	152	157	105	101
Operating profit[4]	615	1,275	446	703
Net interest income	1,427	887	432	1,038
Net income before fair value adjustment on Class B Units and income taxes[4]	2,042	2,162	878	1,741
Fair value gain (loss) on Class B Units	2,916	3,905	(1,056)	(3,156)
Net income (loss) before income tax[4]	4,958	6,067	(178)	(1,415)
Current and deferred income tax expense (recovery)	1,345	1,492	39	(2,229)
Net income (loss) and comprehensive income (loss)	3,613	4,575	(217)	814
Basic and diluted earnings (loss) per share	0.04	0.04	(0.01)	0.01

OVERVIEW

General

This Management's Discussion and Analysis covers the three month period from October 1, 2011 to December 31, 2011 (the "**Period**") and the twelve month period from January 1, 2011 to December 31, 2011 ("**Year**") and is dated February 8, 2012.

BPI is a privately controlled company and is the franchisor of the Boston Pizza (as defined herein) concept in Canada. BPI competes in the casual dining sector of the restaurant industry and Boston Pizza is the number one casual dining brand in Canada. With 344 restaurants stretching from Victoria to St. John's, Boston Pizza has more locations and serves more customers annually than any other casual dining restaurant chain in Canada.

BPI charges a 7% royalty fee on Franchise Sales for full-service Boston Pizza restaurants open in Canada and a 5% royalty fee on Franchise Sales for all Boston Pizza quick express restaurants that are open in Canada (collectively, the "**Boston Pizza Restaurants**"). BPI pays Boston Pizza Royalties Limited Partnership (the "**Partnership**"), a subsidiary controlled by Boston Pizza Royalties Income Fund (the "**Fund**"), a 4% royalty fee (the "**Royalty**") based on Franchise Sales from the Boston Pizza Restaurants in the royalty pool (the "**Royalty Pool**") for the use of the Boston Pizza trademarks in Canada (the "**BP Rights**"[6]). As at December 31, 2011, there were 336[7] Boston Pizza Restaurants in the Royalty Pool.

Addition of New Restaurants to Royalty Pool

On January 1 of each year (the "**Adjustment Date**"), an adjustment is made to add to the Royalty Pool new Boston Pizza Restaurants that opened and to remove any Boston Pizza Restaurants that permanently closed since the last Adjustment Date. In return for adding net additional royalty revenue, BPI receives the right to indirectly acquire additional trust units ("**Units**") of the Fund (the "**Additional Entitlements**"). The adjustment for new Franchise Sales added to the Royalty Pool is designed to be accretive to unitholders of the Fund ("**Unitholders**"). The Additional Entitlements for Adjustment Dates occurring on or before January 1, 2011 were calculated at 92.5% of the estimated royalty revenue added to the Royalty Pool, divided by the yield of the Fund, divided by the weighted average Unit price. BPI received 80% of the Additional Entitlements initially, with the balance received when the actual full year performance of the new restaurants is known with certainty. BPI receives 100% of distributions from the Additional Entitlements throughout the year. Once these new restaurants have been part of the Royalty Pool for a full year, an audit of the royalty revenues of these restaurants received from BPI is performed. At such time an adjustment is made to reconcile distributions paid to BPI and the Additional Entitlements received by BPI.

Amendment to Roll-in Mechanism

On January 2, 2011, the mechanism through which new Boston Pizza Restaurants are added to the Royalty Pool on each Adjustment Date was amended to adjust for the impact that the specified investment flow-through tax (the "**SIFT Tax**") has on the economics of such mechanism, commencing with the roll-in of new Boston Pizza Restaurants that occurred on January 1, 2012 and on each Adjustment Date thereafter (the "**Amendment**"). The Amendment adjusts the roll-in mechanism such that the addition of new Boston Pizza Restaurants to the Royalty Pool in the future will continue to be accretive to the Fund and Unitholders by reducing the net additional royalty revenue for the purpose of the calculation of Additional Entitlements by the effect of the SIFT Tax. Full particulars of the Amendment are set forth in the notice of meeting and information circular for the special meeting of Unitholders that was held on December 7, 2010, a copy of which was filed on SEDAR on November 5, 2010 and is available at www.sedar.com and www.bpincomefund.com.

Business Strategy

The success of the business of BPI, its affiliated entities and franchisees ("**Boston Pizza**") can be attributed to three simple underlying principles that are the foundation for all of our strategic decision-making – the "Three Pillars" strategy.

- **The commitment to franchisee profitability**
- **The commitment to continually enhance the Boston Pizza brand**
- **The commitment to continually improve the customer experience**

BPI realizes that its franchisees have to be profitable to succeed. To enhance profitability and to facilitate the growth of Boston Pizza, BPI aggressively enhances and promotes the Boston Pizza brand through national television and radio advertising, and national and local promotions. The costs associated with national marketing of Boston Pizza are paid for by Boston Pizza Co-op Advertising (the "**Co-op**"). Franchisees pay 2.5% of Franchise Sales into the Co-op; 76% of these funds are used to purchase television and radio media advertising, and the remaining 24% is used for production of materials and administration. Both Boston Pizza franchisees and the corporate support staff continuously find new ways to improve the customers' experience so that they will return to Boston Pizza again and again. Management is confident that this "Three Pillars" strategy will continue to focus BPI's efforts and develop new markets and continue to strengthen Boston Pizza's position as Canada's number one casual dining brand.

Adoption of International Financial Reporting Standards

The Canadian Accounting Standards Board announced in February 2008 that publicly accountable entities would be required to adopt International Financial Reporting Standards in place of Canadian

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

7 Number of restaurants in the Royalty Pool excludes restaurants that permanently closed during the applicable period and does not include any restaurants that opened during the applicable period.

generally accepted accounting principles for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. As a result, the Handbook of the Canadian Institute of Chartered Accountants (the "**CICA Handbook**") was amended to incorporate international financial reporting standards and to require publicly accountable entities to apply such standards for fiscal years beginning on or after January 1, 2011 (such standards as incorporated into the CICA Handbook, "**IFRS**"). Accordingly, BPI adopted IFRS on January 1, 2011 and the financial results disclosed in this Management's Discussion and Analysis for all periods commencing on or after January 1, 2010 have all been prepared in accordance with IFRS, including International Accounting Standard 34 – *Financial Reporting* and International Financial Reporting Standard 1 – *First-time Adoption of IFRS*. In this Management's Discussion and Analysis, the term "**Canadian GAAP**" refers to Canadian generally accepted accounting principles before BPI's adoption of IFRS.

BPI's transition to reporting its financial results in accordance with IFRS from Canadian GAAP has resulted in the Fund now consolidating the accounts of the Partnership and BPI accounting for its interest in the Partnership as a financial asset. Accordingly, BPI's consolidated statement of comprehensive income under IFRS includes distribution income on the Class B Units and Class C Units rather than the actual income and expenses of the Partnership adjusted for any non-controlling interest. The comparative financial results contained in this Management's Discussion and Analysis for periods in 2010 have been restated to conform to IFRS rather than Canadian GAAP. BPI's financial results reported for periods ending on or before December 31, 2009 have been prepared in accordance with Canadian GAAP and therefore are not directly comparable with the financial results of BPI reported in accordance with IFRS from January 1, 2010 onwards.

Readers are advised that BPI's transition to reporting its financial results in accordance with IFRS from Canadian GAAP has had no impact, nor is it expected to have any future impact, on the operations of BPI's business or the contractual obligations between BPI, the Partnership, the Fund or any fourth parties. However, it has impacted the presentation of certain key financial metrics of BPI.

Full particulars of the impact of BPI's adoption of IFRS are set forth in the Management's Discussion and Analysis for the period ended March 31, 2011, a copy of which was filed on SEDAR on May 10, 2011, and the annual consolidated financial statements and accompanying notes of BPI for the twelve month period ended December 31, 2011, a copy of which was filed on SEDAR on February 9, 2012, and are available at www.sedar.com and www.bpincomefund.com.

The following information provides additional analysis of the operations and financial position of BPI and should be read in conjunction with the consolidated financial statements and accompanying notes of BPI. The consolidated financial statements are in Canadian dollars and have been prepared in accordance with IFRS.

OPERATING RESULTS

Same Store Sales Growth ("SSSG")

SSSG, a key driver of distribution growth for individual Unitholders, is the change in gross revenues of Boston Pizza Restaurants as compared to the gross revenues for the same period in the previous year, where restaurants were open for the full period in each year. The two principal factors that affect SSSG are changes in customer traffic and changes in average guest cheque. SSSG was positive 6.4% for the Period and positive 4.9% for the Year, compared to positive 1.3% SSSG reported in the fourth quarter of 2010 and negative 1.3% for the year ended 2010. SSSG is based on gross sales, including approved national promotions and discounts, of Boston Pizza Restaurants that have been open for a minimum of 24 months. Franchise Sales, the basis upon which royalties are paid by the franchisees to BPI, exclude revenue from the sale of liquor, beer, wine and tobacco and approved national promotions and discounts. On a Franchise Sales basis, SSSG for the Period was positive 5.8% (Q4 2010 – positive 2.6%) and positive 4.9% for the Year (2010 – negative 0.7%). The increase in SSSG for the Period and Year were principally due to higher take out and delivery sales resulting from continued promotion of Boston Pizza's online ordering system and higher sales of the new chicken wing product that was launched in early 2011 through a successful national television, radio and online ad campaign. Other sales initiatives in the Period included a new sports bar menu launched in November and a "Festive Favourites" menu promotion in December.

New Store Openings, Closures and Renovations

During the Period, two new Boston Pizza Restaurants opened and no Boston Pizza Restaurants closed. A total of seven new Boston Pizza Restaurants opened during the Year and four Boston Pizza Restaurants closed during the Year, two of which were Boston Pizza quick express restaurants. Unitholders are reminded that permanent restaurant closures are deducted from new store openings in the roll-in calculation (to determine net additional royalties) for the Fund's Royalty Pool. Subsequent to December 31, 2011, one new Boston Pizza Restaurant opened. As well during the Period, four (Year – 29) Boston Pizza Restaurants were renovated. Restaurants typically close for two to three weeks to complete the renovation and experience an incremental sales increase in the year following the re-opening. There are 344 Boston Pizza Restaurants in operation as of February 8, 2012.

Seasonality

Boston Pizza Restaurants experience seasonal fluctuations in Franchise Sales, which are inherent in the full service restaurant industry in Canada. Seasonal factors such as better weather allow Boston Pizza Restaurants to open their patios and generally increase Franchise Sales in the second and third quarters compared to the first and fourth quarters. Tourism is also a seasonal factor positively impacting the same time frames.

Revenues

BPI's total revenue was $17.9 million for the Period and $71.0 million for the Year compared to $16.8 million for the fourth quarter of 2010 and $68.3 million for 2010. BPI's revenue is principally derived from royalty income from franchised Boston Pizza Restaurants, sales from corporately owned restaurants, initial franchise fees, supplier rebates and franchise renewal fees. The increases in total revenue earned by BPI during the Period and the Year compared to the same periods in 2010 were principally due to increased royalty income resulting from the improvement in SSSG compared to prior periods.

Expenses

BPI's expenses for the Period were $17.0 million compared to $16.0 million for the same period in 2010. BPI's expenses for the Year were $66.9 million compared to $64.7 million for the same period in 2010. These expenses include the Royalty payable by BPI to the Partnership (being 4% of Franchise Sales from the Boston Pizza Restaurants in the Royalty Pool), compensation and other costs associated with the services provided to franchised Boston Pizza Restaurants and the operation of the three corporately owned restaurants. The increases in expenses incurred by BPI during the Period and the Year compared to the same periods in 2010 were principally due to increased Royalty expense as a result of the improvement in SSSG compared to the prior periods.

Depreciation and Amortization, Management Fees, Amortization of Deferred Gain and Operating Profit[4]

Depreciation and amortization of intangible assets and deferred charges were $0.7 million for the Period (Q4 2010 — $0.6 million) and $2.3 million for the Year (2010 — $2.1 million) relatively unchanged for the same periods in 2010.

Management fees were $0.3 million for the Period (Q4 2010 — $0.1 million) and $1.2 million for the Year (2010 — $0.6 million). The increase for the Year was due to increased fees paid to BPI's parent company.

Amortization of the deferred gain associated with BPI's original sale of the BP Rights to the Partnership as part of the Fund's initial public offering and Additional Entitlements received by BPI for adding new Boston Pizza Restaurants into the Royalty Pool each January 1 was $0.6 million for the Period and $2.2 million for the Year, unchanged for the same periods in 2010. The deferred gain is amortized over 99 years, the term of the License and Royalty Agreement between the Partnership and BPI (the "**License and Royalty Agreement**"). The net deferred gain as at December 31, 2011 was $198.8 million (2010 — $199.8 million).

BPI's earnings before amounts paid by the Partnership to BPI on the Class B Units and Class C Units, interest paid by BPI to the Fund on the BP Loan (as defined herein), interest on long-term debt, fair value adjustment on the Class B Units and current and deferred income tax ("**Operating Profit**")[4] was $0.5 million for the Period and $2.9 million for the Year compared to $0.6 million for the fourth quarter of 2010 and $3.0 million in 2010.

Net Interest Income

BPI's net interest income during the Period was $1.6 million, comprised of $2.0 million of interest income received by BPI on the Class B Units and Class C Units of the Partnership, partially off-set by $0.4 million of interest paid by BPI to the Fund on the BP Loan. BPI's net interest income was virtually unchanged during the same period in 2010. BPI's net interest income for the Year was $4.0 million, comprised of $5.8 million of interest income received by BPI on the Class B Units and Class C Units, partially off-set by $1.8 million of interest paid by BPI to the Fund on the BP Loan (as defined herein). BPI's net interest income was relatively unchanged during the same period in 2010.

Fair Value Adjustment and Earnings Before Taxes[4]

During the Period, BPI recorded a fair value gain on the Class B Units of the Partnership of $3.3 million compared to a fair value gain of $2.9 million for the same period in 2010. During the Year, BPI recorded a fair value gain on the Class B Units of the Partnership of $0.7 million compared to a fair value gain of $2.6 million for the same period in 2010. The changes in fair value were principally due to the change in the price of Units, into which Class B Units are exchangeable.

Given the combined effects of the above-noted factors, BPI had earnings before income taxes[4] of $5.4 million for the Period and $7.7 million for the Year compared to $5.0 million for fourth quarter of 2010 and $9.4 million for 2010. The increase in earnings before taxes[4] for the Period compared to the same period in 2010 was mainly due to the increased royalty income for the Period combined with a fair value gain on BPI's Class B Units of the Partnership. The decrease in earnings before taxes[4] for the Year compared to the same period in 2010 was due to higher management fees, higher royalty expense and a smaller fair value gain on BPI's Class B Units partially offset by an increase in Royalty income earned for the Year.

Income Taxes

BPI recorded a $0.5 million current income tax expense for the Period and $1.5 million for the Year compared to a $0.1 million current income tax expense for the fourth quarter of 2010 and $2.5 million for 2010. The decrease in current income tax expense for the Year was principally due to tax being payable in connection with BPI having exchanged Class B Units for Units in the same period in 2010.

BPI recorded a deferred income tax expense of $0.8 million for the Period and $0.6 million for the Year compared to a deferred income tax expense of $1.2 million for the fourth quarter of 2010 and deferred tax recovery of $1.8 million for 2010. The decrease in deferred income tax expense during the Period was principally due to a higher fair value gain on the investment in the Partnership compared to the fair value gain for the fourth quarter of 2010. The increase in deferred income

tax expense for the Year was principally due to BPI having refundable dividend tax on hand in 2010 that was recovered in connection with BPI having paid dividends to its shareholders after selling 1,350,000 Units it received in exchange for Class B Units and there being no corresponding dividends paid during the Year.

Net Income

BPI's net income during the Period was $4.1 million compared to $3.6 million during the same period in 2010. BPI's net income for the Year was $5.6 million compared to $8.8 million during the same period in 2010.

New Restaurants Added to the Royalty Pool

Boston Pizza Restaurants Added to Royalty Pool on January 1, 2011

On January 1, 2011, six new Boston Pizza Restaurants that opened across Canada between January 1, 2010 and December 31, 2010 were added to the Royalty Pool and the six restaurants that permanently closed during 2010 were removed from the Royalty Pool. The estimated annual gross franchise revenue for the six new Boston Pizza Restaurants that opened less the revenue from the six permanent closures was $2.2 million. The calculation for the number of Additional Entitlements received by BPI is designed to be accretive to existing Unitholders as the additional Royalty revenues from the new restaurants are valued at a 7.5% discount. The estimated 4% Royalty revenue the Fund was to receive in 2011 from these additional six new restaurants, less revenue from the six permanent closures, was $0.1 million. The Royalty revenue for the purposes of calculating the Additional Entitlements, therefore, was $0.1 million or 92.5% of $0.1 million. In return for adding the Royalty revenue from these six new restaurants, less Royalty revenue from the six permanent closures, to the Royalty Pool, BPI received the right to acquire an additional 46,387 Units, representing 80% of the Additional Entitlements with the balance to be received when the actual full year performance of the new restaurants is known with certainty. The 46,387 Additional Entitlements represented 0.3% of the total outstanding Units on a fully diluted basis on January 1, 2011. 11,597 Units, representing the remaining 20% of the Additional Entitlements, were "held back" until such time as the actual performance of these new Royalty Pool restaurants for 2011 was known. BPI received an increase in monthly distributions based on 100% of the Additional Entitlements, subject to a reconciliation of the distributions paid to BPI in respect of these Additional Entitlements that occurred once the actual performance of these new Royalty Pool restaurants for 2011 was known. See "Subsequent Events" below.

Audit of Boston Pizza Restaurants Added to Royalty Pool on January 1, 2010

In January 2011, an audit of the Royalty revenues of the 17 net new restaurants that were added to the Royalty Pool on January 1, 2010 was completed. The purpose of this audit was to compare actual Royalty revenue from these 17 net new restaurants to the estimated amount of Royalty revenue the Fund expected to receive. The original Royalty revenue the Fund expected to receive was $1.0 million and the actual royalty revenue that the Fund received was slightly greater. As a result, the Partnership made a nominal payment to BPI to reconcile distributions payable on the full number of Additional Entitlements. BPI received the right to acquire only 80% of the Additional Entitlements at the Adjustment Date in 2010. Following the audit, BPI received the right to acquire 164,033 Additional Entitlements.

Subsequent Events

Boston Pizza Restaurants Added to Royalty Pool on January 1, 2012

On January 1, 2012, seven new Boston Pizza Restaurants that opened across Canada between January 1, 2011 and December 31, 2011 were added to the Royalty Pool and the four restaurants that permanently closed during 2011 were removed from the Royalty Pool. The estimated annual gross franchise revenue for the seven new Boston Pizza Restaurants that opened less the revenue from the four permanent closures was $8.3 million. The calculation for the number of Additional Entitlements received by BPI is designed to be accretive to existing Unitholders as the additional Royalty revenues from the new restaurants are valued at a 7.5% discount. The estimated 4% Royalty revenue the Fund will receive in 2012 from these additional seven new restaurants, less revenue from the four permanent closures, is $0.3 million. The pre-tax Royalty revenue for the purposes of calculating the Additional Entitlements, therefore, is $0.3 million or 92.5% of $0.3 million. The estimated effective average tax rate that the Fund will pay in the calendar year 2012 is 25%. Accordingly, the after-tax Royalty revenue for the purposes of calculating the Additional Entitlements is $0.2 million ($0.3 million x (1 – 0.25)). In return for adding the Royalty revenue from these seven new restaurants, less Royalty revenue from the four permanent closures, to the Royalty Pool, BPI received the right to acquire an additional 174,533 Units, representing 80% of the Additional Entitlements with the balance to be received when the actual full year performance of the new restaurants is known with certainty. The 174,533 Additional Entitlements represented 1.2% of the total outstanding Units on a fully diluted basis on January 1, 2012. 43,633 Units, representing the remaining 20% of the Additional Entitlements, have been "held back" until such time as the actual performance of these new Royalty Pool restaurants for 2012 is known. BPI also receives an increase in monthly distributions based on 100% of the Additional Entitlements, subject to a reconciliation of the distributions paid to BPI in respect of these Additional Entitlements that will occur once the actual performance of these new Royalty Pool restaurants for 2012 is known. Once both the actual performance of these new restaurants for 2012 and the actual effective average tax rate paid by the Fund for 2012 are known, the number of Additional Entitlements will be adjusted in 2013 to reflect the actual Royalty revenue received by the Fund in 2012 and actual effective average tax rate paid by the Fund in 2012. As of January 1, 2012, there are 343 restaurants in the Royalty Pool.

Audit of Boston Pizza Restaurants
Added to Royalty Pool on January 1, 2011

In January 2012, an audit of the royalty revenues of the six new restaurants that were added to the Royalty Pool on January 1, 2011 was completed. The purpose of this audit was to compare actual royalty revenue from these six new restaurants to the estimated amount of royalty revenue the Fund expected to receive. The original royalty revenue the Fund expected to receive from these six new restaurants less the royalty from the six permanent closures that occurred in 2010 was $0.1 million and the actual royalty revenue that the Fund received was slightly greater. As a result, the Partnership made a nominal payment to BPI to reconcile distributions payable on the full number of Additional Entitlements. BPI received the right to acquire only 80% of the Additional Entitlements at the Adjustment Date in 2011. Following the audit, BPI received the right to acquire 61,481 Additional Entitlements.

Units Outstanding

The table below sets forth a summary of the outstanding Units. BPI owns 100% of the Class B Units, 100% of the Class C Units and 1% of the ordinary general partner units of the Partnership. The Class B Units are exchangeable for Units. References to "BPI Additional Entitlements" in the table below are the number of Units into which the Class B Units held by BPI are exchangeable.

	Issued & Outstanding Units & Additional Entitlements	**Issued & Outstanding Units, Additional Entitlements & Holdback of Additional Entitlements**
Issued and Outstanding Units as of December 31, 2011	14,570,644	14,570,644
BPI Additional Entitlements - Outstanding as of December 31, 2011	2,723,861	2,723,861
BPI Additional Entitlements - Holdback as of December 31, 2011	N/A	11,597[1]
Number of Fully Diluted Units as of **December 31, 2011**	17,294,505	17,306,102
BPI Total Ownership as of December 31, 2011	15.7%	15.8%
Issued and Outstanding Units as of February 8, 2012	14,570,644	14,570,644
BPI Additional Entitlements — Outstanding as of December 31, 2011	2,723,861	2,723,861
BPI Additional Entitlements — Issued in respect of 2011 after the audit	61,481	61,481[2]
BPI Additional Entitlements — Issued & Outstanding as of January 1, 2012 (3 net new Restaurants added to Royalty Pool)	174,533	174,533[3]
BPI Additional Entitlements — Holdback as of January 1, 2012 (3 net new Restaurants added to Royalty Pool)	N/A	43,633[4]
Number of Fully Diluted Units as of **February 8, 2012**	17,530,519	17,574,152
BPI Total Ownership as of **February 8, 2012**	16.9%	17.1%

(1) Additional Entitlements from the 0 net new restaurants added to Royalty Pool on January 1, 2011 determined in 2012, prior to the audit of the 0 net new restaurants.
(2) Additional Entitlements from the 0 net new restaurants added to Royalty Pool on January 1, 2011 determined in 2012, once audited results of the 0 net new restaurants were known.
(3) Issued effective January 1, 2012.
(4) Holdback of Additional Entitlements from 3 net new restaurants added to Royalty Pool on January 1, 2012. Actual number of Additional Entitlements will be determined in early 2013, effective January 1, 2012, once audited results of the 3 net new restaurants are known.

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 that BPI would be entitled to receive if it exchanged all of its Class B Units for Units. As of February 8, 2012, BPI was entitled to 2,959,875 votes, representing 16.9% of the aggregate votes held by holders of Units and Special Voting Units (collectively, "**Voting Unitholders**").

The number of Units that BPI is entitled to receive upon the exchange of its Class B Units and the number of votes that BPI is entitled to in respect of its Special Voting Units is adjusted annually to reflect any additional Boston Pizza Restaurants that were added to the Royalty Pool.

LIQUIDITY & CAPITAL RESOURCES

BPI is an entirely franchised business except for three corporate restaurants. For 2012, BPI has forecasted capital requirements of approximately $2.4 million, which consist mainly of the development of software applications and the purchase of computer equipment and a corporate store renovation. BPI is confident it has sufficient cash to cover expenditures, capital requirements, commitments and repayments for 2012.

Cash Flow

Cash Flow from Operating Activities

During the Period, operating activities generated $1.6 million of cash compared to $0.8 million of cash used during the same period in 2010. During the Year, operating activities generated $0.1 million of cash compared to $0.5 million of cash used during the same period in 2010. The principal reasons for the increase in cash generated during the Period and for the increase in cash used during the Year were mainly due to timing of cash receipts from accounts receivable and cash payments for accounts payable.

Cash Flow from Financing Activities

During the Period, financing activities used $1.4 million of cash compared to $1.1 million used during the same period in 2010. The increase in the cash used in the Period compared to the same period in 2010 was mainly due to the repayment of the line of credit. During the Year, financing activities used $5.5 million of cash compared to $18.0 million used during the same period in 2010. The decrease in cash used during the Year compared to the same period in 2010 was due to BPI's dividend payment of $11.9 million in 2010 with no such corresponding transaction in 2011.

Cash Flow from Investing Activities

During the Period, investing activities generated $0.7 million of cash compared to $0.7 million of cash generated during the same period in 2010. During the Year, investing activities generated $3.7 million of cash compared to $19.3 million of cash generated during the same period in 2010. Cash generated from investing activities represents distributions received by BPI on the Class B Units and Class C Units, together with the proceeds of any sale of Units by BPI, partially offset by capital and intangible purchases. The decline in cash generated from investing activities during the Year compared to the same period in 2010 was principally due to BPI receiving $15.1 million in March 2010 from the sale of Units with no corresponding transaction in 2011.

Operating Credit Facility

BPI has an available line of credit with a Canadian chartered bank in the amount of $7.5 million with a 180 day term to cover BPI's day-to-day operating requirements through normal seasonal variations in the business if needed. The line of credit bears interest at the bank's prime rate and is due upon demand. As at December 31, 2011, the line of credit was not drawn. BPI was in compliance with all of the financial covenants and financial condition tests governing the line of credit as of the end of the Period.

Long-Term Debt Obligations

BP Loan

BPI owes the Fund $24.0 million pursuant to a credit agreement that was established with the Fund as part of the Fund's initial public offering of Units that occurred on July 17, 2002 (the "**BP Loan**"). Interest accrues on all amounts outstanding under the BP Loan at the rate of 7.5% per annum and is payable in arrears by BPI to the Fund on the first day of each month. The principal amount, together with all accrued and unpaid interest, outstanding under the BP Loan will become due and payable on July 17, 2042. The BP Loan is secured by all present and after acquired property of BPI except: (i) Units held by BPI; and (ii) equity and debt investments of BPI in affiliates that operate pizza / pasta restaurants in the USA or Mexico and do not operate or franchise Boston Pizza Restaurants in Canada.

Other Long-Term Debt

BPI's long-term debt obligations also include equipment financing that is secured by specific assets of BPI. These term loans are secured by a general assignment of book debts and certain guarantees from BPI, shareholders and related companies.

Principal repayments on BPI's long-term debt and capital lease obligations for the next five years and thereafter ending December 31 are as follows:

Long-Term Debt and Capital Lease Obligations:

(in thousands of dollars)		
2012	$	446
2013		289
2014		25
2015		61
2016 and thereafter		—
	$	821

Stock Option Plan

On May 21, 2008, BPI established a stock option plan pursuant to which BPI was able, from time to time, to grant options to acquire up to 15,600,000 Class B Common shares of BPI ("**Class B Shares**") to directors, officers and employees of BPI or its subsidiaries. BPI initially granted options to acquire 5,840,000 Class B Shares to BPI's officers and senior employees (the "**Granted Options**"). During June 2011, all holders of Granted Options surrendered all vested and unvested Granted Options to BPI for cancellation, all Granted Options were cancelled and BPI's stock option plan was terminated.

The impact to earnings for the Period and Year as a result of the surrender and cancellation of all Granted Options was nil (Q4 2010 – gain of $0.1 million) and gain of $0.3 million (2010 – gain of $0.3 million), respectively.

Related Party Transactions

The Fund is considered to be a related party of BPI by virtue of common officers and directors in BPI and the managing general partner of the Partnership. The Fund has engaged the Partnership, its administrator to provide certain administrative services on behalf of the Fund. In turn, certain of the administrative services are performed by BPI as a general partner of the Partnership. Under the terms of the Partnership Agreement governing the Partnership, BPI is entitled to be reimbursed for certain out-of-pocket expenses incurred in performing these services. The total amount paid to BPI in respect of these services for the Period was $0.1 million (Q4 2010 – $0.1 million) and for the Year was $0.3 million (2010 – $0.3 million). BPI paid interest to the Fund of $0.4 million on the BP Loan for the Period (Q4 2010 – $0.4 million) and $1.8 million for the Year (2010 – $1.8 million).

BPI earned revenues from a company under common control of $0.9 million for the Period (Q4 2010 – $1.2 million) and $3.3 million for the Year (2010 – $1.8 million). BPI paid management fees to companies under common control of $0.5 million for the Period (Q4 2010 – $0.6 million) and $2.0 million for the Year (2010 – $2.6 million). Management fees were also paid to BPI's parent company for services rendered of $0.3 million for the Period (Q4 2010 – $0.2 million) and $1.2 million for the Year (2010 – $0.6 million). At the end of the Period, BPI had accounts payable due to its parent company of $0.1 million (December 31, 2010 – $0.1 million). At the end of the Period, BPI had accounts receivable from an associated company of $1.0 million (December 31, 2010 – $0.7 million). At the end of the Period, BPI owed its parent company $4.2 million under a promissory note (December 31, 2010 – $2.4 million).

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

During the Period, there was no change in BPI's internal control over financial reporting that materially affected, or is reasonably likely to materially affect, BPI's internal controls over financial reporting.

CRITICAL ACCOUNTING ESTIMATES

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

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

Deferred Income Tax Expense

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

The determination of deferred income taxes requires the use of judgment and estimates. If certain judgments or estimates prove to be inaccurate, or if certain tax rates or laws change, BPI's results of operations and financial position could be materially impacted.

Investment in the Partnership

BPI's investment in the Partnership is principally comprised of the Class B Units and Class C Units, which are financial assets. The value of new Boston Pizza Restaurants added into the Royalty Pool is also recognized within BPI's investment in the Partnership. The value of new Boston Pizza Restaurants added to the Royalty Pool is determined on a formula basis that is designed to estimate the present value of the cash flows due to the Fund as a result of the new Boston Pizza Restaurants being added to the Royalty Pool. As such, the calculation is dependant on a number of variables including the estimated long-term sales of the new Boston Pizza Restaurants and a discount rate. The value assigned to the new Boston Pizza Restaurants could differ from actual results.

Class B Units Fair Value Adjustment

BPI has elected under IFRS to measure the Class B Units as a financial asset at fair value. This requires that BPI use a valuation technique to determine the fair value of the Class B Units at the applicable reporting dates. BPI estimates the fair value of the Class B Units using the Fund's market capitalization at the end of the applicable period and allocating BPI's entitlement based upon its percentage ownership of the Fund on a fully-diluted basis. As at December 31, 2011, the Fund's closing price was $14.19 per Unit resulting in a market capitalization of $245.6 million. BPI's 15.8% ownership of the Fund (on a fully-diluted basis) was calculated to be $38.8 million. This valuation technique may not represent the actual value of the financial asset should such Class B Units be extinguished.

ADOPTION OF NEW ACCOUNTING POLICIES

International Financial Reporting Standards

The Canadian Accounting Standards Board announced in February 2008 that publicly accountable entities would be required to adopt IFRS in place of Canadian GAAP for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011 (the "**Adoption Date**"). As noted previously, BPI adopted IFRS effective the Adoption Date, however, has done so effective January 1, 2010 (the "**Transition Date**") in order to present comparative financial information under IFRS for the fiscal year 2010. Listed below are the various accounting policies that BPI was required to adopt, and did adopt, on the Adoption Date effective the Transition Date in connection with transitioning from Canadian GAAP to IFRS:

IAS 27 Consolidated and Separate Financial Statements

This standard applies to the preparation and presentation of consolidated financial statements for a group of entities under control of a parent entity and, in accordance with IFRS 1 *First Time Adoption of IFRS* ("**IFRS 1**"), BPI has applied this standard prospectively effective the Transition Date. Under Canadian GAAP, the accounts of the Partnership were consolidated by BPI as a result of Accounting Guideline 15 *Consolidation of Variable Interest Entities*, however, since the Fund controls the Partnership, the Fund now consolidates the accounts of the Partnership in its financial statements. BPI's consolidated statements of earnings and comprehensive income will no longer include the actual income and expenses of Partnership adjusted for minority interest, if any, rather BPI will include distributions received from, and royalty payments made to, the Partnership. The adoption of this accounting policy has had no impact on BPI's cash flows or business.

IFRS 2 Share-based payment

The purpose of this standard is to specify the financial reporting by an entity when it undertakes a share-based payment transaction. In particular, it requires an entity to reflect in its profit or loss and financial position the effects of share-based payment transactions, including expenses associated with transactions in which share options are granted to employees. In accordance with IFRS 1, BPI has applied this standard prospectively effective the Transition Date. BPI's stock option plan is a compound financial instrument, in which the fair value of the stock option is the sum of the fair values of the debt and equity components. The fair value of the debt component is recognized as a liability and the fair value of the equity component, if any, is recognized in equity. Changes in the fair value of the liability component are recognized in profit and loss. Under BPI's stock option plan, settling the stock option by cash or by equity are mutually exclusive alternatives, meaning the employee does surrender the right to receive cash on those stock options that the employee exercises for shares in BPI and does not receive any discount for choosing to receive shares. As a result, the equity component has had a nil fair value and the entire fair value of the stock options is that of the debt component. The fair value of the debt component is measured using a Black-Scholes valuation model. The adoption of this accounting policy has had no impact on BPI's cash flows or business.

IAS 39 Financial Instruments: Recognition and Measurement

The purpose of this standard is to establish principles for recognizing and measuring financial assets and liabilities and, in accordance with IFRS 1, BPI has applied this standard prospectively effective the Transition Date. Under IFRS, BPI's Class B Units and Class C Units are classified as a financial asset. The Class C Units are measured at amortized cost with its embedded derivative being measured at a fair value of nil. As a result of the embedded derivative feature in the Class B Units, this standard allows for the Class B Units be reported at fair value. The result of this standard is that on each reporting date, BPI must estimate the fair value of the Class B Units using a valuation technique. The change in fair value from one period to another is reported on the statement of comprehensive income as a fair value adjustment. BPI had an option to account for the Class B Units at amortized cost; however, BPI chose to use fair value accounting to mirror the Fund's Class B Unit liability. The requirement to record fair value adjustments though BPI's statement of comprehensive income may give rise to material variations in BPI's net earnings. Such adjustments have had no impact on BPI's cash flows or business.

IAS 38 Intangible Assets

The purpose of this standard is to prescribe the accounting treatment for intangible assets and, in accordance with IFRS 1, BPI has applied this standard prospectively effective the Transition Date. This standard applies to the accounting for transactions under the normal course issuer bids of the Fund ("**NCIBs**"). Under Canadian GAAP, an intangible asset was recognized for BPI's proportionate increase in ownership of the Partnership as a result of NCIBs. Under IFRS, this intangible asset does not exist as BPI's Class B Units are fair valued at each reporting date, therefore any increase in BPI's percentage ownership of the Fund as a result of NCIBs is reflected in the fair value of the Class B Units. Under IFRS, the value of the remaining intangible assets were tested for indications of impairment on the Transition Date and, similar to Canadian GAAP, at least annually thereafter. If an indicator of impairment exists, then an analysis must determine if the asset is indeed impaired, and if so, the value of the asset is written down to its reduced value with the loss expensed in the statement of profit and loss. The adoption of this accounting policy has had no impact on BPI's cash flows or business.

IAS 12 Income Taxes

This standard governs the accounting treatment for current and deferred income taxes and, in accordance with IFRS 1, BPI has applied this standard prospectively effective the Transition Date. The adoption of this standard has had no significant impact on BPI's business.

IAS 18 Revenue

This standard governs the treatment of BPI's revenue. BPI's key source of revenue is the royalty revenue earned from the franchisees' use of the BP Rights. IAS 18 states that revenue arising from the use by others of entity assets yielding royalties shall be recognized on an accrual basis in accordance with the relevant agreement. In accordance with IFRS 1, BPI has applied this standard prospectively effective the Transition Date. This standard as applied to BPI is substantially the same as Canadian GAAP and has had no impact on BPI's financial statements or its business.

OUTLOOK

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

The Canadian Restaurant and Foodservices Association has forecast sales growth of 3.0% for the Canadian full-service restaurant sector in 2012. BPI's management believes that Boston Pizza is well positioned to continue outperforming this growth rate by attracting a wide variety of guests into the restaurant, sports bar and take-out/delivery parts of each location, offering a compelling value proposition to our guests and continuing to open new Boston Pizza locations across Canada.

The two principal factors that affect SSSG are changes in customer traffic and changes in average guest cheque. BPI's strategies to drive higher guest traffic include a larger marketing budget versus the previous year along with a revised calendar of national and local store promotions. Increased average cheque levels will be achieved through a combination of menu design and annual re-pricing. In addition, BPI's franchise agreement requires that each Boston Pizza restaurant undergo a complete store renovation every seven years and four locations have already completed renovations in 2012 with many more underway or planned for later this year. Restaurants typically close for two to three weeks to complete the renovation and experience an incremental sales increase in the year following the re-opening.

Boston Pizza remains well positioned for future expansion as evidenced by the seven new Boston Pizza restaurants that opened in 2011. Another new Boston Pizza restaurant has opened to date in 2012 and one more is currently under construction and scheduled to open in March 2012. BPI's management believe that Boston Pizza will continue to strengthen its position as the number one casual dining brand in Canada by pursuing further restaurant development opportunities across the country.

RISKS & UNCERTAINTIES

Risks Related to the Casual Dining Restaurant Industry

The Restaurant Industry and its Competitive Nature

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

Growth of the Royalty

The growth of the royalty and other amounts payable by BPI to the Partnership under the License and Royalty Agreement between the Partnership and BPI for the license to use the BP Rights in Canada for 99 years, commencing on July 17, 2002 (the "**Royalty**") is dependent upon the ability of BPI to (i) maintain and grow its franchised restaurants, (ii) locate new restaurant sites in prime locations, and (iii) obtain qualified operators to become Boston Pizza franchisees. BPI faces competition for restaurant locations and franchisees from its competitors and from franchisors of other businesses. BPI's inability to successfully obtain qualified franchisees could adversely affect its business development. The opening and success of a Boston Pizza Restaurant is dependent on a number of factors, including: availability of suitable sites; negotiations of acceptable lease or purchase terms for new locations; availability, training and retention of management and other employees necessary to staff new Boston Pizza Restaurants; adequately supervising construction; securing suitable financing; and other factors, some of which are beyond the control of BPI. Boston

Pizza franchisees may not have all the business abilities or access to financial resources necessary to open a Boston Pizza Restaurant or to successfully develop or operate a Boston Pizza Restaurant in their franchise areas in a manner consistent with BPI's standards.

BPI provides training and support to Boston Pizza franchisees, but the quality of franchised operations may be diminished by any number of factors beyond BPI's control. Consequently, Boston Pizza franchisees may not successfully operate restaurants in a manner consistent with BPI's standards and requirements, or may not hire and train qualified managers and other restaurant personnel. If they do not, the image and reputation of BPI may suffer, and gross revenue and results of operations of the Boston Pizza Restaurants could decline.

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

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

Revenue from Franchisees

The ability of BPI to pay the Royalty is dependent, in part, on Boston Pizza franchisees' ability to generate revenue and to pay royalties to BPI. Failure of BPI to achieve adequate levels of collection from Boston Pizza franchisees could have a serious effect on the ability of BPI to pay the Royalty or interest on the BP Loan.

Intellectual Property

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

Government Regulation

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

Regulations Governing Alcoholic Beverages

The ability of Boston Pizza Restaurants to serve alcoholic beverages is an important factor in attracting customers. Alcoholic beverage control regulations require each Boston Pizza Restaurant to apply to provincial or municipal authorities, for a license or permit to sell alcoholic beverages on the premises and, in certain locations, to provide service for extended hours and on Sundays.

Typically, licenses must be renewed annually and may be revoked or suspended for cause at any time. Alcoholic beverage control regulations relate to numerous aspects of daily operations of Boston Pizza Restaurants, including minimum age of patrons and employees, hours of operation, advertising, wholesale purchasing, inventory control, and handling, storage and dispensing of alcoholic beverages.

The failure of BPI or a Boston Pizza franchisee to retain a license to serve liquor for a Boston Pizza Restaurant would adversely affect that restaurant's operations. BPI or a Boston Pizza franchisee may be subject to legislation in certain provinces, which may provide a person injured by an intoxicated person the right to recover damages from an establishment that wrongfully served alcoholic beverages to the intoxicated person. BPI carries host liquor liability coverage as part of its existing comprehensive general liability insurance. There is no assurance that such insurance coverage will be adequate.

Harmonized Sales Tax for British Columbia

Effective July 1, 2010, the British Columbia Ministry of Finance harmonized the federal Goods and Services Tax and the provincial sales tax ("**HST**"). HST imposes a 12% tax on restaurant services in British Columbia. Prior to July 1, 2010, restaurant services in British Columbia were exempt from provincial sales tax and were only subject to the 5% Goods and Services Tax. British Columbia will reinstate the 5% Goods and Services Tax and a provincial sales tax following the referendum decision by British Columbians on August 26, 2011 to extinguish the HST in British Columbia. This procedure will take a minimum 18 months and it is unknown to what extent restaurant services will be

subject to the reinstated provincial sales tax. Meanwhile, the current HST system may continue to adversely affect guest traffic and sales in Boston Pizza Restaurants located in British Columbia and may result in a decrease of royalties received by BPI from Boston Pizza franchisees.

Laws Concerning Employees

The operations of Boston Pizza Restaurants are also subject to minimum wage laws governing such matters as working conditions, overtime and tip credits. Significant numbers of Boston Pizza Restaurants' food service and preparation personnel are paid at rates related to the minimum wage and, accordingly, further increases in the minimum wage could increase Boston Pizza Restaurants' labour costs.

Potential Litigation and Other Complaints

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

For a more detailed list of risks and uncertainties related to BPI and the Fund, please refer to the Fund's Management's Discussion and Analysis for the three and twelve month periods ended December 31, 2011 which is available on SEDAR at www.sedar.com.

ADDITIONAL INFORMATION

Additional Information relating to BPI, the Partnership and the Fund, including the annual information form of the Fund, is available on SEDAR at www.sedar.com or on the Fund's website at www.bpincomefund.com.

NOTE REGARDING FORWARD-LOOKING INFORMATION

Certain information in this Management's Discussion and Analysis may constitute "forward-looking information" that involves known and unknown risks, uncertainties, future expectations and other factors which may cause the actual results, performance or achievements of BPI, the Fund, Boston Pizza Holdings Trust, the Partnership, Boston Pizza Holdings Limited Partnership, Boston Pizza Holdings GP Inc., Boston Pizza GP Inc., Boston Pizza Restaurants, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking information. When used in this Management's Discussion and Analysis, forward-looking information may include words such as "anticipate", "estimate", "may", "will", "expect", "believe", "plan" and other similar terminology. This information reflects current expectations regarding future events and operating performance and speaks only as of the date of this Management's Discussion and Analysis.

Forward-looking information in this Management's Discussion and Analysis includes, but is not limited to, such things as:

- the future expansion of Boston Pizza Restaurants;
- Boston Pizza will continue to strengthen its position as the number one casual dining brand in Canada;
- estimates of the number of restaurant openings and estimates related to renovations (number of renovations, timeline of renovations and increased revenues following renovations); and
- Boston Pizza is well positioned to outperform the Canadian Restaurant and Foodservices Association's forecasted sales growth rate of the full service restaurant sector in 2012.

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

- absence of changes in law;
- protection of BP Rights;
- pace of commercial real estate development;
- franchisees' access to financing;
- franchisees' duly paying franchise fees and other amounts;
- there will be no closures of Boston Pizza Restaurants that materially affect the amount of Royalty paid by BPI to the Partnership;
- speed of permitting;
- future results being similar to historical results; and
- expectations related to future general economic conditions.

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

- competition;
- changes in demographic trends;
- changes in consumer preferences and discretionary spending patterns;
- changes in national and local business and economic conditions;
- legislation and government regulation;
- cash distributions are not guaranteed;
- accounting policies and practices;
- the impact of new or increased or harmonization of sales taxes upon gross sales; and
- the results of operations and financial conditions of BPI and the Fund.

The foregoing list of factors is not exhaustive and should be considered in conjunction with the risks and uncertainties set out above in "Risks & Uncertainties".

This Management's Discussion and Analysis discusses some of the factors that could cause actual results to differ materially from those expressed in or underlying such forward-looking information. Forward-looking information is provided as of the date hereof and, except as required by law, we assume no obligation to update or revise forward-looking information to reflect new events or circumstances.

Independent Auditors' Report

To the Shareholders

We have audited the accompanying consolidated financial statements of Boston Pizza International Inc. ("the Entity") which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at as at December 31, 2011, December 31, 2010 and January 1, 2010, and its consolidated results of operations and its consolidated cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants
February 8, 2012
Vancouver, Canada

Consolidated Statements of Financial Position

(in thousands of Canadian dollars)

	December 31 2011	December 31 2010	January 1 2010
Assets			
Current assets			
Cash and cash equivalents	$ 1,365	$ 3,153	$ 2,379
Accounts receivable (note 6)	10,393	9,575	9,471
Income tax receivable	—	—	299
Prepaid expenses and other current assets	1,239	861	898
Advertising fund restricted assets (note 3(m))	14,778	13,104	11,327
Distributions receivable from Boston Pizza Royalties Limited Partnership	564	490	531
	28,339	27,183	24,905
Long-term receivables (note 6)	20,126	20,255	19,466
Long-term investments	75	75	75
Investment in Boston Pizza Royalties Limited Partnership (note 7)	62,801	60,848	67,256
Property, plant & equipment (note 8)	4,293	4,491	5,368
Intangible assets (note 9)	3,457	3,384	3,211
Deferred income taxes (note 15)	35,780	36,365	34,531
Total assets	$ 154,871	$ 152,601	$ 154,812
Liabilities and Shareholders' Deficiency			
Current liabilities:			
Accounts payable and accrued liabilities	$ 8,131	$ 8,885	$ 8,035
Income tax payable	833	774	—
Deferred revenue	1,135	918	1,444
Current portion of long-term debt (note 11)	447	438	1,615
Promissory note payable (note 12)	4,220	2,420	3,809
Advertising fund restricted liabilities (note 3(m))	14,778	13,104	11,327
	29,544	26,539	26,230
Long-term debt (note 11)	374	709	76
Deferred revenue	1,876	2,789	3,714
Loan from Boston Pizza Royalties Income Fund (note 12)	24,000	24,000	24,000
Stock option liability (note 13)	—	348	659
Other long-term liabilities	1,525	241	588
Deferred gain (note 14)	198,788	199,786	195,971
Shareholders' deficiency:			
Deficit	(101,236)	(101,811)	(96,426)
Organization and nature of operations (note 1)			
Subsequent events (note 21)			
Total liabilities and shareholders' deficiency	$ 154,871	$ 152,601	$ 154,812

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

Approved on behalf of the Board:

George Melville, Director

James Treliving, Director

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2011 and 2010
(in thousands of Canadian dollars)

	2011	2010
Revenue		
Franchise, restaurant and other revenue	$ 71,050	$ 68,278
Royalty expense	27,973	26,550
Restaurant operating costs	7,389	7,296
Compensation expense	18,647	18,113
Other expenses (note 17)	12,858	12,765
	66,867	64,724
Earnings before undernoted	4,183	3,554
Depreciation and amortization	2,277	2,134
Management fee (note 19)	1,178	588
Amortization of deferred gain (note 14)	(2,220)	(2,207)
	1,235	515
Operating profit	2,948	3,039
Interest income from Boston Pizza Royalties Limited Partnership	5,814	5,639
Interest on loan from Boston Pizza Royalties Income Fund (note 19)	(1,800)	(1,800)
Interest on long-term debt	(20)	(55)
Net interest income	3,994	3,784
Fair value gain on Investment in Boston Pizza Royalties Limited Partnership (note 7)	731	2,609
Profit before income tax	7,673	9,432
Current income tax expense (note 15)	1,513	2,481
Deferred income tax expense (recovery) (note 15)	585	(1,834)
Net income and comprehensive income for the period	$ 5,575	$ 8,785
Basic and diluted earnings per share	$ 0.05	$ 0.08

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

Consolidated Statements of Changes in Equity (Deficiency)

(in thousands of Canadian dollars)

	Share Capital	Deficit	Total Deficiency
Balance, as at January 1, 2010	$ —	$ (96,426)	$ (96,426)
Net income and comprehensive income for the period	—	8,785	8,785
Dividends declared	—	(14,170)	(14,170)
Balance, as at December 31, 2010	$ —	$ (101,811)	$ (101,811)
Balance, as at January 1, 2011	$ —	$ (101,811)	$ (101,811)
Net income and comprehensive income for the period	—	5,575	5,575
Dividends declared	—	(5,000)	(5,000)
Balance, as at December 31, 2011	$ —	$ (101,236)	$ (101,236)

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

Consolidated Statements of Cash Flows

For the years ended December 31, 2011 and 2010
(in thousands of Canadian dollars)

	2011	2010
Cash and cash equivalents provided by (used in):		
Operating activities		
Net income and comprehensive income for the period	$ 5,575	$ 8,785
Adjustments for:		
Depreciation and amortization	2,277	2,134
Current income tax expense	1,513	2,481
Deferred income tax expense (recovery)	585	(1,834)
Amortization of deferred gain	(2,220)	(2,207)
Fair value gain on Investment in Boston Pizza Royalties Limited Partnership	(731)	(2,609)
Fair value gain on Stock Option liability	(348)	(312)
Interest income from Boston Pizza Royalties Limited Partnership	(5,814)	(5,639)
Interest on loan from Boston Pizza Royalties Limited Partnership	1,800	1,800
Interest on long-term debt	20	55
Change in non-cash operating items (note 20 (a))	(1,127)	(1,698)
Income tax paid	(1,474)	(3,419)
Income tax received	20	2,011
Net cash generated (used) in operating activities	76	(452)
Financing activities		
Repayment of long-term debt	(523)	(616)
Payment of promissory note	(3,200)	(3,702)
Payment of dividends	—	(11,857)
Interest paid	(1,820)	(1,855)
Net cash used in financing activities	(5,543)	(18,030)
Investing activities		
Sale of Fund Units, net of transaction costs	—	15,039
Interest received from Investment in Boston Pizza Royalties Limited Partnership	5,740	5,680
Purchase of property, plant & equipment, net	(928)	(352)
Purchase of intangible assets, net	(1,133)	(1,111)
Net cash generated from investing activities	3,679	19,256
(Decrease) increase in cash and cash equivalents	(1,788)	774
Cash and cash equivalents, beginning of period	3,153	2,379
Cash and cash equivalents, end of period	$ 1,365	$ 3,153

Supplemental cash flow information (note 20(b))

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

1. Organization and nature of operations:

Boston Pizza International Inc. (the "**Company**" or "**BPI**") was incorporated on May 26, 1982 under the laws of British Columbia and continued under the Canada Business Corporations Act on August 26, 2002. Its principal business activity is the operation and franchising of Boston Pizza restaurants in Canada. The principal business office is located at 5500 Parkwood Way, Richmond, BC.

2. Basis of preparation and adoption of IFRS:

(a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the IASB. These are the Company's first annual consolidated financial statements prepared in accordance with IFRS and as a result, IFRS 1, First Time Adoption of International Financial Reporting Standards has been applied. In these financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

Subject to certain transition elections and exceptions disclosed in note 4, the Company has consistently applied the accounting policies used in the preparation of its opening IFRS statement of financial position at January 1, 2010 throughout all periods presented, as if these policies had always been in effect. Note 4 discloses the impact of the transition to IFRS on the Company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company's consolidated financial statements for the year ended December 31, 2010 prepared under Canadian GAAP.

These consolidated financial statements were approved by the Directors for issue on February 8, 2012.

(b) Functional and presentation currency:

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

(c) Use of estimates and judgments:

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Significant areas requiring the use of management estimates are as follows:

Deferred Income Tax Expense

The determination of deferred income taxes requires the use of judgment and estimates in determining the timing when taxable temporary differences will reverse and the appropriate tax rates to be applied. If certain judgments or estimates prove to be inaccurate, or if certain tax rates or laws change, BPI's results of operations and financial position could be materially impacted.

Investment in Boston Pizza Royalties Limited Partnership ("the Partnership")

The investment in the Partnership is principally comprised of the Class B Units and Class C Units. The value of additional Boston Pizza restaurants rolled into the Royalty Pool is also recognized within the Company's investment in the Partnership through the entitlement of additional Class B Units. The value of the additional Class B Units entitled as a result of adding new Boston Pizza restaurants to the Royalty Pool is determined on a formula basis that is designed to estimate the present value of the cash flows due to the Fund as a result of the new Boston Pizza restaurants being added to the Royalty Pool. As such, the calculation is dependent on a number of variables including the estimated long-term sales of the new Boston Pizza restaurants and a discount rate. The value of the additional Class B Units entitled as a result of adding new Boston Pizza restaurants to the Royalty Pool could differ from actual results.

Class B Units Fair Value Adjustment

The Company has elected under IFRS to measure the Class B Units as a financial asset at fair value through profit and loss. The fair value of the Class B Units asset for the Company mirrors the fair value of the Class B Units liability recorded by Boston Pizza Royalties Income Fund ('**the Fund**") for any particular period. The Class B Units are exchangeable into Fund Units, and thus, it is estimated that their fair values approximate each other. The Company estimates the fair value of the Class B Units using the Fund's market capitalization at the end of the applicable period and allocates BPI's entitlement based upon its percentage ownership of the Fund on a fully-diluted basis. As at December 31, 2011, the Fund Units closing price was $14.19 per Unit resulting in a market capitalization of $245.6 million. The Company's 15.8% ownership of the Fund (on a fully-diluted basis) was calculated to be $38.8 million. This valuation technique may not represent the actual value of the financial asset should such Class B Units be exchanged.

3. Significant accounting policies:

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

(a) Basis of measurement:

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

- Investment in Boston Pizza Royalties Limited Partnership relating to the Class B Units (note 7)
- Embedded derivative of the Investment in Boston Pizza Royalties Limited Partnership relating to the Class C Units (note 7)
- Stock Option Liability (note 13)

(b) Consolidation:

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

Boston Pizza International Inc. and subsidiaries:	
Lansdowne Holdings Ltd.	100.0%
Winston Churchill Pizza Ltd.	100.0%
Laval Corporate Training Centre Inc.	100.0%

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

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

(c) Investment in Boston Pizza Royalties Limited Partnership

The investment in the Partnership is principally comprised of Class B Units and Class C Units. The Class B Units are accounted as a financial asset which is measured each reporting date at fair value. The Class C Units are accounted as a financial asset at amortized cost with its embedded derivative being measured at a fair value of nil. BPI does not control the Partnership. The statement of comprehensive income includes distribution revenue as earned, and the impact of the fair valuation. The fair value of the Class B Units is determined by calculating the Company's share (additional entitlements including holdback) of Boston Pizza Royalties Income Fund as determined by the Fund's closing market price on the reporting date.

The Partnership was established to hold the trademarks and trade names used in connection with the operation of Boston Pizza restaurants in Canada (collectively, the "**BP Rights**"). The Partnership and the Company also entered into a lease and royalty agreement to allow the Company the use of the BP Rights for a term of 99 years, for which the Company pays the Partnership 4% of the Franchise Revenues (as defined) of certain restaurants located in Canada (the "**Royalty Pool**").

(d) Cash and cash equivalents:

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

(e) Property, plant and equipment:

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

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

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

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

(f) Depreciation and amortization:

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

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

Assets	Basis	Rate
Office furniture and equipment	Declining balance	10 - 50%
Office furniture and equipment under capital lease	Straight-line at various rates	up to 7 years
Leasehold improvements	Straight-line	shorter of term of the lease or useful life

The Company has identified an immaterial adjustment necessary to correct cumulative depreciation recorded for a leasehold improvement at a Company owned restaurant. The Company has adjusted the Canadian GAAP opening retained earnings as at January 1, 2010 as well as the property, plant & equipment balances and depreciation expense for all of the periods presented in these financial statements in order to make this adjustment. The correction of these balances did not have any material impact on the Company's financial statements for current or prior periods.

(g) Intangible assets:

Intangible assets include computer software costs which are amortized on a declining balance basis at a rate of 30% per year as well as territory agreements which are amortized over the life of the agreement. Amortization of intangible assets is charged to depreciation and amortization on the statement of comprehensive income.

(h) Revenue recognition and deferred revenue:

(i) Franchise revenues:

Monthly franchise fee:

Monthly franchise fees are recorded as they are earned.

Franchise fee deposits:

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

(ii) Franchise fee deposits:

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

(i) Earnings per share:

The Company presents basic and diluted earnings per share (EPS) data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares, which comprise stock options granted to employees.

(j) Income taxes:

Income tax comprises current and deferred tax. Income tax is recognized in the statement of comprehensive income.

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

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

Deferred income tax is primarily provided on temporary differences arising on the investment in the Partnership, the deferred gain, subsequent additional entitlements and unit sales.

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

(k) Deferred gain:

The gain realized on the sale of the BP Rights is being deferred and amortized over the 99 year term of the license and royalty agreement (note 14). Amortization of the gain on BP Rights is charged to amortization of the deferred gain on the statement of comprehensive income.

(l) Gift cards:

The Company has a Gift Card program which allows customers to prepay for future purchases at participating Boston Pizza Restaurants by reloading a dollar value onto their gift card through cash or credit card, when and as needed.

The purpose of the gift card program is to expand the Boston Pizza brand through increased exposure, as well as to increase Franchise Sales. The restricted cash related to the gift cards recorded in Advertising Fund restricted assets represents the prepaid amounts not yet redeemed by customers. These cash balances as well as the outstanding customer obligations for these gift cards are recorded as Advertising Fund restricted assets and liabilities on the consolidated balance sheet.

When a customer uses a gift card to purchase product at a corporately owned and operated Boston Pizza Restaurant, the Company recognizes the revenue from the sale of the product. When a customer uses a gift card at a franchised restaurant, the Company recognizes revenues, in the form of royalties, arising from the sale of the product.

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

(m) Advertising fund:

The Company participates in an Advertising Fund (the "**Advertising Fund**") established to collect and administer funds contributed for use in advertising and promotional programs designed to increase sales and enhance the reputation of the Company and its franchise owners. In accordance with IAS 18 - Revenue, the revenue, expenses and cash flows of the Advertising Fund are not included in the Company's Consolidated Statement of Comprehensive Income and Cash Flows because the contributions to the Advertising Fund are segregated, designated for specific purposes, and the Company acts, in substance, as an agent with regard to these contributions. The assets and liabilities held by the Advertising Fund is considered restricted and recorded as such on the Company's Consolidated Statement of Financial Position. The Company collects 2.5% of franchise sales from franchisees and Company-operated restaurants for contribution to the Advertising Fund. These contributions are used for local, regional and national advertising, promotional programs, brand protection and to administer the gift card program.

The deficit balance of the Advertising Fund as at December 31, 2011 was $2.0 million ($0.8 million at December 31, 2010), which was included in Advertising Fund restricted assets.

(n) Stock-based compensation:

The Company granted stock options to certain employees. Stock options vest 20% per year for five years beginning on January 1, 2009. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense is recognized over the tranche's vesting period based on the numbers of awards expected to vest. The number of awards expected to vest is reviewed at least annually, with any impact being recognized immediately. The program was cancelled in 2011.

(o) Financial instruments:

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purposes for which the instruments were acquired:

- Financial assets and liabilities at fair value through profit or loss: A financial asset or liability is generally classified in this category if acquired principally for the purposes of selling or repurchasing in the short term. Derivatives are also included in this category unless they are designated as hedges. The Company has classified its Class B Units investment in Boston Pizza Royalties Limited Partnership as a financial asset and its stock option liability as a financial liability.

  Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the statement of income. Gains and losses arising from changes in fair value are presented in the statement of income within other gains and losses in the period in which they arise. Financial assets and liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized or paid beyond twelve months of the balance sheet date, which are classified as non-current.

- Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in the active market. Cash and cash equivalents, accounts receivable, income tax receivable, distributions from the Partnership and long-term receivables comprise this category.

  Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

- Financial liabilities at amortized cost: Financial liabilities at amortized cost include accounts payable, accrued liabilities, income tax payable, promissory note payable, long term debt, loan from the Fund, and other long-term liabilities. These items are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables to fair value or transactions costs incurred. Subsequently, these items are measured at amortized cost using the effective interest rate method.

  Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

- Derivative financial instruments: The right to transfer Class C general partner units in consideration of its note payable to the Fund is classified as a derivative instrument. The Company has reviewed the net impact of this potential exchange requirement on its cash flows and has determined there is no significant value applicable to this feature.

Measurement Categories

Financial assets and liabilities have been classified into categories that determine their basis of measurement and, for items measured at fair value, whether changes in fair value are recognized in the statement of income or comprehensive income. Those categories are: fair value through profit or loss; loans and receivables; available for sale assets; and, for liabilities, amortized cost. The following table shows the carrying values of assets and liabilities for each of these categories at December 31, 2011 and 2010.

(in thousands)	December 31, 2011	December 31, 2010
Financial assets		
Loans and receivables:		
Cash and cash equivalents	$ 1,365	$ 3,153
Accounts receivable	10,393	9,575
Distributions receivable from Boston Pizza Royalties Limited Partnership	564	490
Long-term receivables	20,126	20,255
Class C Units Investment in Boston Pizza Royalties Limited Partnership	24,000	24,000
Fair value through profit and loss:		
Class B Units Investment in Boston Pizza Royalties Limited Partnership	38,801	36,848
	$ 95,249	$ 94,321
Financial Liabilities		
Amortized cost:		
Accounts payable and accrued liabilities	$ 8,131	$ 8,885
Income tax payable	833	774
Promissory note payable	4,220	2,420
Long-term debt	821	1,147
Loan from Boston Pizza Royalties Income Fund	24,000	24,000
Other long-term liabilities	1,525	241
Fair value through profit and loss:		
Stock option liability	—	348
	$ 39,530	$ 37,815

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

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included with Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is unobservable inputs (Level 3).

The fair value of the Class B Units of the Investment in Boston Pizza Royalties Limited Partnership has been measured using Level 1 valuation methods. The methods and assumptions used in estimating the financial asset is described in note 3(c).

The fair value of the Stock option liability has been measured using Level 2 valuation methods. The methods and assumptions used in estimating the financial liability is described in note 3(n).

(p) Impairment of financial assets:

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Company recognizes an impairment loss, as follows:

- Financial assets carried at amortized cost: the loss is the difference between the amortized costs of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate.

- Financial assets carried at fair value through profit and loss: these financial assets are measured at fair value at each reporting date with changes in fair value recorded on the statement of comprehensive income.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

(q) Impairment of non-financial assets:

Property, plant and equipment, intangible assets and advertising fund restricted assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Long-lived assets that are not amortized are subject to an annual impairment test. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or CGU's). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset of CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

The Company evaluates impairment losses for potential reversals when events or circumstances warrant such consideration.

(r) Financial risk management:

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

Interest rate risk

The Company has obligations with fixed interest rates, for example the interest-bearing note payable to the Fund, and therefore the Company does not perform interest rate risk management on these obligations to minimize the overall financial interest rate risk. The Company currently has $0.2 million (2010 - $0.4 million) in floating rate debt. The annual impact for every 1% increase in the variable rate would result in negligible additional interest expense.

Liquidity risk

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

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

(in thousands)	Value at December 31, 2011	Value at December 31, 2010	Maturity
Accounts payable and accrued liabilities	$ 8,131	$ 8,885	Less than 1 year
Income tax payable	833	774	Less than 1 year
Current portion of long-term debt	447	438	Less than 1 year
Promissory note payable	4,220	2,420	Less than 1 year
Long-term debt	374	709	2011– 2015
Loan from Boston Pizza Royalties Income Fund	24,000	24,000	2042
Other long term liabilities	1,525	241	2013

Credit risk

Credit risk is defined as the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's accounts receivable and long-term receivables from companies under common control. The effective monitoring and controlling of credit risk is a core competency of the Company. Each potential franchisee must complete a thorough interview process and pass mandatory credit evaluations. The collectability of the long-term receivables depends in part on the operations of U.S. franchisees, and management closely monitors the U.S. operations to manage this credit risk exposure. The Company's maximum exposure to credit risk is the value of its accounts receivable of $10.4 million (2010 - $9.6 million), long-term trade receivables $1.2 million (2010 — $1.3 million) as well as the value of long-term receivables from companies under common control of $19.0 million (2010 — $19.0 million).

(s) Capital disclosures:

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

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

(in thousands)	December 31, 2011	December 31, 2010
Liquidity:		
Cash and cash equivalents	$ 1,365	$ 3,153
Undrawn credit facilities	7,500	7,500
Total liquidity	8,865	10,653
Capitalization:		
Promissory note	4,220	2,420
Loan from Boston Pizza Royalties Income Fund	24,000	24,000
Long-term debt	821	1,147
Total debt	29,041	27,567
Deferred gain	198,788	199,786
Shareholder's deficiency	(101,236)	(101,811)
	$ 97,552	$ 97,975

The Company manages its capital mainly through the periodic sales of Boston Pizza Royalties Limited Partnership units, retained earnings, as well as through the use of short-term financing. The Company maintains formal policies to manage capital. Liquidity and capital structure are managed by adjusting for changes to economic conditions, understanding the underlying risks inherent in its operations and managing the capital requirements to maintain and grow its operations.

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

The Company's credit facility includes a $7.5 million unsecured line of credit which is subject to certain financial covenants (note 10).

(t) Accounting standards and amendments issued but not yet adopted:

Unless otherwise noted, the following revised standards and amendments are effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. The Company has not yet assessed the impact of these standards and amendments or determined whether it will early adopt them.

(i) IFRS 9, *Financial Instruments*, was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, Financial Instruments - Recognition and Measurement, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income.

(ii) IFRS 10, *Consolidated Financial Statements*, requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, *Consolidation – Special Purpose Entities* and parts of IAS 27, *Consolidated and Separate Financial Statements*.

4. Transition to IFRS:

As stated in note 2, these are the Company's first consolidated financial statements prepared in accordance with IFRS.

The accounting policies set out in note 3 have been applied in preparing the consolidated financial statements for the year ended December 31, 2011, the comparative information presented in these consolidated financial statements for the year ended December 31, 2010, and in the preparation of an opening IFRS statement of financial position at January 1, 2010 (the Company's date of transition).

The effect of the Company's transition to IFRS is summarized as follows:

(a) Transition elections

The Company has elected not to apply any of the transition exceptions and elections available under IFRS 1 for the requirement of full retrospective application of IFRS.

(b) Reconciliation of equity as previously reported Canadian GAAP to IFRS:

(in thousands)	Note 4	December 31, 2010	January 1, 2010
Shareholders' deficiency			
As reported under Canadian GAAP		$ (115,639)	$ (106,272)
IFRS adjustments increase (decrease):			
De-consolidation of the Partnership	(i)	4,525	4,112
Eliminate intangible asset resulting from NCIB transactions	(ii)	379	133
Recognize stock option liability	(iii)	(347)	(660)
Fair valuation of Investment in the Partnership	(iv)	3,933	(443)
Deferred and current income tax adjustment	(vi)	5,338	6,704
Shareholders' deficiency as reported under IFRS		$ (101,811)	$ (96,426)

(c) Reconciliation of comprehensive income as previously reported Canadian GAAP to IFRS:

(in thousands)	Note 4	Year ended December 31, 2010
Comprehensive income		
As reported under Canadian GAAP		$ 2,698
De-consolidation of the Partnership	(i)	413
Eliminate intangible asset resulting from NCIB transactions	(ii)	249
Recognize stock option liability	(iii)	312
Fair valuation of Investment in the Partnership	(iv)	4,375
Reclass of refundable dividend tax on hand	(v)	2,106
Deferred and current income tax adjustment	(vi)	(1,368)
		6,087
As reported under IFRS		$ 8,785

Explanatory notes

(i) The Company previously consolidated its interest in the Partnership, a variable interest entity under previous Canadian GAAP. Under IFRS, the Company does not control this entity and as a result, the Partnership is no longer consolidated. These adjustments pertain to the Company's elimination of the Partnership's accounts and recognition as an associate using the equity method of accounting.

(ii) Under Canadian GAAP, Normal Course Issuer Bids ("**NCIB**") transactions resulted in an intangible asset that was amortized over the remaining life of the license and royalty agreement. Under IFRS, the intangible asset and related amortization that arose from the NCIB transaction is reversed as the change in equity did not have any significant impact on BPI's equity interest in the Partnership.

(iii) Under Canadian GAAP, stock options were valued at intrinsic value meaning that any change in the intrinsic value of the stock option awards between grant date and measurement dated resulted in a change in liability and compensation cost. Under IFRS, the option award is a compound financial instrument, the fair value of the options is the sum of the fair values of the debt and equity components. Fair value of the debt component is recognized as a liability and fair value of the equity component (if any) is recognized in equity. For the Company, the fair value of the equity component is nil, however changes in the fair value of the liability component are recognized in profit and loss.

(iv) The adjustment relates to the recognition at fair value of the Class B Units included in the Company's investment in the Partnership. The prior losses recognized on the sale of Fund Units under Canadian GAAP have been reversed. Under IFRS, the difference between proceeds and the fair value of the units at the date of sale is immaterial.

(v) Under previous Canadian GAAP, future refundable dividend tax on hand ("**RDTOH**") was recognized within equity (Shareholder's deficiency). Under IFRS, future RDTOH is included in future income tax expense in the statement of comprehensive income.

(vi) The adjustment relates to differences in deferred and current income tax that result from changes in the accounting and tax values of assets and liabilities associated with the de-consolidation of the Partnership.

(d) Adjustments to the statement of cash flows:

The Company previously consolidated its interest in the Partnership, a variable interest entity under previous Canadian GAAP. Under IFRS, the Company does not control this entity and as a result, the Partnership is no longer consolidated. As a result of the Company no longer consolidating the accounts of the Partnership, the Company does not include the earnings of the Partnership in cash flows from operating activities. In addition, the Company's proportionate increase in ownership of the Partnership as a result of the Fund repurchasing and cancelling Units pursuant to NCIBs is not included in investing and financing activities of the Company, nor are the proceeds of the Partnership drawing on the credit facilities established by the Partnership for the purposes of funding repurchases of Units under NCIBs. Therefore, for the year ended December 31, 2010, the impact of the transition to IFRS resulted in a net increase in cash of $20.5 million, which is comprised of a $0.3 million decrease in cash provided in operating activities, a $10.3 million increase in cash provided by investing activities, and a $10.5 million increase in cash used by financing activities.

5. Additional IFRS information for the year ended December 31, 2010:

The following IFRS disclosures relating to the year ended December 31, 2010 are material in providing an understanding of these consolidated financial statements.

As at January 1, 2010	As previously reported	Note 5	Adjustment	Reported under IFRS
Assets				
Current assets:				
Cash and cash equivalents	$ 2,829	(i)	$ (450)	$ 2,379
Accounts receivable	9,471		—	9,471
Income tax receivable	299		—	299
Prepaid expense and other current assets	944	(i)	(46)	898
Advertising fund restricted assets	11,327		—	11,327
Distributions receivable from Boston Pizza Royalties Limited Partnership	—	(i)	531	531
Deferred income taxes	331	(iii)	(331)	—
	25,201		(296)	24,905
Long-term receivables	19,466		—	19,466
Long-term investments	75		—	75
Investment in Boston Pizza Royalties Limited Partnership	—	(i), (ii)	67,256	67,256
Property, plant & equipment	5,368		—	5,368
Intangible assets and deferred charges	18,239	(i), (iii)	(15,028)	3,211
Deferred income taxes	27,496	(iii), (vii)	7,035	34,531
Total assets	$ 95,845		$ 58,967	$ 154,812
Liabilities and Shareholders' Deficiency				
Current liabilities:				
Accounts payable and accrued liabilities	$ 6,364	(i)	$ 1,671	$ 8,035
Distributions payable	1,469	(i)	(1,469)	—
Deferred revenue	1,444		—	1,444
Current portion of long-term debt	554	(v)	1,061	1,615
Promissory note payable	3,809		—	3,809
Advertising fund restricted liabilities	11,327		—	11,327
	24,967		1,263	26,230
Long-term debt	20,645	(i), (v)	(20,569)	76
Deferred revenue	3,714		—	3,714
Loan from Boston Pizza Royalties Income Fund	24,000		—	24,000
Stock option liability	—	(vi)	659	659
Other long-term liabilities	588		—	588
Deferred gain	128,203	(i)	67,768	195,971
Shareholders' deficiency	(106,272)	note 4(b)	9,846	(96,426)
Total liabilities and shareholders' deficiency	$ 95,845		$ 58,967	$ 154,812

As at December 31, 2010	As previously reported	Note 5	Adjustment	Reported under IFRS
Assets				
Current assets:				
Cash and cash equivalents	$ 4,087	(i)	$ (934)	$ 3,153
Accounts receivable	9,575		—	9,575
Income tax receivable	—		—	—
Prepaid expense and other current assets	951	(i)	(90)	861
Advertising fund restricted assets	13,104		—	13,104
Distributions receivable from Boston Pizza Royalties Limited Partnership	—	(i)	490	490
Deferred income taxes	237	(iii)	(237)	—
	27,954		(771)	27,183
Long-term receivables	20,255		—	20,255
Long-term investments	75		—	75
Investment in Boston Pizza Royalties Limited Partnership	—	(i), (ii)	60,848	60,848
Property, plant & equipment	4,491		—	4,491
Intangible assets and deferred charges	28,436	(i), (iii)	(25,052)	3,384
Deferred income taxes	30,697	(iii), (vii)	5,668	36,365
Total assets	$ 111,908		$ 40,693	$ 152,601
Liabilities and Shareholders' Deficiency				
Current liabilities:				
Accounts payable and accrued liabilities	$ 6,913	(i)	$ 1,972	$ 8,885
Distributions payable	1,526	(i)	(1,526)	—
Income tax payable	678	(vii)	96	774
Deferred revenue	918		—	918
Current portion of long-term debt	438		—	438
Promissory note payable	2,420		—	2,420
Advertising fund restricted liabilities	13,104		—	13,104
	25,997		542	26,539
Long-term debt	30,709	(i)	(30,000)	709
Deferred revenue	2,789		—	2,789
Loan from Boston Pizza Royalties Income Fund	24,000		—	24,000
Stock option liability	—	(vi)	348	348
Other long-term liabilities	638	(i)	(397)	241
Deferred gain	143,413	(i)	56,373	199,786
Shareholders' deficiency	(115,639)	note 4(b)	13,827	(101,811)
Total liabilities and shareholders' deficiency	$ 111,908		$ 40,693	$ 152,601

Explanatory notes

(i) The Company previously consolidated its interest in the Partnership, a variable interest entity under previous Canadian GAAP. Under IFRS, the Company does not control this entity and as a result, the Partnership is no longer consolidated. These adjustments pertain to the Company's elimination of the Partnership's accounts.

(ii) Under IFRS, the Company recognizes the Class B Units at fair value.

(iii) Under IFRS, it is not appropriate to classify deferred income tax balances as current, irrespective of the classification of the assets or liabilities to which the deferred income tax relates or the expected timing of reversal. Under Canadian GAAP, deferred income tax relating to current assets or liabilities must be classified as current. Accordingly, current deferred income tax reported under Canadian GAAP of $0.3 million at January 1, 2010 ($0.2 million at December 31, 2010) has been reclassified as non-current under IFRS.

(iv) Under Canadian GAAP, NCIB transactions resulted in an intangible asset that was amortized over the remaining life of the license and royalty agreement. Under IFRS, the intangible asset and related amortization that arose from the NCIB transaction is reversed as the change in equity did not have any significant impact on the Company's equity investment in the Partnership. The Company's ownership of Boston Pizza Royalties Income Fund is recognized each reporting date when the Investment in the Partnership is fair valued.

(v) The Company had an unsecured long-term loan with a covenant violation as at December 31, 2009. A waiver was obtained from the lender in January 2010, and for Canadian GAAP purposes the loan was classified as non-current as at December 31, 2009. Under IFRS, because the waiver was obtained subsequent to December 31, 2009 the debt is required to be presented as a current liability in the consolidated statement of financial position on transition date.

(vi) Under Canadian GAAP stock options were valued at intrinsic value meaning that any change in the intrinsic value of the stock option awards between grant date and measurement dated resulted in a change in liability and compensation cost. Under IFRS, the option award is a compound financial instrument, the fair value of the option is the sum of the fair values of the debt and equity components. Fair value of the debt component is recognized as a liability and fair value of the equity component (if any) is recognized in equity. For the Company, the fair value of the equity component is nil, however changes in the fair value of the liability component are recognized in profit and loss.

(vii) This adjustment relates to differences in deferred and current income tax adjustments that result from the de-consolidation of the Partnership.

6. Accounts and other receivables:

(in thousands)	December 31, 2011	December 31, 2010
Trade receivables due from related parties	$ 1,166	$ 723
Other trade receivables (net of allowance)	9,227	8,852
	$ 10,393	$ 9,575
Long-term receivables:		
Advances to affiliated companies, non-interest bearing, unsecured with no specified terms of repayment	$ 614	$ 614
Long-term trade receivables (net of allowance)	1,160	1,289
Promissory notes to affiliated companies, bearing interest at 7.6%, unsecured with no specific terms of repayment	18,352	18,352
	$ 20,126	$ 20,255

Although the promissory notes to affiliated companies have no specific terms of repayment, the Company has classified them as long-term receivables as repayment is expected over a period longer than 12 months. The Company is no longer accruing interest on these notes as the interest has been waived, and is carrying them at their estimated realizable amounts. The Company tests this receivable for impairment at every reporting date under IFRS. The receivables from franchisees are classified as long term when payment is expected to take longer than twelve months. The Company continues to make every effort to collect all long-term receivable balances, including establishing payment plans with existing franchisees.

The aging of trade receivables at the reporting date are as follows:

(in thousands)	December 31, 2011	December 31, 2010
Current	$ 6,575	$ 5,447
Past due 1-30 days	802	542
Past due 31-60 days	1,358	1,268
Past due 61-90 days	1,123	1,350
Past due over 91 days	1,695	2,257
	$ 11,553	$ 10,864

The allowance for doubtful accounts against other trade receivables was $nil as at December 31, 2011 (December 31, 2010 — $0.4 million). The allowance for doubtful accounts against long-term trade receivables was $0.5 million as at December 31, 2011 (December 31, 2010 — nil). During the year, the Company updated its collections policy whereby cash receipts are first applied against the oldest outstanding invoices.

7. Investment in Boston Pizza Royalties Limited Partnership:

The Company's total investment in the Partnership is comprised of two financial assets: the Class B Units measured at fair value through profit and loss, Class C Units measured at amortized cost, as well as twenty shares of Boston Pizza GP Inc., and one general Partnership Unit. The Company's equity investment in the Partnership is represented by the shares of Boston Pizza GP Inc. and the general Partnership unit. The value of the equity investment in the Partnership is nominal, as substantially all of the cash flows from the Partnership are attributable to Partnership units such as the Class B and Class C Units, while the shares of Boston Pizza GP Inc., and the general Partnership unit are not entitled to distributions. The value of the Class C Units included in the Investment in Boston Pizza Royalties Limited Partnership measured at amortized cost was $24 million as at December 31, 2011 and 2010.

(in thousands)	
Balance as at January 1, 2010	$ 67,256
Change in Fair Value of the Class B Units	2,609
Sale and exchange of shares (net of transaction costs)	(15,039)
Additional Entitlements	6,022
Balance as at December 31, 2010	60,848
Change in Fair Value of the Class B Units	731
Additional Entitlements	1,222
Balance as at December 31, 2011	$ 62,801

On March 17 2010, the Company exchanged 5,531,778 Class B Partnership units for 1,350,000 Fund units. Following this exchange, the Company sold these Fund units to the public for gross proceeds of $16.1 million. BPI received cash of $15.0 million net of transactions costs of $1.1 million. There were no unit exchanges in 2011.

8. Property, plant and equipment:

Cost (in thousands)	Office furniture and equipment	Office furniture and equipment under capital lease	Leasehold improvements	Auto	Total
Balance as at January 1, 2010	$ 6,816	$ 2,275	$ 6,065	$ 24	$ 15,180
Net additions	320	76	29	—	425
Balance as at December 31, 2010	$ 7,136	$ 2,351	$ 6,094	$ 24	$ 15,605
Balance as at January 1, 2011	$ 7,136	$ 2,351	$ 6,094	$ 24	$ 15,605
Net additions	576	224	325	—	1,125
Balance as at December 31, 2011	$ 7,712	$ 2,575	$ 6,419	$ 24	$ 16,730

Depreciation (in thousands)	Office furniture and equipment	Office furniture and equipment under capital lease	Leasehold improvements	Auto	Total
Balance as at January 1, 2010	$ 5,000	$ 1,598	$ 3,192	$ 22	$ 9,812
Depreciation for the year	507	318	475	2	1,302
Balance as at December 31, 2010	$ 5,507	$ 1,916	$ 3,667	$ 24	$ 11,114
Balance as at January 1, 2011	$ 5,507	$ 1,916	$ 3,667	$ 24	$ 11,114
Depreciation for the year	482	328	513	—	1,323
Balance as at December 31, 2011	$ 5,989	$ 2,244	$ 4,180	$ 24	$ 12,437
Net book value					
At January 1, 2010	$ 1,816	$ 677	$ 2,873	$ 2	$ 5,368
At December 31, 2010	1,629	435	2,427	—	4,491
At January 1, 2011	$ 1,629	$ 435	$ 2,427	$ —	$ 4,491
At December 31, 2011	1,723	331	2,239	—	4,293

9. Intangible assets and deferred costs:

Cost (in thousands)	Other	Computer software	Total
Balance as at January 1, 2010	$ 1,107	$ 4,209	$ 5,316
Net additions	—	1,111	1,111
Balance as at December 31, 2010	$ 1,107	$ 5,320	$ 6,427
Balance as at January 1, 2011	$ 1,107	$ 5,320	$ 6,427
Net additions	—	1,133	1,133
Balance as at December 31, 2011	$ 1,107	$ 6,453	$ 7,560

Depreciation (in thousands)	Other	Computer software	Total
Balance as at January 1, 2010	$ 106	$ 1,999	$ 2,105
Depreciation for the year	106	832	938
Balance as at December 31, 2010	$ 212	$ 2,831	$ 3,043
Balance as at January 1, 2011	$ 212	$ 2,831	$ 3,043
Depreciation for the year	106	954	1,060
Balance as at December 31, 2011	$ 318	$ 3,785	$ 4,103
Net book value			
At January 1, 2010	$ 1,001	$ 2,210	$ 3,211
At December 31, 2010	895	2,489	3,384
At January 1, 2011	$ 895	$ 2,489	$ 3,384
At December 31, 2011	789	2,668	3,457

10. Line of credit:

The Company has an available line of credit in the amount of $7.5 million with a 364 day term to cover the Company's day-to-day operating requirements through normal seasonal variations in the business if needed. The line of credit bears interest at prime and is due upon demand. The line of credit facility is secured by a first charge over the Company's assets other than the following assets: the royalty payments received by the Company from its franchisees, the Class C general partnership units held by the Company and the monthly distribution by the Partnership on those Class C general partnership units. The Fund and its subsidiaries will continue to have a first charge over these assets.

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

In addition, the Company is required to comply with specified financial ratios and tests including a minimum adjusted current ratio, a minimum ratio of cash flow available for debt service to total debt service and maximum total funded debt to earnings before interest, taxes, depreciation, and amortization. As at December 31, 2011, the Company is in compliance with all covenants.

On December 31, 2010 and 2011, there were no amounts outstanding under the line of credit.

11. Long-term debt:

Long term debt consists of:

(in thousands)	December 31, 2011	December 31, 2010
Term Loans:		
GE Canada Equipment Financing G.P. term loans bearing fixed rates of interest at 6.58%-6.95% per annum and due in 2013 secured by restaurant equipment	$ 414	$ 612
GE Canada Equipment Financing G.P. term loans bearing variable interest at prime plus 2.75% per annum and due in 2012-2015 secured by restaurant equipment	211	399
Other including capital leases:	196	136
	821	1,147
Current portion	447	438
	$ 374	$ 709

Certain debt agreements, for Company owned restaurants, contain minimum levels for fixed charge coverage ratios. For the year ended December 31, 2011, the Company was in compliance with this ratio related to $0.6 million in GE Canada Equipment Financing G.P. ("**GE**") term loans. The covenant is determined annually. These term loans are secured by restaurant equipment and contain cross default provisions and guarantees.

The fair value of the Company's long-term debt is $0.8 million which was determined by completing a net present value calculation of long-term debt using current lending rates. The impact of a 1% increase in the variable rate would result in a minimal impact on the fair market value and the statement of comprehensive income.

Principal repayments on long-term debt and capital lease obligations are as follows:

(in thousands)	December 31, 2011	December 31, 2010
Long-term debt:		
2011	$ —	$ 363
2012	343	359
2013	211	211
2014	10	10
2015 and thereafter	61	68
	625	1,011
Capital lease obligations:		
2011	—	75
2012	104	48
2013	78	13
2014	14	—
2015 and thereafter	—	—
	196	136
	$ 821	$ 1,147

12. Notes payable:

(in thousands)	December 31, 2011	December 31, 2010
Loan from Boston Pizza Royalties Income Fund with interest payable monthly at 7.5% per annum, due July 17, 2042	$ 24,000	$ 24,000
Promissory note payable to the parent company, non-interest bearing and due on demand	4,220	2,420
	28,220	26,420
Current portion	4,220	2,420
	$ 24,000	$ 24,000

The loan from the Fund arose at the time of the sale of the trademarks and trade names from the Company in July 2002 and is secured by a general security agreement. The note may not be assigned without the prior consent of the Company.

The Company, as the holder of 2,400,000 class C general partnership units, has the right to transfer such class C general partnership units to the Boston Pizza Holdings Limited Partnership in consideration for the assumption of the Boston Pizza Holdings Limited Partnership of, and the concurrent release of the Company of its obligations with respect to, an amount of the indebtedness under the BP loan equal to $10.00 for each Class C general partnership unit transferred.

During the year, the Company made payments of $3.2 million (2010 — $15.6 million) against the non-interest bearing, due upon demand, promissory notes payable to its parent companies. During the year, the Company settled dividends declared of $5.0 million (2010 — $14.2 million) through the issuance of additional promissory notes payable with the same terms.

13. Stock option liability:

On May 21, 2008, BPI established a stock option plan pursuant to which BPI may, from time to time, grant options to acquire up to 15,600,000 Class B Common shares of BPI ("**Class B Shares**") to directors, officers and senior employees of BPI or its subsidiaries. BPI initially granted options to acquire

5,840,000 Class B Shares to BPI's officers and senior employees (the "**Granted Options**"). The exercise price of each Granted Option is equal to the fair market value of one Class B Share at the date on which the option was granted, as determined by a valuation formula approved by BPI's board of directors. Each Granted Option may be exercised during a period not exceeding 10 years from the date granted. The Granted Options vest 20% per year for five years beginning on January 1, 2009. Holders of vested options under the stock option plan have the choice, subject to certain restrictions, of exercising their options to acquire Class B Shares at the corresponding option exercise price, or receiving a cash payment from BPI equivalent to the difference between the fair market value of the Class B Shares and the exercise price of the option.

Under IFRS, the compensation cost attributable to stock-based awards to employees is a compound financial instrument. The fair value of the stock option is the sum of the fair values of the debt and equity components. Fair value of the debt component is recognized as a liability and fair value of the equity component (if any) is recognized in equity. Under the Company's plan, settling the stock option by cash or by equity are mutually exclusive alternatives, resulting in the equity component having zero fair value and the entire fair value of the options is that of the debt component. Changes in the fair value of the liability component are recognized in the statement of comprehensive income.

In June 2011, all holders of the granted options surrendered all vested and unvested granted options to BPI for cancellation, all granted options were cancelled and BPI's stock option plan was terminated. As such, the stock option liability was reversed resulting in a gain of $0.3 million for the year (2010 — $0.3 million) which is included in compensation expense on the statement of comprehensive income. There was no compensation offered to replace the cancellation of the Company's plan.

(in thousands)	Number of options outstanding	Weighted average exercise price	Total number of vested options	Total number of vested options
Balance as at December 31, 2010	3,540,000	$1.00	1,416,000	2,124,000
Vested on January 1, 2011	Nil	N/A	708,000	(708,000)
Cancelled on June 30, 2011	(3,540,000)	N/A	(2,124,000)	(1,416,000)
Balance as at December 31, 2011	Nil	Nil	Nil	Nil

14. Deferred gain:

(in thousands)	December 31, 2011	December 31, 2010
Balance, beginning of year	$ 199,786	$ 195,971
Additional Entitlements	1,222	6,022
Amortization of deferred gain	(2,220)	(2,207)
Balance, end of year	$ 198,788	$ 199,786

Annually, on January 1, the Boston Pizza restaurants in the Royalty Pool on which the Company pays a royalty to the Fund are adjusted to include the adjusted franchise revenue from new Boston Pizza restaurants opened on or before December 31 of the prior year, less franchise revenue from any Boston Pizza restaurants that have permanently closed during the year. In return for adding this net franchise revenue to the Royalty Pool, Boston Pizza receives the right to indirectly acquire additional Fund units (the "**Additional Entitlement**").

The Additional Entitlement is calculated as 92.5% of the royalty revenue added to the Royalty Pool, divided by the yield of the Fund units, divided by the weighted average unit price.

The Company receives 80% of the Additional Entitlement initially; with the balance received when the actual full year performance of the new restaurants is known with certainty. Monthly distributions from the Fund are based on full Additional Entitlement, and are subject to adjustment on January 1 of the next fiscal year when full performance of the restaurants is known with certainty.

On January 1, 2011, 6 new Boston Pizza restaurants that opened during the period from January 1, 2010 to December 31, 2010 were added to the Royalty Pool while 6 restaurants that closed during the period were removed. The Franchise Sales of these zero net new restaurants have been estimated at $2.2 million. The total number of restaurants in the Royalty Pool has remained at 340. As a result of the contribution of the additional net sales to the Royalty Pool, and assuming 100% of the Additional Entitlement, the Company's Additional Entitlement is equivalent to 57,984 (2010 - 648,259) Fund units. The Company will also receive a proportionate increase in monthly distributions from the Partnership. Of the Additional Entitlement, 20% (2011 — 11,597 units; 2010 — 129,652 units), remain unissued and are not eligible for exchange into Fund units until January 1, 2012 (2010 units — January 1, 2011) based on the actual performance of the new stores.

In early 2011, adjustments to royalty payments and Additional Entitlements were made based on the actual performance of 17 net new restaurants added to the Royalty pool on January 1, 2010. Based on these adjustments, the Company received its pro rata portion of the remaining Additional Entitlement, 164,033 (January 1, 2010 — 15,728) Fund units.

As at December 31, 2011, the Company was fully entitled to 2,723,861 Additional Entitlements (2010 — 2,643,093), not including the Holdback of 11,597 Additional Entitlements (2010 — 129,652).

15. Income taxes:

Income tax expense as reported differs from the amount that would be computed by applying the combined Federal and Provincial statutory income tax rates to earnings before income taxes. The reasons for the differences are as follows:

(in thousands)	2011	2010
Earnings before income taxes	$ 7,672	$ 9,432
Combined Canadian federal and provincial tax rates	27.2%	29.3%
	2,087	2,764
Increased (reduced) by:		
Permanent differences	108	108
Difference from rates other than statutory rate	(46)	(2,455)
Change in statutory tax rates	(51)	230
Income tax expense	$ 2,098	$ 647

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

(in thousands)	December 31, 2011	December 31, 2010	January 1, 2010
Future income tax assets (liabilities):			
Investment in Boston Pizza Royalties Limited Partnership	$ (14,693)	$ (14,243)	$ (15,817)
Deferred gain	49,996	50,187	49,507
Other	477	421	841
	$ 35,780	$ 36,365	$ 34,531

16. Share capital:

The Company has an unlimited number of Class A Common Shares without par value authorized of which 104,600,000 are issued and outstanding.

17. Other expenses:

The following are the components of other expenses:

(in thousands)	December 31, 2011	December 31, 2010
Marketing and advertising	$ 3,675	$ 4,014
Office, rent & utilities	2,479	2,266
Travel	2,473	2,525
Other	4,231	3,960
	$ 12,858	$ 12,765

18. Commitments

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

(in thousands)	December 31, 2011	December 31, 2010
2011	$ —	$ 1,974
2012	2,522	1,891
2013	2,536	1,567
2014	2,020	1,514
2015	1,539	1,060
2016	694	479
2017 and thereafter	2,588	2,392

19. Related party and subsidiary transactions:

The Company earned revenues of $3.3 million (2010 — $1.8 million) from a company under common control.

Included in compensation expense costs are management fees of $2.0 million (2010 — $2.6 million) to companies under common control. Additionally included in management fees is $1.2 million (2010 - $0.6 million) paid to the Company's parent for services rendered.

Key management personnel include the senior management team that oversees the strategic direction and operations of the Company. Key management personnel compensation was $5.1 million for the year ended December 31, 2011 (2010 – $4.9 million).

Included in accounts payable is $0.1 million (2010 — $0.1 million) due to the parent company. Included in accounts receivable is $1.0 million (2010 — $0.7 million) due from associated companies.

The Company paid interest on a note payable to the Fund of $1.8 million (2010 — $1.8 million).

As at December 31, 2011, the Company owes $4.2 million (2010 — $2.4 million) in a promissory note payable to the parent company.

20. Supplemental cash flow information:

(a) Change in non-cash operating items:

(in thousands)	December 31, 2011	December 31, 2010
Accounts receivable	$ (818)	$ (104)
Prepaid expenses and other current assets	(378)	37
Accounts payable and accrued liabilities	(754)	850
Deferred revenue	(696)	(1,451)
Long-term receivables	129	(789)
Other assets	106	106
Long-term liabilities	1,284	(347)
	$ (1,127)	$ (1,698)

(b) Supplementary information:

(in thousands)	December 31, 2011	December 31, 2010
Non-cash transactions:		
Property, plant & equipment acquired through lease transactions	197	73
Settlement of dividends payable through issuance of notes payable	5,000	14,169

21. Subsequent events:

(a) On January 1, 2012, seven new Boston Pizza restaurants that opened during the period from January 1, 2011 to December 31, 2011 were added to the Royalty Pool while two full service and two quick express locations that closed during the period were removed. The Franchise Sales of these three net new restaurants has been estimated at $8.3 million. The total number of restaurants in the Royalty Pool has increased to 343. As a result of the contribution of the additional net sales to the Royalty Pool, and assuming 100% of the Additional Entitlement, BPI's Additional Entitlement is equivalent to 218,166 (2010 — 57,984) Fund units. BPI will also receive a proportionate increase in monthly distributions from the Partnership. Of the Additional Entitlement, 20% (2012 — 43,633 units; 2011 — 11,597 units) remain unissued and are not eligible for conversion to Fund units until January 1, 2013 (2011 units — January 1, 2012) based on the actual performance of the new stores.

(b) In early 2012, adjustments to royalty payments and Additional Entitlements were made based on the actual performance of zero net new additional restaurants added to the Royalty Pool on January 1, 2011. Based on these adjustments, BPI will receive its pro rata portion of the remaining Additional Entitlements, 61,481 Fund units.

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Mark Pacinda
President and Chief Executive Officer

Wes Bews
Chief Financial Officer

Boston Pizza International Inc. Executive Team

Left to right: **Mark Pacinda**, President & Chief Executive Officer, **Jim Treliving**, Chairman & Owner, **George C. Melville,** Chairman & Owner, **Wes Bews,** Chief Financial Officer.

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