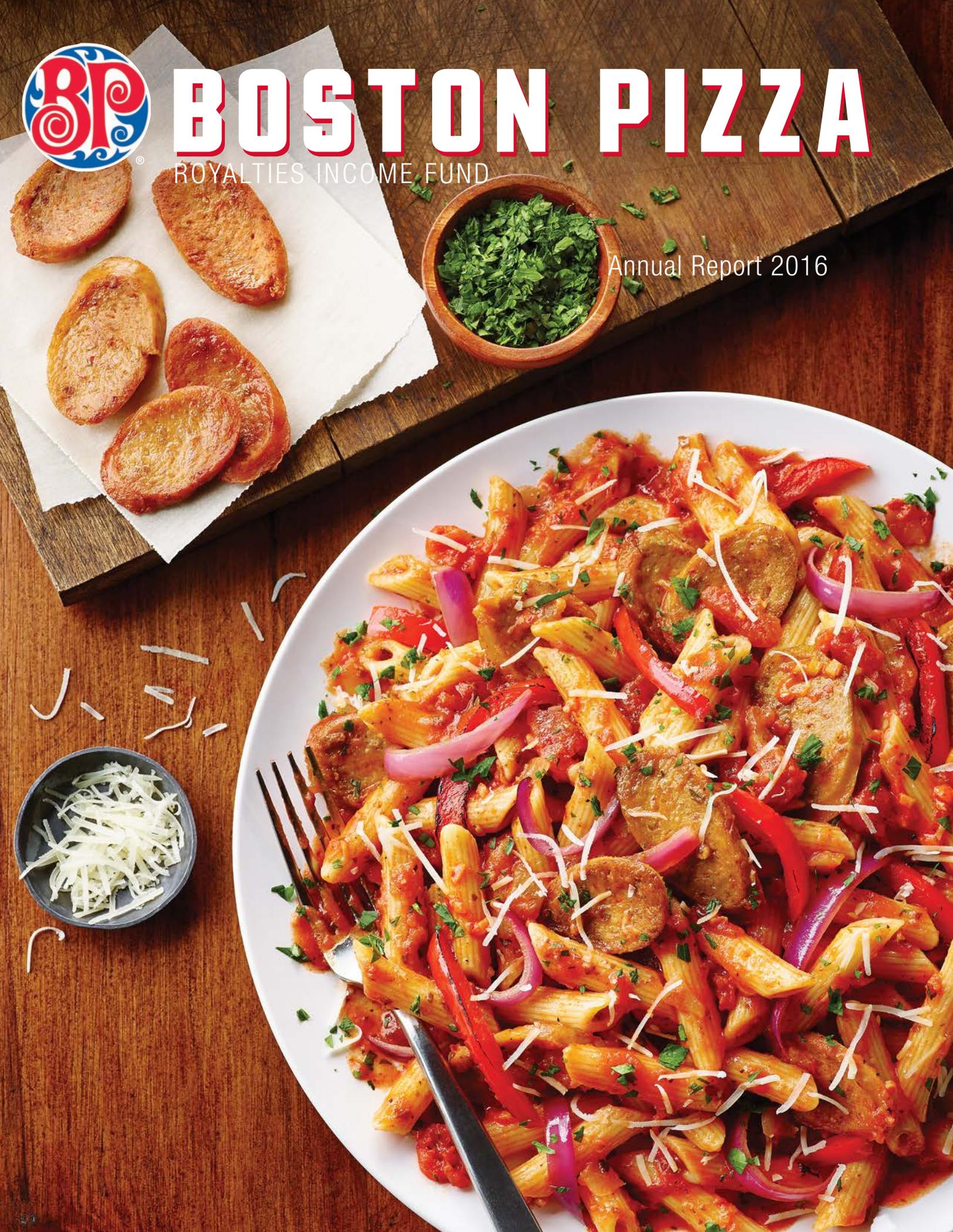




BOSTON PIZZA

ROYALTIES INCOME FUND

Annual Report 2016





BOSTON PIZZA

ROYALTIES INCOME FUND

PROFILE

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

As at January 1, 2017 there were 383 Boston Pizza locations in Canada, stretching from Victoria to St. John's, with all but four of the restaurants owned and operated by independent franchisees.

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

TABLE OF CONTENTS	
2016 HIGHLIGHTS	1
STABILITY	2
AN EXPERIENCED FRANCHISOR	3
GROWTH	4
COMMUNITY	6
LETTER FROM THE CHAIRMAN OF BOSTON PIZZA ROYALTIES INCOME FUND	7
LETTER FROM THE CEO OF BOSTON PIZZA INTERNATIONAL	11
BOSTON PIZZA ROYALTIES INCOME FUND	13
MANAGEMENT'S DISCUSSION & ANALYSIS	14
CONSOLIDATED FINANCIAL STATEMENTS	49
BOSTON PIZZA INTERNATIONAL INC.	81
MANAGEMENT'S DISCUSSION & ANALYSIS	82
CONSOLIDATED FINANCIAL STATEMENTS	107

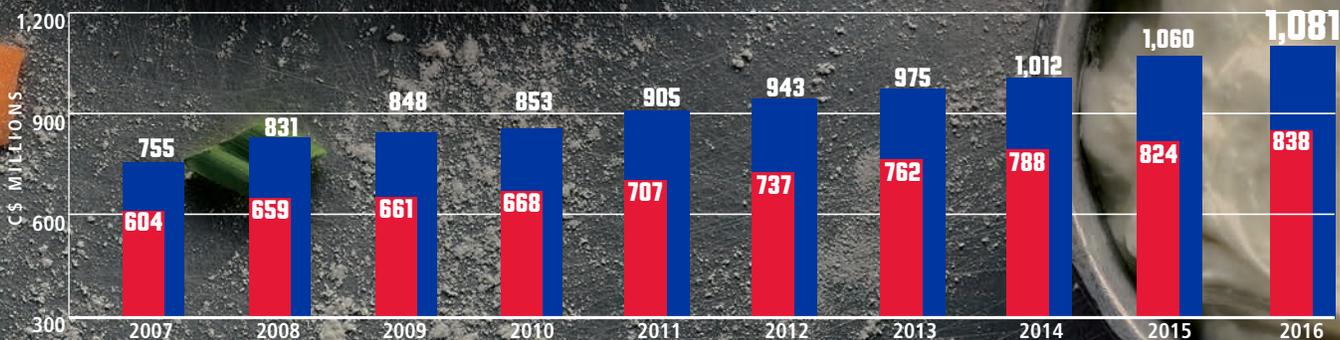
RECORD SYSTEM-WIDE GROSS SALES OF \$1.08 BILLION

2016 HIGHLIGHTS

- Annual system-wide gross sales of \$1.08 billion.
- Franchise Sales from Royalty Pool restaurants of \$828.6 million for the Year, representing an increase of 1.8% compared to one year ago.
- Distributable Cash per Unit of \$1.388 for the Year, an increase of 1.8% compared to 2015.
- Payout Ratio of 98.9% for the Year.
- Boston Pizza opened 11 net new full service restaurants and completed 50 restaurant renovations in 2016.
- Boston Pizza Royalties Income Fund's cash balance at the end of the Year was \$3.5 million.
- The Fund increased distributions to unitholders by 6.2% to 11.5 cents per Unit from 10.83 cents, marking the 18th time the monthly rate has been increased since the inception of the Fund.

SYSTEM-WIDE GROSS SALES AND FRANCHISE SALES

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



STABILITY

A SUCCESSFUL INCOME FUND

The Fund is a limited purpose open-ended trust established in July 2002, and the Units of the Fund trade on the Toronto Stock Exchange under the symbol BPF.UN. The Fund was originally created to acquire, indirectly through Boston Pizza Royalties Limited Partnership, the Canadian trademarks owned by Boston Pizza International Inc. used in connection with the operation of Boston Pizza Restaurants in Canada and the business of Boston Pizza International Inc., its affiliated entities and franchisees. In 2015 the Fund, indirectly through Boston Pizza Holdings Limited Partnership, made an investment in Boston Pizza Canada Limited Partnership (which is a limited partnership operated and controlled by Boston Pizza International Inc. and is the exclusive franchisor of Boston Pizza Restaurants in Canada). Through its indirect ownership of the trademarks described above and its indirect investment in Boston Pizza Canada Limited Partnership, the Fund is effectively entitled to receive 5.5% of Franchise Sales of Boston Pizza Restaurants in the Royalty Pool less the pro rata portion payable to Boston Pizza International Inc. in respect of its retained interest in the Fund. Any new Boston Pizza Restaurants opened during a calendar year are added to the Royalty Pool on January 1st of the following year. Since 2002, the Royalty Pool has expanded from 154 to 383 Boston Pizza Restaurants as at January 1, 2017.

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

Demonstrated Consistency — The Fund has provided cash distributions to Unitholders in each month since the IPO in July 2002 and including the January 2017 distribution paid in February 2017, the Fund had paid out 175 consecutive monthly distributions totaling \$250.2 million or \$18.00 per Unit.

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

OVER 175 CONSECUTIVE DISTRIBUTIONS TO UNITHOLDERS SINCE THE IPO IN JULY 2002

\$250.2 MILLION PAID TO UNITHOLDERS IN TOTAL DISTRIBUTIONS AS AT MARCH 1, 2017

\$2.92 MILLION AVERAGE GROSS REVENUE PER LOCATION IN 2016



AN EXPERIENCED FRANCHISOR

AN EXPERIENCED FRANCHISOR

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

1. A Commitment to Continually Improving the Guest Experience

Boston Pizza has over 50 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.

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 Franchisee Profitability

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

4. A Commitment to Being Involved in our Communities

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

A PROVEN RESTAURANT CONCEPT

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

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

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



GROWTH

1964

First Boston Pizza opens in Edmonton, AB.



1968



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

1973

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

1983

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

1996

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



1999

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



ERNST & YOUNG
ENTREPRENEUR
OF THE YEAR

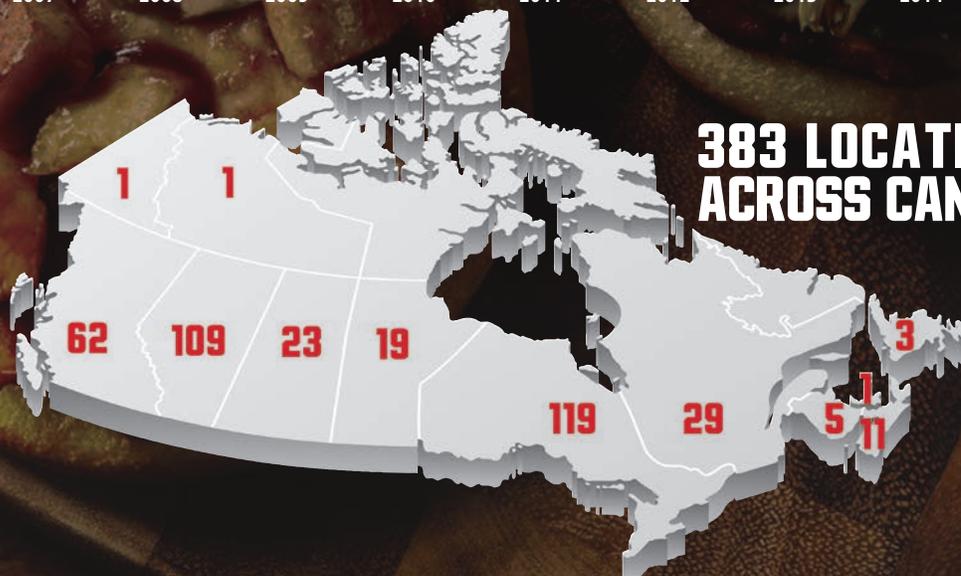
2002

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

2004

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

NUMBER OF LOCATIONS OVER THE PAST TEN YEARS



1986

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



1990



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

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, a recognition for which Boston Pizza has been awarded every subsequent year.

2006

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

2012

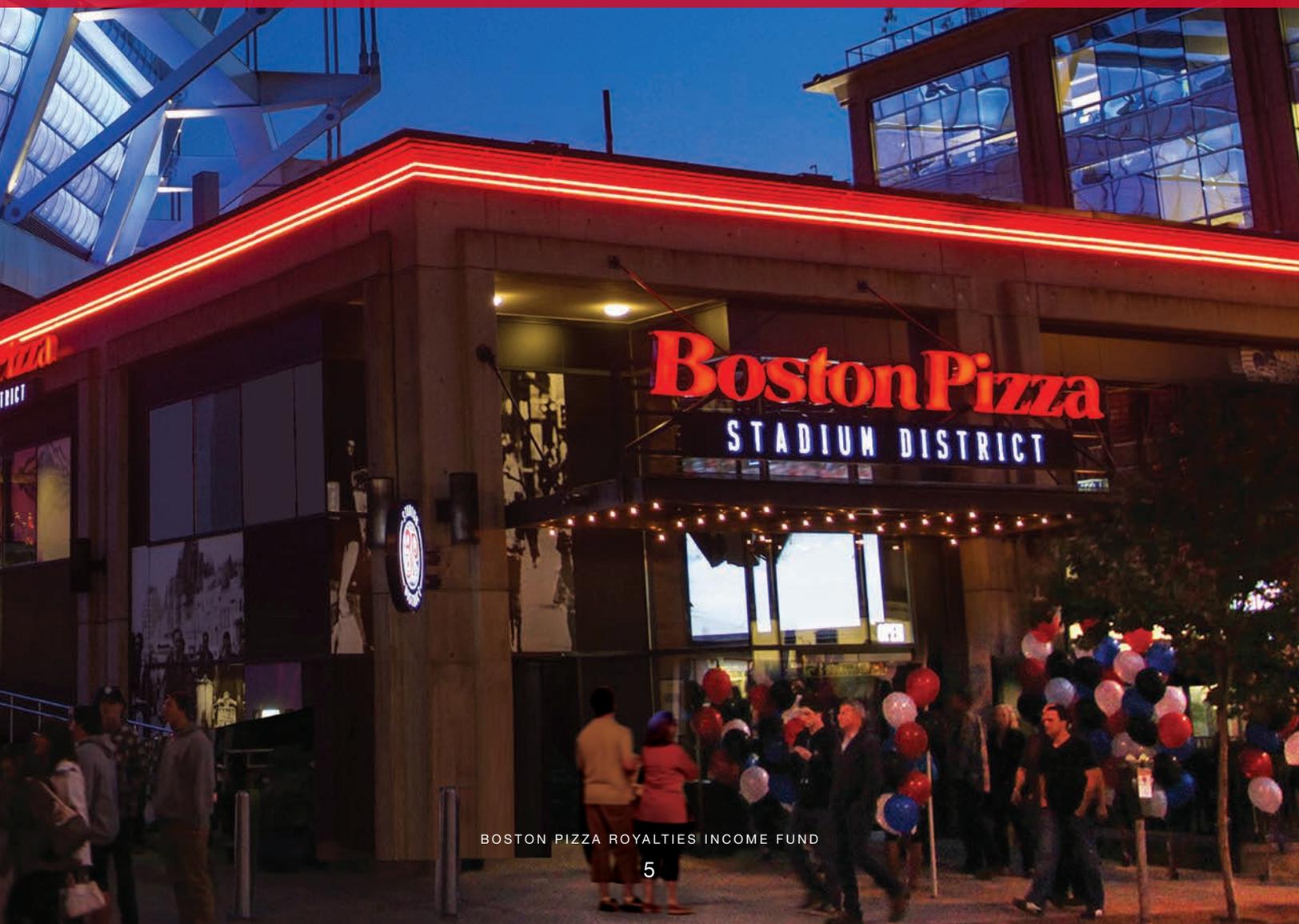
Boston Pizza Royalties Income Fund celebrates its 10-year anniversary on the Toronto Stock Exchange.

2014

Boston Pizza International Inc. achieves record sales of \$1.0 billion.

2015

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



COMMUNITY



The Boston Pizza Foundation is dedicated to programs and promotions that range from charity golf tournaments to national marketing programs, such as its Valentine's Day Heart-Shaped Pizza promotion and BP Kids Cards program.

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.

The Boston Pizza Foundation is dedicated to programs and promotions that range from charity golf tournaments to national marketing programs, such as its Valentine's Day Heart-Shaped Pizza promotion and BP Kids Cards program.

Since its inception in 1990, the Boston Pizza Foundation has raised and donated \$24 million to directly improve the health and well-being of children and families. On January 15, 2014, the Boston Pizza Foundation announced the launch of a new signature cause for its national fundraising and charitable efforts called Boston Pizza Foundation (BPF) Future Prospects. BPF Future Prospects works with leading organizations across Canada to raise money and awareness for role modeling and mentoring programs that help Canadian children and youth reach their full potential.

In 2014, BPF Future Prospects announced a five-year pledge to donate a minimum of \$1.5 million in support of mentoring programs that help increase the number of 'Bigs' participating in Big Brothers Big Sisters. In addition, BPF Future Prospects announced a commitment of \$1 million over five years to support the Rick Hansen School Program, a national initiative that inspires, empowers and engages children to make a difference in their local communities and build awareness of the importance of accessibility and inclusion.

This new direction for the Boston Pizza Foundation is the result of a deeply held and long-standing commitment to mentorship by Jim Treliving and George Melville, Boston Pizza's Chairmen and owners, who recognize the value of mentorship, from both an individual and a community level.

"For over 50 years, Boston Pizza has been involved with causes that are important to us as an organization as well as to our people," said George Melville, Chairman and Owner of BPI. "We see the impact and benefit of strong mentorship in our restaurants every day as more than 23,000 young people are employed at Boston Pizza Restaurants from coast-to-coast."

"If you ask any successful individual in business, sports, the arts or the public sector, they'll tell you that they couldn't have got to where they are today without the support and guidance of a role model or mentor," said Jim Treliving, Chairman and Owner of BPI. "We are very proud to launch BPF Future Prospects and not only give back to the community, but invest in the future of Canadian kids and inspire a new generation of leaders."

BPF Future Prospects has also committed \$1 million in support of Live Different, a Canadian not-for-profit organization that delivers motivational school assemblies and workshops through Canada's middle and secondary schools. BPF Future Prospects will also continue working with long-standing partners Kids Help Phone to ensure young people will have ongoing access to its essential, professional and innovative counselling and support services 24/7 and the JDRF Ambassador and Leadership program which provides youth and teens with type 1 diabetes opportunities for leadership, mentoring, and presentation training.

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 Boston Pizza Royalties Income Fund (the “Fund”). This report covers the period from October 1, 2016 to December 31, 2016 (the “Period”) and January 1, 2016 to December 31, 2016 (the “Year”).

HIGHLIGHTS

- System-Wide Gross Sales¹ of \$270.8 million for the Period and \$1.08 billion for the Year.
- Franchise Sales² from royalty pool restaurants of \$204.1 million for the Period and \$828.6 million for the Year, representing a decrease of 0.6% for the Period and an increase of 1.8% for the Year, versus the same periods one year ago.
- Distributable Cash³ per Unit decreased 2.6% for the Period and increased 1.8% for the Year.
- Payout Ratio⁴ of 101.1% for the Period and 98.9% for the Year. Fund’s cash balance at the end of the Year was \$3.5 million, an increase of \$0.3 million from the prior year.
- Same Store Sales Growth of negative 3.1% for the Period and negative 0.3% for the Year.
- Boston Pizza opened 11 net new full service restaurants and completed 50 restaurant renovations in 2016.
- On February 8, 2017, the Trustees declared January 2017 distributions to unitholders of 11.5 cents per Unit payable on February 28, 2017.

Readers are cautioned that they should refer to the annual consolidated financial statements and Management’s Discussion and Analysis (“MD&A”) of the Fund and Boston Pizza International Inc. (“BPI”) for the Period and 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 and BPI’s financial results.

FINANCIAL HIGHLIGHTS

Same store sales growth (“SSSG”), a key driver of distribution growth for unitholders of the Fund, was negative 3.1% for the Period and negative 0.3% for the Year compared to positive 2.2% and positive 1.8%, respectively, for the same periods in 2015. Franchise Sales, the basis upon which Royalty⁵ and Distribution Income⁵ are paid to the Fund, exclude revenue from the sale of liquor, beer, wine and approved national promotions and discounts. On a Franchise Sales basis, SSSG was negative 3.1% for the Period and negative 0.5% for the Year compared to positive 1.8% and positive 1.7%, respectively, for the same periods in 2015. The negative SSSG for the Period and Year was principally due to the progressively weaker general economic conditions in regions directly connected to the Canadian oil and gas industry, partially offset by menu re-pricing and higher sales as a result of Boston Pizza’s nachos promotion.

Franchise Sales of restaurants in the Fund’s royalty pool were \$204.1 million for the Period and \$828.6 million for the Year compared to \$205.4 million and \$814.0 million, respectively, for the same periods in 2015. The decrease in Franchise Sales for the Period was primarily due to negative SSSG partially offset by the additional Franchise Sales from six net new restaurants added to the royalty pool on January 1, 2016. The increase in Franchise Sales for the Year was primarily due to the additional Franchise Sales from six net new restaurants added to the royalty pool on January 1, 2016 partially offset by negative SSSG.

The Fund’s net and comprehensive income was \$8.7 million for the Period, relatively unchanged from the fourth quarter of 2015. The Fund’s net and comprehensive income was \$37.8 million for the Year compared to net and comprehensive income of \$19.2 million in 2015. The \$18.6 million increase in the Fund’s net and comprehensive income for the Year compared to 2015 was primarily due to a net \$19.4 million change in fair value adjustments and an increase in Distribution Income of \$2.5 million and Royalty income of \$0.5 million, partially offset by an increase in income taxes of \$2.6 million and an increase in interest and financing expense of \$1.3 million. For a detailed discussion on the Fund’s net and comprehensive income, please see the “Operating Results – Net and Comprehensive Income / Basic and Diluted Earnings” section in the Fund’s MD&A for the Period and the Year. The Fund’s net income under International Financial Reporting Standards (“IFRS”) contains non-cash items, such as the fair value adjustments on financial instruments and deferred income taxes, that do not affect the Fund’s business 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 reports the non-IFRS metrics of Distributable Cash and Payout Ratio to

LETTER FROM THE CHAIRMAN OF BOSTON PIZZA ROYALTIES INCOME FUND

provide investors with more meaningful information regarding the amount of cash that the Fund has generated to pay distributions and the extent to which the Fund has distributed that cash. 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 a reconciliation between cash flow from operating activities (the most directly comparable IFRS measure) and Distributable Cash see the “Financial Highlights” section in the Fund’s MD&A for the Period and the Year. For a detailed discussion on the Fund’s Distributable Cash and Payout Ratio, please see the “Operating Results – Distributable Cash / Payout Ratio” section in the Fund’s MD&A for the Period and the Year.

The Fund’s Distributable Cash was \$6.9 million for the Period compared to \$7.2 million for the same period in 2015. The decrease in Distributable Cash of \$0.3 million, or 3.3% was primarily due to higher interest expense on Class B Unit and Class C Unit liabilities of \$0.3 million. The Fund generated Distributable Cash of \$28.2 million for the Year compared to \$25.6 million in 2015. The increase in Distributable Cash of \$2.6 million, or 10.2%, is primarily comprised of (a) a \$2.5 million increase due to the Fund having completed the Transaction⁶ and receiving \$2.5 million more Distribution Income for the Year than in 2015, (b) a \$0.9 million increase related to the Fund having incurred an initial change in working capital of \$0.9 million (the “**Initial Working Capital Change**”) in 2015 in connection with completing the Transaction with no corresponding change to working capital for the Year, (c) \$0.5 million increase due to higher Royalty income of \$0.5 million, partially offset by (d) \$0.9 million of higher interest expense on Class B Units, and (e) \$0.4 million of higher interest expense on long-term debt. Please see the “Distributable Cash / Payout Ratio” section in the Fund’s MD&A for the Period and the Year for details regarding the Initial Working Capital Change.

The Fund’s Distributable Cash per unit of the Fund (“**Unit**”) was \$0.341 for the Period and \$1.388 for the Year compared to \$0.350 and \$1.364, respectively, for the same periods in 2015. The decrease in Distributable Cash per Unit of \$0.009 or 2.6% for the Period was primarily attributable to the combined effects of lower Distributable Cash for the Period compared to the fourth quarter of 2015 and there being fewer Units issued and outstanding during the Period compared to the fourth quarter of 2015 due to the repurchase and cancellation of Units under the Fund’s normal course issuer bids. The increase in Distributable Cash per Unit of \$0.024 or 1.8% for the Year is primarily attributable to the accretive effects of the Transaction and the Fund having incurred the Initial Working Capital Change in 2015 with no corresponding change to working capital for the Year, partially offset by the Fund issuing 5,047,613 Units on May 6, 2015 in connection with the Transaction. The percentage increase in Distributable Cash for the Year was larger than the percentage increase in Distributable Cash per Unit for the Year due to the combined effect of the Fund receiving higher Distribution Income, the Initial Working Capital Change, and the Fund issuing 5,047,613 Units on May 6, 2015.

The Fund’s Payout Ratio was 101.1% for the Period and 98.9% for the Year compared to 92.8% and 94.0%, respectively, for the same periods one year ago. The increase in the Fund’s Payout Ratio for the Period compared to the same period in 2015 was due to the combined effects of Distributable Cash for the Period decreasing by \$0.3 million, or 3.3%, and distributions paid during the Period increasing by \$0.4 million, or 5.4%. The increase in distributions paid during the Period compared to the fourth quarter of 2015 was due to the Fund increasing the monthly distribution from 10.83 cents per Unit to 11.50 cents per Unit beginning with the January 2016 distribution, which was paid on February 29, 2016 (the “**2016 Distribution Increase**”). The increase in the Fund’s Payout Ratio for the Year compared to 2015 was due to the increase in Distributable Cash for the Year, as discussed above, being less than the \$3.8 million or 16.0% increase in distributions paid for the Year. The increase in distributions paid for the Year was due to the Fund increasing the monthly distribution from 10.20 cents per Unit to 10.83 cents per Unit beginning with the April 2015 distribution, which was paid on May 29, 2015 (the “**2015 Distribution Increase**”), the 2016 Distribution Increase and the Fund issuing 5,047,613 Units on May 6, 2015 in connection with the Transaction. The Fund was able to make the 2015 Distribution Increase and 2016 Distribution Increase because of the accretive effect of the Transaction. The Fund strives to provide unitholders with consistent monthly distributions, and as a result, the Fund will generally experience seasonal fluctuations in its Payout Ratio. The Fund’s Payout Ratio is likely to be higher in the first and fourth quarters each year compared to the second and third quarters each year since Boston Pizza restaurants generally experience higher Franchise Sales during the summer months when restaurants open their patios and benefit from increased tourist traffic. Higher Franchise Sales generally result in increases in Distributable Cash. A key feature of the Fund is that it is a “top line” structure, in which BPI and BP Canada LP pay the Fund an amount based on Franchise Sales from restaurants in the Fund’s royalty

LETTER FROM THE CHAIRMAN OF BOSTON PIZZA ROYALTIES INCOME FUND

pool. Accordingly, Fund unitholders are not directly exposed to changes in the operating costs or profitability of BPI, BP Canada LP or 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.

On February 8, 2017 the trustees of the Fund approved a cash distribution to unitholders of 11.5 cents per Unit for January 2017. The distribution is payable to unitholders of record at the close of business on February 21, 2017 and will be paid on February 28, 2017. The Fund periodically reviews distribution levels based on its policy of stable and sustainable distribution flow to unitholders. Including the January 2017 distribution, which will be paid in February 2017, the Fund will have paid out 175 consecutive monthly distributions totalling \$250.2 million or \$18.00 per Unit since the Fund's initial public offering in 2002.

OUTLOOK

Boston Pizza is well positioned for future growth and should continue to strengthen its position as the number one casual dining brand in Canada by achieving positive SSSG and opening 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 and BP Canada LP's strategies to drive higher guest traffic include attracting a wide variety of guests into the restaurant, sports bar and take-out/delivery parts of each location, offering a compelling value proposition to guests and leveraging a larger marketing budget versus the previous year along with a revised calendar of national and local store promotions. Increased average cheque levels are expected to be achieved through a combination of culinary innovation and annual menu re-pricing. In addition, the franchise agreement governing each Boston Pizza Restaurant requires a complete store renovation every seven years. Restaurants typically close for two to three weeks to complete the renovation and experience an incremental sales increase in the year following the re-opening.

Boston Pizza remains well positioned for future expansion as evidenced by the 11 net new restaurants that opened in 2016 and the two new locations currently under construction. BPI's management believes that Boston Pizza will continue to serve more guests in more locations than any other casual dining brand in Canada by pursuing further restaurant development opportunities across the country.

On behalf of the Board of Trustees,



William C. Brown
Chairman, Boston Pizza Royalties Income Fund

LETTER FROM THE CHAIRMAN OF BOSTON PIZZA ROYALTIES INCOME FUND

Notes:

- 1) **"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 or BP Canada LP, as applicable, by franchised Boston Pizza restaurants in Canada, without audit or other form of independent assurance, and in the case of both (i) and (ii), including revenue from the sale of liquor, beer, wine and revenue from BPI or BP Canada LP, as applicable, approved national promotions and discounts and excluding applicable sales and similar taxes.
- 2) **"Franchise Sales"** is the basis upon which Royalty and Distribution Income are payable, and means the gross revenue: (i) of the corporate Boston Pizza restaurants in Canada owned by BPI; and (ii) reported to BPI or BP Canada LP, applicable, by franchised Boston Pizza restaurants in Canada, without audit or other form of independent assurance, and in the case of both (i) and (ii), after deducting revenue from the sale of liquor, beer, wine and revenue from BPI or BP Canada LP approved national promotions and discounts and excluding applicable sales and similar taxes. Nevertheless, BPI or BP Canada LP periodically conducts audits of the Franchise Sales reported to it by its franchisees, and the Franchise Sales reported herein include results from sales audits of earlier periods.
- 3) 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 generated for distribution on the Units. Investors are cautioned that this should not be construed as an alternative to cash flows from operating activities. For a reconciliation from this non-IFRS financial measure to cash flows from operating activities, which is the most directly comparable IFRS measure and additional information regarding this financial metric, see the Financial Highlights section in the Fund's MD&A for the Period and the Year.
- 4) Payout Ratio is calculated by dividing the distributions paid by the Fund during a period by the Distributable Cash generated in that period. 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. 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 to cash flows from operating activities. As the Payout Ratio is calculated from a formula which includes Distributable Cash, which is a non-IFRS measure, a reconciliation of Payout Ratio to an IFRS measure is not possible. For additional information regarding this financial metric, see the heading "Description of Non-IFRS and Additional IFRS Measures" in the Fund's MD&A for the Period and the Year.
- 5) The Fund licenses BPI the right to use various Boston Pizza trademarks in return for BPI paying the Fund a royalty equal to 4% of Franchise Sales of Boston Pizza restaurants in the Fund's royalty pool ("**Royalty**"). "**Distribution Income**" is income received by the Fund from the investment in BP Canada LP it completed on May 6, 2015. See the "General – Purpose of Fund / Sources of Revenue" section of the Fund's MD&A for the Period and the Year for more details.
- 6) "**Transaction**" means the transaction on May 6, 2015, where the Fund, indirectly through Holdings LP, completed an investment in BP Canada LP to effectively increase the Fund's interest in Franchise Sales of Boston Pizza restaurants in the royalty pool by 1.5%, from 4.0% to 5.5% less the pro rata portion payable to BPI in respect of its retained interest in the Fund.

Certain information in this letter constitutes "forward-looking information" that involves known and unknown risks, uncertainties, future expectations and other factors which may cause the actual results, performance or achievements of the Fund, Boston Pizza Holdings Trust, Boston Pizza Royalties Limited Partnership, Boston Pizza Holdings Limited Partnership, BP Canada LP, 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. All statements, other than statements of historical facts, included in this letter that address activities, events or developments that the Fund or management of BPI expects or anticipates will or may occur in the future, including such things as, seasonal fluctuations in the Payout Ratio, the Payout Ratio is likely to be higher in the first and fourth quarters, higher Franchise Sales generally result in increases in Distributable Cash, a Payout Ratio close to 100% will be maintained, trustees of the Fund will continue to distribute all available cash in order to maximize returns to unitholders, Boston Pizza being well positioned for future growth, the strengthening of Boston Pizza's position as the number one casual dining brand in Canada, the achievement of positive SSSG, opening of new restaurants, increases in average guest cheques levels, incremental sales increasing after store renovations, plans to pursue restaurant development opportunities and other such matters are forward-looking information. When used in this letter, forward-looking information may include words such as "anticipate", "estimate", "may", "will", "expect", "believe", "plan", "should", "continue" and other similar terminology. The material factors and assumptions used to develop the forward-looking information contained in this letter include the following: future results being similar to historical results, expectation related to future general economic conditions, business plans, receipt of franchise fees and other amounts, franchisees access to financing, pace of commercial real estate development, protection of intellectual property rights of Boston Pizza Royalties Limited Partnership and absence of changes of laws. Risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from any future results, performance or achievement expressed or implied by the forward-looking information contained herein, relate to (among others) competition, demographic trends, consumer preferences and discretionary spending patterns, business and economic conditions, legislation and regulation, Distributable Cash and reliance on operating revenues, accounting policies and practices, the results of operations and financial condition of BPI, BP Canada LP and the Fund, as well as those factors discussed under the heading "Risks and Uncertainties" in the most recent Annual Information Form of the Fund. 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 the Fund's business, please refer to the "Risks and Uncertainties" and "Note Regarding Forward-Looking Information" sections included in the Fund's MD&A for the Period and Year available at www.sedar.com and www.bpincomefund.com.

LETTER FROM THE CHIEF EXECUTIVE OFFICER 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 2016 Annual Report. This report covers the fiscal year-ended December 31, 2016.

HIGHLIGHTS

- Achieved record annual system-wide gross sales of \$1.08 billion in 2016, an increase of 2.0% compared to 2015.
- Opened 13 new Boston Pizza restaurant locations during 2016 and added 11 net new restaurants to the Fund’s royalty pool on January 1, 2017 bringing the total to 383 restaurants nationwide.
- Purchased a fourth corporate Boston Pizza restaurant in downtown Toronto, Ontario.
- Raised a record \$1.0 million in donations to Boston Pizza Foundation Future Prospects through the BP Kids Cards program, bringing the total to \$24 million raised and donated since the inception of the Boston Pizza Foundation in 1990.

Readers are cautioned that they should refer to the annual consolidated financial statements and Management’s Discussion and Analysis of BPI for the fiscal year-ended December 31, 2016, available on SEDAR at www.sedar.com and on the Boston Pizza Royalties Income Fund’s website at www.bpincomefund.com, for a full description of BPI’s financial results.

OPERATIONAL HIGHLIGHTS

For Boston Pizza, the impact of progressively weaker general economic conditions in regions directly connected to the Canadian oil and gas industry presented challenges, but we saw strength in other parts of Canada, including Ontario and British Columbia which offset most of these challenges. To help drive sales and customer traffic into our restaurants, we implemented a number of programs and initiatives to deal with the issues facing the oil and gas regions and to contribute to growth for the rest of Canada throughout 2016.

On the development front, Boston Pizza continued to open traditional locations in new markets across the country while also opening in non-traditional locations as part of a multi-channel development strategy that includes urban locations, recreation sites and conversions of existing restaurants to Boston Pizza’s. In 2016, we opened a total of 13 new Boston Pizza locations and completed 50 restaurant renovations. In the second quarter, we also purchased the Boston Pizza restaurant located at the corner of Front and John Street in downtown Toronto and underwent a significant renovation in early 2017 to update this location to our new urban prototype.

Building on the momentum established in 2015 from the launch of our new brand promise, ‘We’ll Make You a Fan’, the first quarter of 2016 focused on a new All-Star Food Campaign, ‘Hockey Happens Here’ promotion and ‘Design A Mask’ contest to increase customer traffic in our restaurants. In addition, we ran some value-based campaigns such as Pair-It-Up and 10-For-\$10 to increase take-out and delivery, and dining room sales. Also in the first quarter, Boston Pizza Foundation (**BPF**) Future Prospects saw tremendous results from our annual Valentine’s Day event, surpassing the fundraising goal by raising over \$535,000 to help support role modeling and mentoring programs that assist Canadian youth. We are very proud of Boston Pizza’s longstanding commitment to giving back in the communities where we operate.

We began the second quarter with the launch of our new nacho lineup which included Spicy Perogy Cactus Cut Nachos and Cheesesteak Cactus Cut Nachos. The nacho campaign was supported with national TV advertising, social media and in-restaurant promotions. The successful campaign saw nacho sales increase by an impressive 60% during 2016. During the second quarter we launched the Android version of our ‘MyBP’ loyalty app which has continued to gain new users since 2014, and has contributed to steady growth in online orders through bostonpizza.com. We continue to explore additional functionality for this platform and expect to extend this form of guest interaction with new engagement opportunities going forward. Also in the second quarter, the Toronto Raptors great playoff run to the Eastern Conference NBA

**LETTER FROM THE CHIEF EXECUTIVE OFFICER OF
BOSTON PIZZA INTERNATIONAL INC.**

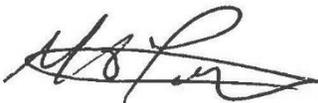
finals helped drive guests into our sports bars. Other highlights in the second quarter included the introduction of our refreshed national menu in late June.

Boston Pizza's commitment to food news and menu innovation was the focus at the start of the third quarter of 2016 with the launch of our Summer Feature menu which included our "MVB" (Most Valuable Burger). We celebrated Boston Pizza's 52nd Anniversary with our annual Fan Appreciation Day on August 8th, selling almost 90,000 individual pizzas for \$5 each. Also during the third quarter we began a new "Half Time Lunch" menu featuring a wide selection of \$10 combos and a signature 8" pizza for every day of the week. Toward the end of the third quarter, we launched the 2016 BP Kids Cards program which raised a record total of over \$1.0 million for BPF Future Prospects. Other highlights in the third quarter included several promotions focused on the kick-off of NFL regular season, the World Cup of Hockey, NHL preseason games and the Toronto Blue Jays remarkable run to the MLB playoffs including the thrilling wild-card playoff game. Boston Pizza is an official partner of the Toronto Blue Jays and we provided our guests with a real stadium experience in each of our locations during the exciting stretch run and 2016 playoff games.

In the fourth quarter, we began a new campaign centered on a 'fast lunch' experience, when ordering from the new Half-Time lunch menu, which was supported by national TV advertising and digital and social media campaigns. The fourth quarter included the start of the hockey season and we continued to promote Boston Pizza as Canada's hockey headquarters with campaigns focused on the World Cup of Hockey, World Juniors and the NHL. We ended the fourth quarter of 2016 with our successful Holiday promotion which saw in-store gift card sales increase by 17% compared to the same period in 2015 thanks in part to our bonus card offer.

Overall 2016 was a challenging year, however, we believe that with the various initiatives and programs we have in place, Boston Pizza is well positioned for positive sales growth and continued new store expansion in 2017 and should continue to strengthen our position as the number one casual dining brand in Canada.

On behalf of Boston Pizza International Inc.,



MARK PACINDA,
President & Chief Executive Officer,
Boston Pizza International Inc.

Certain information in this letter constitutes "forward-looking information" that involves known and unknown risks, uncertainties, future expectations and other factors which may cause the actual results, performance or achievements of BPI, the Boston Pizza Royalties Income Fund (the "Fund"), Boston Pizza Holdings Trust, Boston Pizza Royalties Limited Partnership, Boston Pizza Holdings Limited Partnership, Boston Pizza Canada 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 letter, forward-looking information may include words such as "anticipate", "estimate", "may", "will", "should", "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. The material factors and assumptions used to develop the forward-looking information contained in this letter include the following: future results being similar to historical results, expectation related to future general economic conditions, business plans, receipt of franchise fees and other amounts, franchisees access to financing, pace of commercial real estate development, protection of intellectual property rights of Boston Pizza Royalties Limited Partnership and absence of changes of laws. Risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from any future results, performance or achievement expressed or implied by the forward-looking information contained herein, relate to (among others) competition, demographic trends, consumer preferences and discretionary spending patterns, business and economic conditions, legislation and regulation, Distributable Cash and reliance on operating revenues, accounting policies and practices, the results of operations and financial condition of BPI and the Fund, as well as those factors discussed under the heading "Risks and Uncertainties" in the most recent Annual Information Form of the Fund. 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 our business, please refer to the "Risks and Uncertainties" and "Note Regarding Forward-Looking Information" sections included in BPI's Management's Discussion and Analysis for the fiscal year-ended December 31, 2016 available at www.sedar.com and www.bpincomefund.com.



BOSTON PIZZA ROYALTIES INCOME FUND

Management's Discussion & Analysis

14

Consolidated Financial Statements

49

MANAGEMENT'S DISCUSSION AND ANALYSIS
BOSTON PIZZA ROYALTIES INCOME FUND
For the Period and Year ended December 31, 2016

FINANCIAL HIGHLIGHTS

The tables below set out selected information from the annual consolidated financial statements of Boston Pizza Royalties Income Fund (the "**Fund**"), which includes the accounts of the Fund, its wholly-owned subsidiaries Boston Pizza Holdings Trust (the "**Trust**"), Boston Pizza Holdings GP Inc. ("**Holdings GP**") and Boston Pizza Holdings Limited Partnership ("**Holdings LP**"), its 80% owned subsidiary Boston Pizza GP Inc. ("**Royalties GP**"), and Boston Pizza Royalties Limited Partnership ("**Royalties LP**"), together with other information and should be read in conjunction with the annual consolidated financial statements of the Fund for the years ended December 31, 2016 and December 31, 2015. The Fund completed an indirect investment in Boston Pizza Canada Limited Partnership ("**BP Canada LP**") on May 6, 2015, and as a result, the information in the tables below is not necessarily directly comparable with prior historical financial statements or Management's Discussion and Analysis ("**MD&A**") of the Fund. Refer to the "General Development of the Business – Significant Acquisition – The Transaction" section of the Fund's Annual Information Form dated February 15, 2017 for more details. The financial information in the tables included in this MD&A are reported in accordance with International Financial Reporting Standards ("**IFRS**") except as otherwise noted and are stated in Canadian dollars.

<i>For the years ended December 31</i>	2016	2015	2014
<i>(in thousands of dollars – except restaurants, SSSG, Payout Ratio and per Unit items)</i>			
System-Wide Gross Sales	1,080,559	1,059,549	1,011,966
Number of restaurants in Royalty Pool	372	366	358
Franchise Sales reported by restaurants in the Royalty Pool	828,619	814,001	781,915
Royalty income	33,145	32,560	31,277
Distribution Income	10,700	8,173	-
Interest income	1,808	1,844	1,811
Total revenue	45,653	42,577	33,088
Administrative expenses	(1,174)	(1,226)	(1,022)
Interest expense on debt	(2,461)	(2,084)	(1,301)
Interest expense on Class B Unit and Class C Unit liabilities	(6,392)	(5,492)	(5,023)
Profit before fair value adjustments and income taxes	35,626	33,775	25,742
Fair value adjustment on investment in BP Canada LP	24,733	(14,869)	-
Fair value adjustment on Class B Unit liability	(12,960)	8,546	(2,115)
Fair value adjustment on interest rate swaps	702	(613)	(401)
Current and deferred income tax expense	(10,336)	(7,685)	(6,773)
Net and comprehensive income	37,765	19,154	16,453
Basic earnings per Unit	1.86	1.02	1.06
Diluted earnings per Unit	1.86	0.59	1.06
<u>Distributable Cash / Distributions / Payout Ratio</u>			
Cash flows from operating activities	36,858	33,151	25,557
Class C Unit distributions to BPI	(1,800)	(1,800)	(1,800)
BPI Class B Unit entitlement	(4,522)	(3,802)	(3,266)
Interest paid on long-term debt	(2,394)	(1,961)	(1,355)
SIFT Tax on Units	37	(24)	(64)
Distributable Cash	28,179	25,564	19,072
Distributions paid	27,876	24,037	19,012
Payout Ratio	98.9%	94.0%	99.7%
Distributable Cash per Unit	1.388	1.364	1.229
Distributions paid per Unit	1.373	1.274	1.224
<u>Other</u>			
Same store sales growth	(0.3)%	1.8%	1.7%
Number of restaurants opened	13	12	14
Number of restaurants closed	2	6	6
As at December 31			
Total assets	444,332	413,174	278,821
Total liabilities	181,120	157,151	123,153

MANAGEMENT'S DISCUSSION AND ANALYSIS
BOSTON PIZZA ROYALTIES INCOME FUND
For the Period and Year ended December 31, 2016

Notes:

- 1) Capitalized terms used in these tables are defined in this MD&A.
- 2) Distribution Income is income received by the Fund from the Fund's indirect investment in BP Canada LP completed on May 6, 2015. See the "Overview – Purpose of the Fund / Sources of Revenue" section of this MD&A for more details.
- 3) Profit before fair value adjustments and income taxes is considered an additional IFRS measure. For additional information regarding this financial metric, see the "Description of Non-IFRS and Additional IFRS Measures" section of this MD&A.
- 4) Same store sales growth, Distributable Cash and Payout Ratio are non-IFRS measures and as such, do not have standardized meanings under IFRS and therefore may not be comparable to similar measures presented by other issuers. For additional information regarding these financial metrics, including full details on how these financial metrics are calculated, see the "Description of Non-IFRS and Additional IFRS Measures" section of this MD&A.

SUMMARY OF QUARTERLY RESULTS

	Q4 2016	Q3 2016	Q2 2016	Q1 2016
<small>(in thousands of dollars – except restaurants, SSSG, Payout Ratio and per Unit items)</small>				
System-Wide Gross Sales	270,800	281,538	274,039	254,182
Number of restaurants in Royalty Pool	372	372	372	372
Franchise Sales reported by restaurants in the Royalty Pool	204,121	215,597	210,852	198,049
Royalty income	8,165	8,624	8,434	7,922
Distribution Income	2,617	2,790	2,728	2,565
Interest income	452	452	452	452
Total revenue	11,234	11,866	11,614	10,939
Administrative expenses	(299)	(292)	(296)	(287)
Interest expense on debt	(620)	(619)	(612)	(610)
Interest expense on Class B Unit and Class C Unit liabilities	(2,184)	(1,551)	(1,573)	(1,084)
Profit before fair value adjustments and income taxes	8,131	9,404	9,133	8,958
Fair value adjustment on investment in BP Canada LP	5,098	9,237	6,511	3,887
Fair value adjustment on Class B Unit liability	(2,668)	(4,833)	(3,407)	(2,052)
Fair value adjustment on interest rate swaps	967	171	7	(443)
Current and deferred income tax expense	(2,782)	(3,473)	(2,240)	(1,841)
Net and comprehensive income	8,746	10,506	10,004	8,509
Basic earnings per Unit	0.43	0.52	0.49	0.42
Diluted earnings per Unit	0.43	0.52	0.49	0.42
<u>Distributable Cash / Distributions / Payout Ratio</u>				
Cash flows from operating activities	9,128	9,718	9,323	8,689
Class C Unit distributions to BPI	(450)	(450)	(450)	(450)
BPI Class B Unit entitlement	(1,134)	(1,108)	(1,119)	(1,161)
Interest paid on long-term debt	(612)	(560)	(617)	(605)
SIFT Tax on Units	(7)	27	(20)	37
Distributable Cash	6,925	7,627	7,117	6,510
Distributions paid	6,999	6,999	6,998	6,880
Payout Ratio	101.1%	91.8%	98.3%	105.7%
Distributable Cash per Unit	0.341	0.376	0.351	0.320
Distributions paid per Unit	0.345	0.345	0.345	0.338
<u>Other</u>				
Same store sales growth	(3.1%)	(0.5%)	2.1%	0.6%
Number of restaurants opened	5	4	4	0
Number of restaurants closed	0	0	0	2

MANAGEMENT'S DISCUSSION AND ANALYSIS
BOSTON PIZZA ROYALTIES INCOME FUND
For the Period and Year ended December 31, 2016
SUMMARY OF QUARTERLY RESULTS (continued)

	Q4 2015	Q3 2015	Q2 2015	Q1 2015
<small>(in thousands of dollars – except restaurants, SSSG, Payout Ratio and per Unit items)</small>				
System-Wide Gross Sales	272,017	275,009	263,852	248,671
Number of restaurants in Royalty Pool	366	366	366	366
Franchise Sales reported by restaurants in the Royalty Pool	205,365	212,367	202,860	193,409
Royalty income	8,215	8,494	8,115	7,736
Distribution Income	2,708	2,799	2,666	-
Interest income	452	452	488	452
Total revenue	11,375	11,745	11,269	8,188
Administrative expenses	(298)	(395)	(283)	(250)
Interest expense on debt	(596)	(590)	(527)	(371)
Interest expense on Class B Unit and Class C Unit liabilities	(1,862)	(1,339)	(1,358)	(933)
Profit before fair value adjustments and income taxes	8,619	9,421	9,101	6,634
Fair value adjustment on investment in BP Canada LP	3,584	(18,453)	-	-
Fair value adjustment on Class B Unit liability	(1,634)	8,356	2,878	(1,054)
Fair value adjustment on interest rate swaps	47	(287)	172	(545)
Current and deferred income tax expense	(1,954)	(1,908)	(2,307)	(1,516)
Net and comprehensive income (loss)	8,662	(2,871)	9,844	3,519
Basic earnings (loss) per Unit	0.42	(0.14)	0.53	0.23
Diluted earnings (loss) per Unit	0.42	(0.45)	0.39	0.23
<u>Distributable Cash / Distributions / Payout Ratio</u>				
Cash flows from operating activities	9,259	9,472	8,351	6,069
Class C Unit distributions to BPI	(450)	(450)	(450)	(450)
BPI Class B Unit entitlement	(1,011)	(947)	(895)	(949)
Interest paid on long-term debt	(617)	(543)	(474)	(327)
SIFT Tax on Units	(23)	9	(94)	84
Distributable Cash	7,158	7,541	6,438	4,427
Distributions paid	6,642	6,655	6,014	4,726
Payout Ratio	92.8%	88.3%	93.4%	106.8%
Distributable Cash per Unit	0.350	0.368	0.347	0.287
Distributions paid per Unit	0.325	0.325	0.319	0.306
<u>Other</u>				
Same store sales growth	2.2%	2.7%	0.1%	2.1%
Number of restaurants opened	5	3	2	2
Number of restaurants closed	2	2	0	2

MANAGEMENT'S DISCUSSION AND ANALYSIS
BOSTON PIZZA ROYALTIES INCOME FUND
For the Period and Year ended December 31, 2016

OVERVIEW

This MD&A covers the three month period from October 1, 2016 to December 31, 2016 (the “**Period**”) and the twelve month period from January 1, 2016 to December 31, 2016 (the “**Year**”), and is dated February 15, 2017. It provides additional analysis of the operations, financial position and financial performance of the Fund and should be read in conjunction with the Fund’s applicable annual consolidated financial statements and accompanying notes. The annual consolidated financial statements of the Fund are in Canadian dollars and have been prepared in accordance with IFRS.

Purpose of the Fund / Sources of Revenue

The Fund is a limited purpose open-ended trust established in July 2002, and the units of the Fund (the “**Units**”) trade on the Toronto Stock Exchange (“**TSX**”) under the symbol BPF.UN. The Fund was originally created to acquire the BP Loan (as defined below) and, indirectly through Royalties LP, the Canadian trademarks owned by Boston Pizza International Inc. (“**BPI**”) (collectively the “**BP Rights**”¹⁾) used in connection with the operation of Boston Pizza restaurants in Canada (“**Boston Pizza Restaurants**”) and the business of BPI, its affiliated entities and franchisees (herein referred to as “**Boston Pizza**”). On May 6, 2015, the Fund, indirectly through Holdings LP, completed an investment in BP Canada LP to effectively increase the Fund’s interest in Franchise Sales (as defined below) of Boston Pizza Restaurants in the Royalty Pool (as defined below) by 1.5%, from 4.0% to 5.5% less the pro rata portion payable to BPI in respect of its retained interest in the Fund (the “**Transaction**”). BP Canada LP is a limited partnership controlled and operated by BPI and is the exclusive franchisor of Boston Pizza Restaurants in Canada. Refer to the “General Development of the Business – Significant Acquisition – The Transaction” section of the Fund’s Annual Information Form dated February 15, 2017 for more details.

The Fund has the following three principal sources of revenue:

Royalty Income

Royalties LP licenses the BP Rights to BPI in return for BPI paying Royalties LP a royalty equal to 4% (the “**Royalty**”) of Franchise Sales of those Boston Pizza Restaurants included in the Royalty Pool, as defined in the license and royalty agreement dated July 17, 2002, as amended on May 9, 2005 between Royalties LP and BPI (the “**Royalty Pool**”). As of December 31, 2016, there were 372 Boston Pizza Restaurants in the Royalty Pool.

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

Distribution Income

As part of the Transaction, Holdings LP acquired Class 1 limited partnership units (“**Class 1 LP Units**”) and Class 2 limited partnership units (“**Class 2 LP Units**”) of BP Canada LP, and BPI acquired, among other units, Class 2 general partnership units (“**Class 2 GP Units**”) of BP Canada LP, which are exchangeable into Units. The Class 1 LP Units and Class 2 LP Units entitle Holdings LP to receive distributions from BP Canada LP equal, in

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
BOSTON PIZZA ROYALTIES INCOME FUND
For the Period and Year ended December 31, 2016

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

Interest Income

As part of the Fund's initial public offering on July 17, 2002, the Fund acquired from a Canadian chartered bank the \$24.0 million loan that BPI had originally borrowed from that bank (the "**BP Loan**"). The BP Loan will become due and payable on July 17, 2042. BPI is required to pay the Fund interest on the BP Loan at the end of each month in arrears at the rate of 7.5% per annum.

Top-Line Fund / Increases in Franchise Sales

The Fund effectively has the right to receive from BPI and BP Canada LP an amount equal to 5.5% of Franchise Sales (4% of which is payable via the Royalty and 1.5% of which is payable as Distribution Income on the Class 1 LP Units and Class 2 LP Units), less the pro rata portion payable to BPI in respect of its retained interest in the Fund. A key attribute of the Fund's structure is that it is a "top-line" fund. Both Royalty and Distribution Income of the Fund are based on Franchise Sales of Boston Pizza Restaurants in the Royalty Pool and are not determined by the profitability of BPI, BP Canada LP or Boston Pizza Restaurants in the Royalty Pool. The Fund's only cash expenses are administrative expenses, interest expenses on debt, amounts paid by Royalties LP to BPI on the Class B general partnership units ("**Class B Units**") and Class C general partnership units ("**Class C Units**") of Royalties LP, and current income tax. Therefore, the Fund is not subject to the variability of earnings or expenses associated with an operating business. Given this structure, the success of the Fund depends primarily on the ability of BPI and BP Canada LP to maintain and increase Franchise Sales of Boston Pizza Restaurants in the Royalty Pool.

Increases in Franchise Sales are derived from both new Boston Pizza Restaurants added to the Royalty Pool and same store sales growth ("**SSSG**"). SSSG, a key driver of distribution growth for unitholders of the Fund ("**Unitholders**"), is the change in gross revenues of Boston Pizza Restaurants as compared to the gross revenues for the same period in the previous year (where restaurants were open for a minimum of 24 months). The two principal factors that affect SSSG are changes in customer traffic and changes in average guest cheque. These factors are dependent upon existing Boston Pizza Restaurants maintaining operational excellence, general market conditions, weather, pricing, and marketing programs undertaken by BPI and BP Canada LP. One of BPI's and BP Canada LP's competitive strengths in increasing Franchise Sales of existing locations is that BP Canada LP's franchise agreement requires that each Boston Pizza Restaurant undergo a complete store renovation every seven years and complete equipment upgrades as required by BP Canada LP. 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 applicable to that Boston Pizza Restaurant 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 from the Royalty Pool any Boston Pizza Restaurants that permanently closed since the last Adjustment Date (the "**Net New Restaurants**"). In return for adding net additional Royalty and Distribution Income from the Net New Restaurants, BPI receives the right to indirectly acquire additional Units (in respect of the Royalty, "**Class B Additional Entitlements**" and in respect of Distribution Income, "**Class 2 Additional Entitlements**", and collectively, "**Additional Entitlements**"). The calculation of Additional Entitlements is designed to be accretive to Unitholders as the expected increase in net Franchise Sales from the Net New Restaurants added to the Royalty Pool is valued at a 7.5% discount. The Additional Entitlements are calculated at 92.5% of the estimated Royalty and Distribution Income expected to be received by the Fund in respect of the Net

MANAGEMENT'S DISCUSSION AND ANALYSIS
BOSTON PIZZA ROYALTIES INCOME FUND
For the Period and Year ended December 31, 2016

New Restaurants, multiplied by one minus the effective tax rate estimated to be paid by the Fund, divided by the yield of the Fund, divided by the weighted average Unit price over a specified period. BPI receives 80% of the Additional Entitlements initially, with the balance received when the actual full year performance of the Net New Restaurants and the actual effective tax rate paid by the Fund are known with certainty (such balance of Units in respect of the increased Royalty, the “**Class B Holdback**”, and in respect of the increased Distribution Income, the “**Class 2 Holdback**”, and collectively, the “**Holdback**”). BPI receives 100% of the distributions on the Additional Entitlements throughout the year. Once the Net New Restaurants have been part of the Royalty Pool for a full year, an audit of the Franchise Sales of these restaurants is performed, and the actual effective tax rate paid by the Fund is determined. At such time an adjustment is made to reconcile distributions paid to BPI and the Additional Entitlements received by BPI.

New Store Openings, Closures and Renovations

During the Period, five new Boston Pizza Restaurants opened (Year – 13) and no Boston Pizza Restaurants closed (Year – 2). Subsequent to December 31, 2016, no Boston Pizza Restaurants opened and one Boston Pizza Restaurant closed. As well during the Period, 19 Boston Pizza Restaurants were renovated (Year – 50). Restaurants typically close for two to three weeks to complete the renovation and experience an incremental sales increase in the year following the re-opening. Subsequent to December 31, 2016, two additional restaurants were renovated. The total number of Boston Pizza Restaurants in operation as of February 15, 2017 is 382.

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 each year compared to the first and fourth quarters. Tourism is also a seasonal factor positively impacting the second and third quarters of each year. The effect of seasonality impacts the Fund's Distributable Cash and Payout Ratio.

OPERATING RESULTS

Same Store Sales Growth and Franchise Sales

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

Period

SSSG was negative 3.1% for the Period compared to positive 2.2% SSSG reported in the fourth quarter of 2015. Franchise Sales, the basis upon which the Royalty and Distribution Income are paid by BPI and BP Canada LP, respectively, indirectly to the Fund, excludes revenue from sales of liquor, beer, wine and approved national promotions and discounts. On a Franchise Sales basis, SSSG was negative 3.1% for the Period compared to positive 1.8% for the fourth quarter of 2015. The negative SSSG for the Period was principally due to the impact of progressively weaker general economic conditions in regions directly connected to the Canadian oil and gas industry, partially offset by menu re-pricing and higher sales as a result of Boston Pizza's nachos promotion.

Franchise Sales of Boston Pizza Restaurants in the Royalty Pool were \$204.1 million for the Period compared to \$205.4 million for the fourth quarter of 2015. The \$1.3 million decrease in Franchise Sales for the Period was primarily due to negative SSSG partially offset by the additional Franchise Sales from six Net New Restaurants added to the Royalty Pool on January 1, 2016.

MANAGEMENT'S DISCUSSION AND ANALYSIS
BOSTON PIZZA ROYALTIES INCOME FUND
For the Period and Year ended December 31, 2016

Year

SSSG was negative 0.3% for the Year compared to positive 1.8% SSSG reported in 2015. On a Franchise Sales basis, SSSG was negative 0.5% for the Year compared to positive 1.7% in 2015. The negative SSSG for the Year was principally due to the impact of progressively weaker general economic conditions in regions directly connected to the Canadian oil and gas industry, partially offset by menu re-pricing and higher sales as a result of Boston Pizza's nachos promotion.

Franchise Sales of Boston Pizza Restaurants in the Royalty Pool were \$828.6 million for the Year compared to \$814.0 million in 2015. The \$14.6 million increase in Franchise Sales for the Year was primarily due to the additional Franchise Sales from six Net New Restaurants added to the Royalty Pool on January 1, 2016 partially offset by negative SSSG.

Royalty Income

Period

Royalty income earned by the Fund was \$8.2 million for the Period, relatively unchanged from the fourth quarter of 2015. Royalty income in respect of the Period was based on the Royalty Pool of 372 Boston Pizza Restaurants reporting Franchise Sales of \$204.1 million for the Period. In the fourth quarter of 2015, Royalty income was based on the Royalty Pool of 366 Boston Pizza Restaurants reporting Franchise Sales of \$205.4 million.

Year

Royalty income earned by the Fund was \$33.1 million for the Year compared to \$32.6 million in 2015. Royalty income in respect of the Year was based on the Royalty Pool of 372 Boston Pizza Restaurants reporting Franchise Sales of \$828.6 million for the Year. In 2015, Royalty income was based on the Royalty Pool of 366 Boston Pizza Restaurants reporting Franchise Sales of \$814.0 million. The \$0.5 million increase in Royalty income for the Year was primarily due to the additional Franchise Sales from six Net New Restaurants added to the Royalty Pool on January 1, 2016 partially offset by negative SSSG.

Distribution Income

Period

Distribution Income earned by the Fund was \$2.6 million for the Period compared to \$2.7 million earned in the fourth quarter of 2015. Distribution Income in respect of the Period was based on the Royalty Pool of 372 Boston Pizza Restaurants reporting Franchise Sales of \$204.1 million for the Period. In the fourth quarter of 2015, Distribution Income was based on the Royalty Pool of 366 Boston Pizza Restaurants reporting Franchise Sales of \$205.4 million. The \$0.1 million decrease in distribution income was primarily due to negative SSSG partially offset by the additional Franchise Sales from six Net New Restaurants added to the Royalty Pool on January 1, 2016.

Year

Distribution Income earned by the Fund was \$10.7 million for the Year compared to \$8.2 million in 2015. The \$2.5 million increase in Distribution Income for the Year was primarily due to the Fund not having earned any Distribution Income during the first quarter of 2015 as the Fund obtained the right to obtain Distribution Income through its ownership of Class 1 LP Units and Class 2 LP Units, which it indirectly acquired on May 6, 2015 as part of the Transaction.

Interest Income

Period

Interest income earned by the Fund was \$0.5 million for the Period, relatively unchanged from the fourth quarter of 2015. The Fund's interest income was mainly derived from the BP Loan.

MANAGEMENT'S DISCUSSION AND ANALYSIS
BOSTON PIZZA ROYALTIES INCOME FUND
For the Period and Year ended December 31, 2016

Year

Interest income earned by the Fund was \$1.8 million for the Year, relatively unchanged from 2015.

Administrative Expenses

Period

Administrative expenses incurred by the Fund were \$0.3 million for the Period, relatively unchanged from the fourth quarter of 2015. Administrative expenses are comprised of professional fees, trustee fees and expenses, the administration charge payable to BPI and other general and administrative expenses.

Year

Administrative expenses incurred by the Fund were \$1.2 million for the Year, relatively unchanged from 2015.

Interest and Financing Expenses

Period

Interest and financing expenses incurred by the Fund totaled \$2.8 million for the Period, comprised of interest on long-term debt of \$0.6 million and interest on Class B Unit and Class C Unit liabilities of \$2.2 million. Interest and financing expenses incurred by the Fund were \$2.5 million for the fourth quarter of 2015, comprised of interest on long-term debt of \$0.6 million, and interest on Class B Unit and Class C Unit liabilities of \$1.9 million. The Class B Units and Class C Units are classified under IFRS as financial liabilities and therefore, amounts paid by Royalties LP to BPI in respect of the Class B Units and Class C Units are classified as interest expense and not distributions. The increase in interest and financing expenses in the Period was primarily due to an increase in interest on Class B Units resulting from an increase in the number of Units into which the Class B Units held by BPI during the Period were exchangeable compared to the same period in 2015. The number of Units into which the Class B Units were exchangeable increased as a result of the six Net New Restaurants added to the Royalty Pool on January 1, 2016 and the adjustment of the Holdback that occurred in the first quarter of 2016 in respect of the eight Net New Restaurants added to the Royalty Pool on January 1, 2015.

Year

Interest and financing expenses incurred by the Fund totaled \$8.9 million for the Year, comprised of interest on long-term debt of \$2.5 million and interest on Class B Unit and Class C Unit liabilities of \$6.4 million. Interest and financing expenses incurred by the Fund were \$7.6 million in 2015, comprised of interest on long-term debt of \$2.1 million, and interest on Class B Unit and Class C Unit liabilities of \$5.5 million. The increase in interest and financing expenses for the Year was primarily due to an increase in interest on Class B Units resulting from an increase in the number of Units into which the Class B Units held by BPI during the Year were exchangeable compared to 2015. The number of Units into which the Class B Units were exchangeable increased as a result of the six Net New Restaurants added to the Royalty Pool on January 1, 2016 and the adjustment of the Holdback that occurred in the first quarter of 2016 in respect of the eight Net New Restaurants added to the Royalty Pool on January 1, 2015. The increase in interest on long-term debt resulted from a higher outstanding debt balance for the Year in comparison to the outstanding debt balance in 2015 as a result of the Fund having drawn down Facility D by \$33.3 million in connection with the Transaction, and the Fund acquiring Units under the 2015/2016 NCIB (as defined below).

Profit before Fair Value Adjustments and Income Taxes

Period

The Fund's profit before fair value adjustments and income taxes was \$8.1 million for the Period compared to \$8.6 million in the fourth quarter of 2015. The \$0.5 million decrease in profit before fair value adjustments and income

MANAGEMENT'S DISCUSSION AND ANALYSIS
BOSTON PIZZA ROYALTIES INCOME FUND
For the Period and Year ended December 31, 2016

taxes for the Period was principally due to higher interest cost on Class B Unit and Class C Unit liabilities of \$0.3 million combined with nominal decreases in Royalty income and Distribution Income as outlined above.

Year

The Fund's profit before fair value adjustments and income taxes was \$35.6 million for the Year compared to \$33.8 million in 2015. The \$1.8 million increase in profit before fair value adjustments and income taxes for the Year was principally due to higher Distribution Income of \$2.5 million and higher Royalty income of \$0.5 million, partially offset by higher interest and financing expense of \$1.3 million.

Fair Value Adjustments

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

Period

The Fund indirectly acquired the Class 1 LP Units on May 6, 2015 for \$33.3 million. The Class 1 LP Units are entitled to distributions determined with respect to the interest cost payable on Facility D. The Fund estimates the fair value of the Class 1 LP Units using a market-corroborated input, being the interest rate applicable on Facility D. Consequently, the Fund estimated the fair value of Class 1 LP Units as at December 31, 2016 to be \$33.3 million (September 30, 2016 – \$33.3 million), resulting in no fair value adjustment for the Period.

The Fund estimates the fair value of the Class 2 LP Units by multiplying the number of Class 2 LP Units indirectly held by the Fund at the end of the Period by the closing price of the Units at the end of the Period (or previous business day, if such day is not a business day). As at December 31, 2016, the Fund indirectly held 5,047,613 Class 2 LP Units (September 30, 2016 – 5,047,613) and the Fund's closing price was \$22.83 per Unit (September 30, 2016 – \$21.82 per Unit). Consequently, the Fund estimated the fair value of the Class 2 LP Units as at December 31, 2016 to be \$115.2 million (September 30, 2016 – \$110.1 million), resulting in a fair value gain of \$5.1 million for the Period. In general, the fair value of the Class 2 LP Units will increase as the market price of Units increases and vice versa.

The Fund estimates the fair value of the Class B Unit liability by multiplying the number of Units that BPI would be entitled to receive if it exchanged all of the Class B Units (including the Class B Holdback) held by BPI at the end of the Period by the closing price of the Units at the end of the Period (or previous business day, if such day is not a business day). As at December 31, 2016, the Fund's closing price was \$22.83 per Unit (September 30, 2016 – \$21.82 per Unit) while the number of Units BPI would be entitled to receive if it exchanged all of its Class B Units (including the Class B Holdback) was 2,640,989 (September 30, 2016 – 2,640,989). Consequently, the Class B Unit liability (on a fully-diluted basis) was valued at \$60.3 million (September 30, 2016 – \$57.6 million). The difference between the Class B Unit liability at the end of the Period and September 30, 2016 is a fair value loss of \$2.7 million. In general, the Fund's Class B Unit liability will increase as the market price of Units increases and vice versa. In addition, the Fund's Class B Unit liability increases as the number of Units BPI would be entitled to receive if it exchanged all of its Class B Units (including the Class B Holdback) increases and vice versa.

The Fund recorded a fair value gain of \$1.0 million in the Period as a result of the increase in the fair value of the Swaps (as defined below) from September 30, 2016 to December 31, 2016 due to changes in interest rates during the Period. For the same period in 2015, the Fund recorded a nominal fair value gain as a result of the increase in the fair value of the Swaps from September 30, 2015 to December 31, 2015 due to changes in interest rates.

MANAGEMENT'S DISCUSSION AND ANALYSIS
BOSTON PIZZA ROYALTIES INCOME FUND
For the Period and Year ended December 31, 2016

Year

The Fund indirectly acquired the Class 1 LP Units on May 6, 2015 for \$33.3 million. As discussed above, the Fund estimated the fair value of the Class 1 LP Units for the Year to be \$33.3 million as at December 31, 2016 (December 31, 2015 – \$33.3 million), resulting in no fair value adjustment for the Year.

As at December 31, 2015, the Fund indirectly held 5,047,613 Class 2 LP Units and the Fund's closing price was \$17.93 per Unit. Consequently, the Fund estimated the fair value of the Class 2 LP Units as at December 31, 2015 to be \$90.5 million. As discussed above, the Fund estimated the fair value of the Class 2 LP Units as at December 31, 2016 to be \$115.2 million, resulting in a fair value gain of \$24.7 million for the Year.

As at December 31, 2015, the number of issued and outstanding Class B Additional Entitlements (including the Class B Holdback) held by BPI was 2,302,075 and the Fund's closing price was \$17.93 per Unit. The Class B Unit liability (on a fully-diluted basis) as at December 31, 2015 was valued at \$41.3 million. As discussed above, the Class B Unit liability as at the end of the Year was valued at \$60.3 million. The difference between the Class B Unit liability at the end of the Year and December 31, 2015 is an increase of \$19.0 million, comprised of \$6.1 million of Class B Additional Entitlements received by BPI on January 1, 2016, and a fair value loss of \$13.0 million.

The Fund recorded a fair value gain of \$0.7 million for the Year as a result of the increase in the fair value of the Swaps from December 31, 2015 to December 31, 2016 due to changes in interest rates. For 2015, the Fund recorded a loss of \$0.6 million as a result of the change in the fair value of the Swaps from December 31, 2014 to December 31, 2015.

Income Taxes

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

Period

The Fund's income tax expense for the Period was \$2.8 million, comprised of \$1.8 million in current income tax expense and \$1.0 million of non-cash deferred income taxes. The Fund's income tax expense for the fourth quarter of 2015 was \$2.0 million comprised of \$1.8 million in current income tax expense and \$0.2 million of non-cash deferred income taxes. The \$0.8 million increase in non-cash deferred income tax expense compared to the same period in 2015 was due to changes in the temporary differences between the accounting and tax base of: (i) the BP Rights owned by Royalties LP generated since the inception of the Fund; (ii) the Fund's indirect investment in BP Canada LP; and (iii) the deferred tax benefit associated with Fund's costs of issuing securities as part of the Transaction.

Year

The Fund's income tax expense for the Year was \$10.3 million, comprised of \$7.6 million in current income tax expense and \$2.7 million of non-cash deferred income taxes. The Fund's income tax expense in 2015 was \$7.7 million comprised of \$7.3 million in current income tax expense and \$0.4 million of non-cash deferred income taxes. The increase in current income tax expense of \$0.3 million was a result of the increase in the Fund's profit before fair value adjustments and income taxes for the Year, largely driven by the Fund obtaining the right to Distribution Income upon completion of the Transaction. The \$2.3 million increase in non-cash deferred income tax expense compared to 2015 was due to changes in the temporary differences between the accounting and tax base of: (i) the BP Rights owned by Royalties LP generated since the inception of the Fund; (ii) the Fund's indirect investment in BP Canada LP; and (iii) the deferred tax benefit associated with the Fund's costs of issuing securities as part of the Transaction.

MANAGEMENT'S DISCUSSION AND ANALYSIS
BOSTON PIZZA ROYALTIES INCOME FUND
For the Period and Year ended December 31, 2016

Net and Comprehensive Income (Loss) / Basic and Diluted Earnings (Loss)

Period

The Fund's net and comprehensive income was \$8.7 million for the Period, relatively unchanged from the fourth quarter of 2015. The Fund's basic earnings per Unit was \$0.43 for the Period compared to basic earnings per Unit of \$0.42 for the fourth quarter of 2015. The Fund's diluted earnings per Unit was \$0.43 for the Period compared to diluted earnings per Unit of \$0.42 for the fourth quarter of 2015.

Year

The Fund's net and comprehensive income was \$37.8 million for the Year compared to net and comprehensive income of \$19.2 million in 2015. The Fund's basic earnings per Unit was \$1.86 for the Year compared to basic earnings per Unit of \$1.02 in 2015. The Fund's diluted earnings per Unit was \$1.86 for the Year compared to diluted earnings per Unit of \$0.59 in 2015. The \$18.6 million increase in the Fund's net and comprehensive income compared to 2015 was primarily due to a net \$19.4 million change in fair value adjustments and an increase in Distribution Income of \$2.5 million and Royalty income of \$0.5 million, partially offset by an increase in income taxes of \$2.6 million and an increase in interest and financing expense of \$1.3 million.

Distributions

Period

During the Period, the Fund declared distributions on the Units in the aggregate amount of \$9.3 million or \$0.460 per Unit, compared to \$8.9 million or \$0.433 per Unit during the same period in 2015. The increase in both the aggregate amount of distributions declared on the Units and the amount of distributions per Unit declared during the Period compared to the same period in 2015 was due to the Fund increasing the monthly distribution from 10.83 cents per Unit to 11.50 cents per Unit beginning with the January 2016 distribution (which was paid on February 29, 2016) (the "**2016 Distribution Increase**"). The Fund was able to make the 2016 Distribution Increase because of the accretive effect of the Transaction.

Year

During the Year, the Fund declared distributions on the Units in the aggregate amount of \$28.0 million or \$1.38 per Unit, compared to \$24.7 million or \$1.281 per Unit in 2015. The increase in the aggregate amount of distributions declared on the Units for the Year compared to 2015 was due to a combination of the Fund issuing 5,047,613 Units on May 6, 2015 in connection with the Transaction, the 2016 Distribution Increase and the Fund increasing the monthly distribution from 10.20 cents per Unit to 10.83 cents per Unit beginning with the April 2015 distribution (which was paid on May 29, 2015) (the "**2015 Distribution Increase**"). The increase in the amount of distributions per Unit declared for the Year compared to 2015 was due to the 2015 Distribution Increase and the 2016 Distribution Increase.

On February 15, 2017, the trustees of the Fund approved a cash distribution to Unitholders of 11.50 cents per Unit in respect of the period from January 1, 2017 to January 31, 2017. This distribution will be payable to Unitholders of record at the close of business on February 21, 2017, and will be paid on February 28, 2017.

Under the amended and restated declaration of trust dated December 7, 2010 governing the Fund (the "**Declaration of Trust**"), the Fund pays distributions on the Units in respect of any particular calendar month not later than the last business day of the immediately subsequent month. Consequently, distributions payable by the Fund on the Units in respect of the Period were the October 2016 distribution (which was paid on November 30, 2016), the November 2016 distribution (which was paid on December 30, 2016), and the December 2016 distribution (which was paid on January 31, 2017). Similarly, the distributions payable by the Fund on the Units in respect of any other period are the distributions paid in the immediately subsequent month of each month comprising such other period.

MANAGEMENT'S DISCUSSION AND ANALYSIS
BOSTON PIZZA ROYALTIES INCOME FUND
For the Period and Year ended December 31, 2016

As at February 15, 2017, the Fund had paid out 174 consecutive monthly distributions totaling \$247.9 million or \$17.88 per Unit. Unitholders have received 18 distribution increases since the Fund's initial public offering of Units in 2002. Distributions related to the Year were as follows:

PERIOD	PAYMENT DATE	AMOUNT/UNIT
December 1 – 31, 2015	January 29, 2016	10.83¢
January 1 – 31, 2016	February 29, 2016	11.50¢
February 1 – 29, 2016	March 31, 2016	11.50¢
March 1 – 31, 2016	April 29, 2016	11.50¢
April 1 – 30, 2016	May 31, 2016	11.50¢
May 1 – 31, 2016	June 30, 2016	11.50¢
June 1 – 30, 2016	July 29, 2016	11.50¢
July 1 – 31, 2016	August 31, 2016	11.50¢
August 1 – 31, 2016	September 30, 2016	11.50¢
September 1 – 30, 2016	October 31, 2016	11.50¢
October 1 – 31, 2016	November 30, 2016	11.50¢
November 1 – 30, 2016	December 30, 2016	11.50¢
December 1 – 31, 2016	January 31, 2017*	11.50¢

* Paid subsequent to the Period and the Year.

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

Distributable Cash / Payout Ratio

Distributable Cash

Period

The Fund generated Distributable Cash of \$6.9 million for the Period compared to \$7.2 million for the fourth quarter of 2015. The decrease in Distributable Cash of \$0.3 million, or 3.3% was primarily due to higher interest expense on Class B Unit and Class C Unit liabilities of \$0.3 million. See the "Operating Results – Interest and Financing Expenses" section above for more details.

The Fund generated Distributable Cash per Unit of \$0.341 for the Period compared to \$0.350 per Unit for the fourth quarter of 2015. The decrease in Distributable Cash per Unit of \$0.009 or 2.6% was primarily attributable to the combined effects of lower Distributable Cash for the Period compared to the fourth quarter of 2015 and there being fewer Units issued and outstanding during the Period compared to the fourth quarter of 2015 due to the repurchase and cancellation of Units under the Fund's 2015/2016 NCIB.

MANAGEMENT'S DISCUSSION AND ANALYSIS
BOSTON PIZZA ROYALTIES INCOME FUND
For the Period and Year ended December 31, 2016

Year

The Fund generated Distributable Cash of \$28.2 million for the Year compared to \$25.6 million in 2015. The increase in Distributable Cash of \$2.6 million, or 10.2%, is primarily comprised of (a) a \$2.5 million increase due to the Fund having completed the Transaction and receiving \$2.5 million more Distribution Income for the Year than in 2015, (b) a \$0.9 million increase related to the Fund having incurred an initial change in working capital of \$0.9 million (the “**Initial Working Capital Change**”) in 2015 in connection with completing the Transaction with no corresponding change to working capital for the Year, (c) \$0.5 million increase due to higher Royalty income of \$0.5 million, partially offset by (d) \$0.9 million of higher interest expense on Class B Units, and (e) \$0.4 million of higher interest expense on long-term debt. The Initial Working Capital Change occurred in 2015 due to a combination of: (i) the commencement of the Fund being entitled to receive Distribution Income from BP Canada LP as a result of the completion of the Transaction on May 6, 2015; and (ii) the Distribution Income generated in respect of a month only being payable by BP Canada LP to Holdings LP in the immediately subsequent month. In 2015, Holdings LP was entitled to receive Distribution Income from BP Canada LP in respect of April 2015 to December 2015, which was paid in the immediately subsequent month from the month in which the Distribution Income was generated. Accordingly, as at December 31, 2015 the Fund had a Distribution Income receivable of \$0.9 million that related to December 2015 but that was paid by BP Canada LP in January 2016, without having a corresponding Distribution Income receivable for 2014. As at December 31, 2016, the Fund had a Distribution Income receivable of \$0.9 million that related to December 2016 but that was paid by BP Canada LP in January 2017, being relatively the same amount as the Distribution Income receivable as at December 31, 2015.

The Fund generated Distributable Cash per Unit of \$1.388 for the Year compared to \$1.364 per Unit in 2015. The increase in Distributable Cash per Unit of \$0.024 or 1.8% is primarily attributable to the accretive effects of the Transaction and the Fund having incurred the Initial Working Capital Change in 2015 with no corresponding change to working capital for the Year, partially offset by the Fund issuing 5,047,613 Units on May 6, 2015 in connection with the Transaction. The percentage increase in Distributable Cash for the Year was larger than the percentage increase in Distributable Cash per Unit for the Year due to the combined effect of the Fund receiving higher Distribution Income, the Initial Working Capital Change, and the Fund issuing 5,047,613 Units on May 6, 2015.

The Fund's Distributable Cash and Distributable Cash per Unit since January 1, 2014, generated in each financial quarter, are as follows:

Distributable Cash

<i>(in millions of dollars)</i>	Q1	Q2	Q3	Q4	Annual
2016	\$ 6.5	\$ 7.1	\$ 7.6	\$ 6.9	\$ 28.2
2015	\$ 4.4	\$ 6.4	\$ 7.5	\$ 7.2	\$ 25.6
2014	\$ 4.1	\$ 4.9	\$ 5.2	\$ 4.8	\$ 19.1

Distributable Cash per Unit

	Q1	Q2	Q3	Q4	Annual
2016	\$ 0.320	\$ 0.351	\$ 0.376	\$ 0.341	\$ 1.388
2015	\$ 0.287	\$ 0.347	\$ 0.368	\$ 0.350	\$ 1.364
2014	\$ 0.272	\$ 0.313	\$ 0.335	\$ 0.309	\$ 1.229

Payout Ratio

Period

The Fund's Payout Ratio for the Period was 101.1% compared to 92.8% in the same period in 2015. The increase in the Fund's Payout Ratio for the Period compared to the same period in 2015 was due to the combined effects of Distributable Cash for the Period decreasing by \$0.3 million, or 3.3%, and distributions paid during the Period

MANAGEMENT'S DISCUSSION AND ANALYSIS
BOSTON PIZZA ROYALTIES INCOME FUND
For the Period and Year ended December 31, 2016

increasing by \$0.4 million, or 5.4%, as discussed above. The increase in distributions paid during the Period compared to the fourth quarter of 2015 was due to the 2016 Distribution Increase.

Year

The Fund's Payout Ratio for the Year was 98.9% compared to 94.0% in 2015. The increase in the Fund's Payout Ratio for the Year compared to 2015 was due to the increase in Distributable Cash for the Year, as discussed above, being less than the \$3.8 million or 16.0% increase in distributions paid for the Year. The increase in distributions paid for the Year was due to the 2015 Distribution Increase, the 2016 Distribution Increase and the Fund issuing 5,047,613 Units on May 6, 2015 in connection with the Transaction.

A key feature of the Fund is that it is a "top line" structure, in which BPI and BP Canada LP pay the Fund an amount based on 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, BP Canada LP 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 an annual 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 Fund's quarterly and annual Payout Ratios with respect to each financial quarter since January 1, 2014 are as follows:

	Q1	Q2	Q3	Q4	Annual
2016	105.7%	98.3%	91.8%	101.1%	98.9%
2015	106.8%	93.4%	88.3%	92.8%	94.0%
2014	113.2%	97.7%	91.3%	99.2%	99.7%

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

New Restaurants Added to the Royalty Pool

Boston Pizza Restaurants Added to Royalty Pool on January 1, 2016

On January 1, 2016, 12 new Boston Pizza Restaurants that opened across Canada between January 1, 2015 and December 31, 2015 were added to the Royalty Pool and the six restaurants that permanently closed during 2015 were removed from the Royalty Pool. The estimated 2016 annual Franchise Sales for the 12 new Boston Pizza Restaurants that opened less the revenue from the six permanent closures was \$14.5 million. The estimated Royalty and Distribution Income expected to be received by the Fund in 2016 from these six Net New Restaurants was 5.5% of that amount, or approximately \$0.8 million. The pre-tax amount for the purposes of calculating the Additional Entitlements, therefore, was approximately \$0.7 million, or 92.5% of \$0.8 million. The estimated effective tax rate that the Fund paid in the calendar year 2016 was 24.0%. Accordingly, the after-tax additional Royalty and Distribution Income for the purposes of calculating the Additional Entitlements was approximately \$0.6 million (\$0.7 million x (1 - 0.24)). In return for adding net additional Royalty and Distribution Income from the six Net New Restaurants added to the Royalty Pool, BPI received 349,023 Additional Entitlements (representing 80% of the estimated total Additional Entitlements), comprised of 253,835 Class B Additional Entitlements and 95,188 Class 2 Additional Entitlements, and the Holdback was 87,256 Additional Entitlements (representing 20% of the estimated total Additional Entitlements), comprised of 63,459 Class B Holdback and 23,797 Class 2 Holdback. The 349,023 Additional Entitlements represented 1.5% of Fund Units on a fully diluted basis on January 1, 2016. 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

MANAGEMENT'S DISCUSSION AND ANALYSIS
BOSTON PIZZA ROYALTIES INCOME FUND
For the Period and Year ended December 31, 2016

actual performance of these six Net New Restaurants and the actual effective tax rate paid by the Fund for 2016 were known. See "Subsequent Events" below.

Audit of Boston Pizza Restaurants Added to Royalty Pool on January 1, 2015

In January 2016, an audit of the Franchise Sales of the 14 new Boston Pizza Restaurants that were added to the Royalty Pool on January 1, 2015 was performed and the Fund's actual effective tax rate for 2015 was determined. The purpose of this was to compare the actual Franchise Sales from these 14 new Boston Pizza Restaurants to the estimated amount of Franchise Sales expected to be generated by these 14 new Boston Pizza Restaurants in 2015 and to compare the actual effective tax rate paid by the Fund for 2015 to the estimated effective tax rate the Fund expected to pay for 2015. The original Franchise Sales expected to be generated from these 14 new Boston Pizza Restaurants less the Franchise Sales from the six permanent closures that occurred in 2014 was \$16.7 million, and the actual Franchise Sales generated from these eight Net New Restaurants was \$0.2 million greater. The original effective tax rate for the Fund was expected to be 26.0% and the actual effective tax rate for the Fund for 2015 was 22.6%. As a result, Royalties LP increased interest paid to BPI by a nominal amount in January 2016 to reconcile the difference paid on the full number of Class B Additional Entitlements and the effective tax rate. BPI received only 80% of the Class B Additional Entitlements at the Adjustment Date in 2015. Following the audit, BPI received 96,325 Class B Additional Entitlements. No adjustment was made in respect of Class 2 Additional Entitlements as the Transaction had not occurred as at January 1, 2015 and BPI did not receive any Class 2 Additional Entitlements in respect of the eight Net New Restaurants added to the Royalty Pool on January 1, 2015.

Normal Course Issuer Bids

On December 22, 2015, the Fund announced that it had received TSX approval of a Notice of Intention to make a Normal Course Issuer Bid through the facilities of the TSX or other Canadian marketplaces from December 29, 2015 to no later than December 28, 2016 (the "**2015/2016 NCIB**"). The 2015/2016 NCIB permitted the Fund to repurchase for cancellation up to 500,000 Units, being approximately 2.4% of the Fund's issued and outstanding Units (as at December 21, 2015). The Fund did not acquire any Units under the 2015/2016 NCIB during the Period and the 2015/2016 NCIB expired on December 28, 2016. The Fund acquired a total of 155,700 Units under the 2015/2016 NCIB at an average price of \$16.58 per Unit, all of which were acquired during the first quarter of 2016. All Units acquired under the 2015/2016 NCIB were cancelled.

Subsequent Events

Boston Pizza Restaurants Added to Royalty Pool on January 1, 2017

On January 1, 2017, 13 new Boston Pizza Restaurants that opened across Canada between January 1, 2016 and December 31, 2016 were added to the Royalty Pool and the two restaurants that permanently closed during 2016 were removed from the Royalty Pool. The estimated 2017 annual Franchise Sales for the 13 new Boston Pizza Restaurants that opened less the Franchise Sales from the two permanent closures is \$18.4 million. The estimated Royalty and Distribution Income expected to be received by the Fund in 2017 from these 11 Net New Restaurants is 5.5% of that amount, or approximately \$1.0 million. The pre-tax amount for the purposes of calculating the Additional Entitlements, therefore, is approximately \$0.9 million, or 92.5% of \$1.0 million. The estimated effective tax rate that the Fund will pay in the calendar year 2017 is 24.0%. Accordingly, the after-tax additional Royalty and Distribution Income for the purposes of calculating the Additional Entitlements is approximately \$0.7 million (\$0.9 million x (1 - 0.24)). In return for adding net additional Royalty and Distribution Income from the 11 Net New Restaurants added to the Royalty Pool, BPI received 415,229 Additional Entitlements (representing 80% of the estimated total Additional Entitlements), comprised of 301,985 Class B Additional Entitlements and 113,244 Class 2 Additional Entitlements, and the Holdback was 103,807 Additional Entitlements (representing 20% of the estimated total Additional Entitlements), comprised of 75,496 Class B Holdback and 28,311 Class 2 Holdback. The 415,229 Additional Entitlements represented 1.7% of Fund Units on a fully diluted basis on January 1, 2017. The full 519,036 Additional Entitlements (being 415,229 Additional Entitlements received by BPI plus the 103,807 Holdback) represented 2.1% of the Fund Units on a fully diluted basis on January 1, 2017. BPI receives an increase in monthly distributions based on 100% of the Additional Entitlements, subject to a reconciliation of the distributions paid to BPI in respect of these Additional Entitlements that will occur once the actual performance of

MANAGEMENT'S DISCUSSION AND ANALYSIS
BOSTON PIZZA ROYALTIES INCOME FUND
For the Period and Year ended December 31, 2016

these 11 Net New Restaurants and the actual effective tax rate paid by the Fund for 2017 are known. Once both the actual performance of these 11 Net New Restaurants for 2017 and the actual effective tax rate paid by the Fund for 2017 are known, the number of Additional Entitlements will be adjusted in 2018 to reflect the actual Royalty and Distribution Income received by the Fund in 2017 and actual effective tax rate paid by the Fund in 2017.

Audit of Boston Pizza Restaurants Added to Royalty Pool on January 1, 2016

In January 2017, an audit of the Franchise Sales of the 12 new Boston Pizza Restaurants that were added to the Royalty Pool on January 1, 2016 was performed and the Fund's actual effective tax rate for 2016 was determined. The purpose of this was to compare the actual Franchise Sales from these 12 new Boston Pizza Restaurants to the estimated amount of Franchise Sales expected to be generated by these 12 new Boston Pizza Restaurants in 2016 and to compare the actual effective tax rate paid by the Fund for 2016 to the estimated effective tax rate the Fund expected to pay for 2016. The original Franchise Sales expected to be generated from these 12 new Boston Pizza Restaurants less the Franchise Sales from the six permanent closures that occurred in 2015 was \$14.5 million, and the actual Franchise Sales generated from these six Net New Restaurants was \$1.3 million greater. The original effective tax rate for the Fund was expected to be 24.0% and the actual effective tax rate for the Fund for 2016 was 21.1%. As a result, Royalties LP increased interest paid to BPI by a nominal amount in early 2017 to reconcile the difference paid on the full number of Class B Additional Entitlements and the effective tax rate. In addition, BP Canada LP will reduce the next distribution payable to Holdings LP on its Class 2 LP Units by a nominal amount, and will correspondingly increase the next distribution payable to BPI on its Class 2 GP Units by the same amount, to reconcile the difference paid on the full number of Class 2 Additional Entitlements and the effective tax rate. BPI received only 80% of the estimated Additional Entitlements at the Adjustment Date in 2016. Following the audit, BPI received 143,578 Additional Entitlements, comprised of 104,420 Class B Additional Entitlements and 39,158 Class 2 Additional Entitlements.

Units Outstanding

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
BOSTON PIZZA ROYALTIES INCOME FUND
For the Period and Year ended December 31, 2016

	Dec. 31, 2016 Excluding Holdback	Dec. 31, 2016 Including Holdback	Feb 15, 2017 Excluding Holdback	Feb. 15, 2017 Including Holdback
<u>Units Outstanding</u>				
Total Issued and Outstanding Fund Units	20,286,063	20,286,063	20,286,063	20,286,063
<u>Class B Additional Entitlements Outstanding</u>				
Class B Additional Entitlements (Excluding Jan. 1, 2017 Adjustment Date)	2,577,530	2,577,530	2,577,530	2,577,530
Class B Holdback (Excluding Jan. 1, 2017 Adjustment Date)	N/A	63,459	N/A	N/A ⁽¹⁾
Class B Additional Entitlements – Issued Jan. 1, 2017 (11 Net New Restaurants)	N/A	N/A	301,985	301,985 ⁽²⁾
Class B Holdback – Created Jan. 1, 2017 (11 Net New Restaurants)	N/A	N/A	N/A	75,496 ⁽²⁾
Class B Holdback – Issued in respect of 2016 after audit	N/A	N/A	104,420	104,420 ⁽³⁾
Total Class B Additional Entitlements	2,577,530	2,640,989	2,983,935	3,059,431
<u>Class 2 Additional Entitlements Outstanding</u>				
Class 2 Additional Entitlements (Excluding Jan. 1, 2017 Adjustment Date)	847,575	847,575	847,575	847,575
Class 2 Holdback (Excluding Jan. 1, 2017 Adjustment Date)	N/A	23,797	N/A	N/A ⁽¹⁾
Class 2 Additional Entitlements – Issued Jan. 1, 2017 (11 Net New Restaurants)	N/A	N/A	113,244	113,244 ⁽²⁾
Class 2 Holdback – Created Jan. 1, 2017 (11 Net New Restaurants)	N/A	N/A	N/A	28,311 ⁽²⁾
Class 2 Holdback – Issued in respect of 2016 after audit	N/A	N/A	39,158	39,158 ⁽³⁾
Total Class 2 Additional Entitlements	847,575	871,372	999,977	1,028,288
<u>Summary</u>				
Total Issued and Outstanding Fund Units	20,286,063	20,286,063	20,286,063	20,286,063
Total Additional Entitlements	3,425,105	3,512,361	3,983,912	4,087,719
Total Diluted Units	23,711,168	23,798,424	24,269,975	24,373,782
BPI's Total Percentage Ownership	14.4%	14.8%	16.4%	16.8%

- (1) Additional Entitlements from the six Net New Restaurants added to the Royalty Pool on January 1, 2016 prior to the audit of the six Net New Restaurants and determination of the actual effective tax rate paid by the Fund.
- (2) Additional Entitlements from 11 Net New Restaurants added to the Royalty Pool on January 1, 2017. The actual number of Additional Entitlements will be determined in early 2018, effective January 1, 2017, once audited results of the 11 Net New Restaurants and the actual effective tax rate paid by the Fund are known.
- (3) Additional Entitlements from the six Net New Restaurants added to the Royalty Pool on January 1, 2016 determined in 2017 once audited results of the six Net New Restaurants and actual effective tax rate paid by the Fund were known.

BPI also holds 100% of the special voting units (the “**Special Voting Units**”) of the Fund, which entitle BPI to one vote in respect of matters to be voted upon by unitholders of the Fund for each Unit that BPI would be entitled to receive if it exchanged all of its Class B Units and Class 2 GP Units for Units. As of February 15, 2017, BPI was entitled to 3,983,912 votes, representing 16.4% of the aggregate votes held by holders of Units and Special Voting Units. The number of Units that BPI is entitled to receive upon the exchange of its Class B Units and Class 2 GP Units and the number of votes that BPI is entitled to in respect of its Special Voting Units is adjusted annually to reflect any additional Boston Pizza Restaurants that were added to the Royalty Pool.

MANAGEMENT'S DISCUSSION AND ANALYSIS
BOSTON PIZZA ROYALTIES INCOME FUND
For the Period and Year ended December 31, 2016

TAX TREATMENT OF DISTRIBUTIONS

Of the \$1.38 in distributions declared per Unit during the Year, 77.0% or \$1.063 per Unit is taxable eligible dividends and 23.0% or \$0.317 per Unit represents a tax-deferred return of capital.

LIQUIDITY & CAPITAL RESOURCES

The Fund's distribution policy is to distribute the total amount of cash received by the Fund from the Trust on the trust units of the Trust and notes of the Trust and interest payments 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 to pay SIFT Tax, in order to maximize returns to Unitholders. In light of seasonal variations that are inherent to the restaurant industry, the Fund's policy is to make equal distribution payments to Unitholders on a monthly basis in order to smooth out these fluctuations. Any further change in distributions will be implemented in such a manner so that the continuity of uniform monthly distributions is maintained, while making provisions for working capital due to seasonal variations of Boston Pizza Restaurant sales. It is expected that future distributions will continue to be funded entirely by cash flows from operations. The Fund believes its current sources of liquidity are sufficient to cover its currently known short and long-term obligations.

Indebtedness

Holdings LP and Royalties LP have credit facilities with a Canadian chartered bank (the "**Bank**") in the amount of up to \$90.3 million expiring on May 5, 2020 (the "**Credit Facilities**"). The Credit Facilities are comprised of: (i) a \$2.0 million committed operating facility issued to Royalties LP ("**Facility A**"); (ii) a \$55.0 million committed revolving credit facility issued to Royalties LP for the purpose of refinancing previous credit facilities (refer to the Fund's Annual Information Form dated February 15, 2017 for more details) and to facilitate the Fund repurchasing and canceling Units under normal course issuer bids, substantial issuer bids or to finance the cash component of any exchange of general partnership units of BP Canada LP ("**Facility B**"); and (iii) a \$33.3 million committed revolving credit facility issued to Holdings LP for the purpose of subscribing for Class 1 LP Units of BP Canada LP ("**Facility D**").

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

The credit agreement that governs the Credit Facilities among Holdings LP, Royalties LP, the Fund, the Trust, Holdings GP and Royalties GP and the Bank dated May 5, 2015 contains a number of covenants and restrictions, including the requirement to meet certain financial ratios and financial condition tests. A failure of the Fund or its subsidiaries to comply with these covenants and restrictions could entitle the Bank to demand repayment of the outstanding balance drawn on the Credit Facilities prior to maturity. Royalties LP and Holdings LP were in compliance with all of their financial covenants and financial condition tests as of the end of the Period. Full particulars of the Credit Facilities, including applicable interest rates, security, guarantees and other terms and conditions are contained within the amended and restated credit agreement governing the Credit Facilities, a copy of which is available on SEDAR at www.sedar.com.

As of December 31, 2016, working capital of the Fund totaled \$4.1 million (December 31 2015 - \$4.0 million). The Fund has no requirement to maintain a certain amount of working capital. As of December 31, 2016, no amount was drawn on Facility A, \$53.5 million was drawn on Facility B and \$33.3 million was drawn on Facility D.

MANAGEMENT'S DISCUSSION AND ANALYSIS
BOSTON PIZZA ROYALTIES INCOME FUND
For the Period and Year ended December 31, 2016

The following table provides a summary of the Fund's contractual obligations and commitments (including expected interest payments) as at December 31, 2016:

<i>(in thousands of dollars)</i>	< 1 year	1 - 5 years	> 5 year	Total	Book Value
Accounts payable and accrued liabilities	521	-	-	521	521
Distributions payable to Fund unitholders	2,333	-	-	2,333	2,333
Credit Facilities and interest rate swaps ¹	2,375	92,067	-	94,442	86,705
	5,229	92,067	-	97,296	89,559

Note:

- 1) Credit Facilities and interest rate swaps include expected interest payments based on the Fund's blended rate of 2.82% to the scheduled maturity date of the Credit Facilities of May 5, 2020.

Interest Rate Swaps

Royalties LP and Holdings LP, as applicable, previously entered into the following interest rate swaps (collectively, the "**Swaps**") under their respective International Swap Dealers Association Master Agreements with the Bank (copies of which are available on SEDAR at www.sedar.com):

- (a) Royalties LP entered into a swap to fix the interest rate at 1.44% plus between 1.00% and 1.50% per annum (depending upon debt to EBITDA ratios) for a term ending August 1, 2017 for \$30.0 million drawn on Facility B;
- (b) Royalties LP entered into a swap to fix the interest rate at 1.92% plus between 1.00% and 1.50% per annum (depending upon debt to EBITDA ratios) for a term ending June 1, 2018 for \$6.0 million drawn on Facility B;
- (c) Royalties LP entered into a swap to fix the interest rate at 1.51% plus between 1.00% and 1.50% per annum (depending upon debt to EBITDA ratios) for a term ending on February 1, 2022 for \$13.9 million drawn on Facility B;
- (d) Holdings LP entered into a swap to fix the interest rate at 1.25% plus between 1.00% and 1.50% per annum (depending upon debt to EBITDA ratios) for a term ending on August 1, 2020 for \$17.0 million of the \$33.3 million drawn on Facility D; and
- (e) Holdings LP entered into a swap to fix the interest rate at 0.87% plus between 1.00% and 1.50% per annum (depending upon debt to EBITDA ratios) for a term ending on March 1, 2021 for \$16.3 million drawn on Facility D.

The Fund uses the Swaps to mitigate its exposure to interest rate risk related to the Credit Facilities. The Fund accounts for the Swaps as derivative instruments in accordance with IFRS. The fair market value of the Swaps are determined using valuation techniques at each reporting date and any change in the fair value of the Swaps is included in the Fund's comprehensive income or loss. The Fund recorded a \$1.0 million fair value gain adjustment on the Swaps for the Period in the consolidated statements of comprehensive income compared to a nominal fair value gain adjustment on the Swaps for the same period in 2015. For the Year, the Fund recorded a \$0.7 million fair value gain adjustment on the Swaps (2015 – fair value loss of \$0.6 million) in its consolidated statements of comprehensive income.

MANAGEMENT'S DISCUSSION AND ANALYSIS
BOSTON PIZZA ROYALTIES INCOME FUND
For the Period and Year ended December 31, 2016

Cash Flows

Cash Flow from Operating Activities

Period

During the Period, the Fund generated \$9.1 million in cash from operating activities principally comprised of Royalty income of \$8.2 million, Distribution Income of \$2.6 million, and interest income earned from the BP Loan of \$0.5 million, partially offset by income taxes paid of \$1.8 million and administrative expenses of \$0.3 million. During the fourth quarter of 2015, the Fund generated \$9.3 million in cash from operating activities principally comprised of Royalty income of \$8.2 million, Distribution Income of \$2.7 million, and interest income earned from the BP Loan of \$0.5 million, partially offset by income taxes paid of \$1.8 million and administrative expenses of \$0.3 million. The decrease in cash flow from operating activities of \$0.1 million during the Period compared to the fourth quarter of 2015 was primarily due to a nominal decrease in Royalty income and Distribution Income. See the "Operating Results" section of this MD&A for a detailed discussion of each of Royalty income, Distribution Income, interest income, administrative expenses and income taxes.

Year

For the Year, the Fund generated \$36.9 million in cash from operating activities principally comprised of Royalty income of \$33.1 million, Distribution Income of \$10.7 million, and interest income earned from the BP Loan of \$1.8 million, partially offset by income taxes paid of \$7.6 million and administrative expenses of \$1.2 million. In 2015, the Fund generated \$33.2 million in cash from operating activities principally comprised of Royalty income of \$32.6 million, Distribution Income of \$8.2 million, and interest income earned from the BP Loan of \$1.8 million, partially offset by income taxes paid of \$7.2 million, administrative expenses of \$1.2 million, and the Initial Working Capital Change of \$0.9 million. The increase in cash flow from operating activities of \$3.7 million for the Year compared to 2015 was primarily due to an increase in Distribution Income and Royalty income and the Initial Working Capital Change resulting from the completion of the Transaction, partially offset by an increase in SIFT Tax paid. See the "Operating Results" section of this MD&A for a detailed discussion of each of Royalty income, Distribution Income, interest income, administrative expenses, income taxes and the Initial Working Capital Change.

Cash Flow used in Financing Activities

Period

During the Period, the Fund used \$9.2 million in cash for financing activities, including \$7.0 million of which was used to pay distributions to Unitholders, \$1.6 million of which was used to pay interest to BPI on the Class B Units and Class C Units, and \$0.6 million of which was used to pay interest on the Credit Facilities.

In the fourth quarter of 2015, the Fund used \$8.6 million in cash for financing activities, including \$6.6 million of which was used to pay distributions to Unitholders, \$1.4 million of which was used to pay interest to BPI on the Class B Units and Class C Units and \$0.6 million of which was used to pay interest on the Credit Facilities.

Year

For the Year, the Fund used \$36.6 million in cash for financing activities, including \$27.9 million of which was used to pay distributions to Unitholders, \$6.3 million of which was used to pay interest to BPI on the Class B Units and Class C Units, \$2.4 million of which was used to pay interest on the Credit Facilities, and \$2.6 million of which was used to purchase Units under the Fund's 2015/2016 NCIB, which was offset by \$2.6 million of cash generated by drawing on the Fund's Credit Facilities.

In 2015, the Fund generated \$138.7 million in cash from financing activities primarily due to the Fund completing the Transaction. The Fund drew down on Facility D for \$33.3 million to subscribe for Class 1 LP Units, and received gross proceeds of \$111.6 million in consideration for the issuance of 5,047,613 Units. After deducting Transaction costs totaling \$5.7 million and a payment of \$0.5 million that was paid to holders of the 5,047,613 subscription

MANAGEMENT'S DISCUSSION AND ANALYSIS
BOSTON PIZZA ROYALTIES INCOME FUND
For the Period and Year ended December 31, 2016

receipts that were issued by the Fund and subsequently converted into 5,047,613 Units, the net proceeds for issuing such 5,047,613 Units were \$105.3 million.

In 2015, the Fund used \$31.4 million in cash for other financing activities, including \$24.0 million of which was used to pay distributions to Unitholders, \$5.4 million of which was used to pay interest to BPI on the Class B Units and Class C Units, \$2.0 million of which was used to pay interest on the Credit Facilities and the Fund's previous credit facilities, \$0.9 million of which was used to purchase Units under the Fund's then current normal course issuer bid, which was offset by \$0.9 million of cash generated by drawing on the Credit Facilities.

Cash Flow used in Investing Activities

Period and Year

During the Period and the Year, the Fund did not use any cash for investing activities. During the fourth quarter of 2015, the Fund did not use any cash for investing activities. In 2015, the Fund used \$138.7 million in cash for investing activities to complete the Transaction. The Fund used cash consisting of net proceeds of \$105.3 million from the issuance of Units and \$33.3 million from drawing down on Facility D to fund its investment in Class 2 LP Units and Class 1 LP Units of BP Canada LP, respectively.

Related Party Transactions

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

- The Fund has engaged Royalties LP, its administrator, to provide certain administrative services on behalf of the Fund. In turn, certain of the administrative services are performed by BPI as a general partner of Royalties LP. Under the terms of the partnership agreement governing Royalties LP, BPI is entitled to be reimbursed for certain out-of-pocket expenses incurred in performing these services. The total amount paid to BPI in respect of these services for the Period was \$0.1 million (Q4 2015 – \$0.1 million) and \$0.4 million for the Year (2015 – \$0.4 million).
- As at December 31, 2016, interest payable by the Fund to BPI in respect of the Class B Units and Class C Units was \$0.6 million (December 31, 2015 – \$0.5 million).
- As at December 31, 2016, the Royalty receivable from BPI was \$2.9 million (Q4 2015 – \$2.9 million), and the Distribution Income receivable from BP Canada LP was \$0.9 million (Q4 2015 – \$0.9 million). See the "Distributions" section of this MD&A for more details.

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

**DISCLOSURE CONTROLS AND PROCEDURES
AND INTERNAL CONTROLS OVER FINANCIAL REPORTING**

The Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") of Royalties GP, managing general partner of Royalties LP, administrator of the Fund, have designed or caused to be designed under their supervision disclosure controls and procedures to provide reasonable assurance that all material information 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)

MANAGEMENT'S DISCUSSION AND ANALYSIS
BOSTON PIZZA ROYALTIES INCOME FUND
For the Period and Year ended December 31, 2016

material information regarding the Fund is accumulated and communicated to the Fund's administrator, Royalties LP, as well as the CEO and CFO in a timely manner, particularly during the period in which the interim filings are being prepared.

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

CRITICAL ACCOUNTING ESTIMATES

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

Judgment – Consolidation

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

Estimate – Intangible Assets – BP Rights

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

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

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
BOSTON PIZZA ROYALTIES INCOME FUND
For the Period and Year ended December 31, 2016

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

(i) Class B Units

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

(ii) Class 1 Units and Class 2 LP Units

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

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

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

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

CHANGES IN ACCOUNTING POLICIES

Narrow-Scope Amendments

On September 25, 2014, the International Accounting Standards Board ("IASB") issued narrow-scope amendments to a total of four standards as part of its annual improvements process. Amendments were made to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, IFRS 7 Financial Instruments: Disclosures, IAS 19 Employee Benefits, and IAS 34 Interim Financial Reporting. The amendments were effective for annual periods beginning on or after January 1, 2016. Earlier application was permitted, in which case, the related consequential amendments to other IFRSs would also apply. Each of the amendments has its own specific transition requirements. The Fund adopted this amendment for its fiscal year ended December 31, 2016 and the amendment did not have a material impact on the presentation of the Fund's financial position and net income.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
BOSTON PIZZA ROYALTIES INCOME FUND
For the Period and Year ended December 31, 2016**

IAS 1, Presentation of Financial Statements

On December 18, 2014, the IASB issued amendments to IAS 1, Presentation of Financial Statements, as part of its major initiative to improve presentation and disclosure in financial reports. The amendments were effective for annual periods beginning on or after January 1, 2016. Earlier application was permitted. The Fund adopted this amendment for its fiscal year ended December 31, 2016 and the amendment did not have a material impact on the presentation of the Fund's financial position and net income.

IFRS 15, Revenue from Contracts with Customers

On May 28, 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers. IFRS 15 will replace IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers, and SIC 31 Revenue – Barter Transactions Involving Advertising Services. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based, five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. The Fund has not yet assessed the impact of this standard or determined whether it will be adopted early.

IFRS 9 (2014), Financial Instruments

On July 24, 2014, the IASB issued the complete IFRS 9 (2014), Financial Instruments. IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities, and amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment. IFRS 9 (2014) includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. The mandatory effective date of IFRS 9 (2014) is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Earlier application is permitted. The Fund has not yet assessed the impact of this standard or determined whether it will be adopted early.

IFRS 16, Leases

On January 13, 2016, the IASB published a new standard, IFRS 16, Leases. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting remains largely unchanged and the distinction between operating and finance leases is retained. The new standard will apply for annual periods beginning on or after January 1, 2019. Earlier application is permitted only if the entity also adopts IFRS 15, Revenue from Contracts with Customers. The Fund has not yet assessed the impact of this standard or determined whether it will be adopted early.

DESCRIPTION OF NON-IFRS AND ADDITIONAL IFRS MEASURES

Non-IFRS Measures

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
BOSTON PIZZA ROYALTIES INCOME FUND
For the Period and Year ended December 31, 2016

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

SSSG

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

Distributable Cash

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

Payout Ratio

“**Payout Ratio**” is calculated by dividing the aggregate distributions paid by the Fund during the applicable period by the Distributable Cash generated in that period. For the purpose of calculating the Payout Ratio for the Period, the distributions paid by the Fund on the Units during the Period were the September 2016 distribution (which was paid on October 28, 2016), the October 2016 distribution (which was paid on November 30, 2016) and the November 2016 distribution (which was paid on December 30, 2016). Similarly, for the purpose of calculating the Payout Ratio for any other period, the distributions paid during that period would be used. Management believes that the Payout Ratio provides investors with useful information on the extent to which the Fund distributes cash on Units. As the Payout Ratio is calculated from a formula which includes Distributable Cash, which is a non-IFRS financial measure, a reconciliation of Payout Ratio to an IFRS measure is not possible.

Additional IFRS Measures

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
BOSTON PIZZA ROYALTIES INCOME FUND
For the Period and Year ended December 31, 2016**

Profit Before Fair Value Adjustments and Income Taxes

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

OUTLOOK

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

Boston Pizza is well positioned for future growth and should continue to strengthen its position as the number one casual dining brand in Canada by achieving positive SSSG and opening 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 and BP Canada LP's strategies to drive higher guest traffic include attracting a wide variety of guests into the restaurant, sports bar and take-out/delivery parts of each location, offering a compelling value proposition to guests and leveraging a larger marketing budget versus the previous year along with a revised calendar of national and local store promotions. Increased average cheque levels are expected to be achieved through a combination of culinary innovation and annual menu re-pricing. In addition, the franchise agreement governing each Boston Pizza Restaurant requires a complete store renovation every seven years. Restaurants typically close for two to three weeks to complete the renovation and experience an incremental sales increase in the year following the re-opening.

Boston Pizza remains well positioned for future expansion as evidenced by the 11 Net New Restaurants that opened in 2016 and the two new locations currently under construction. BPI's management believes that Boston Pizza will continue to serve more guests in more locations than any other casual dining brand in Canada by pursuing further restaurant development opportunities across the country.

RISKS & UNCERTAINTIES

Risks Related to the Business of BPI and BP Canada LP

The Restaurant Industry and its Competitive Nature

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
BOSTON PIZZA ROYALTIES INCOME FUND
For the Period and Year ended December 31, 2016

Sales, the Royalty, Distribution Income and the ability of BPI to pay the Royalty to Royalties LP or interest on the BP Loan to the Fund, and the ability of BP Canada LP to pay Distribution Income to Holdings LP.

Growth of the Royalty and Distribution Income

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

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

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

BPI and BP Canada LP Revenue

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

Intellectual Property

The ability of BPI and BP Canada LP to maintain or increase Franchise Sales will depend on their ability to maintain "brand equity" through the use of the BP Rights licensed from Royalties LP. If Royalties LP fails to enforce or maintain any of its intellectual property rights, BPI and BP Canada LP may be unable to capitalize on their efforts to establish brand equity. All registered trademarks in Canada can be challenged pursuant to provisions of the *Trade-marks Act* (Canada) and if any BP Rights are ever successfully challenged, this may have an adverse impact on Franchise Sales, and therefore on the Royalty and Distribution Income. Royalties LP owns the BP Rights in Canada. However it does not own identical or similar trademarks owned by parties not related to BPI or Royalties LP in other jurisdictions. Third parties may use such trademarks in jurisdictions other than Canada in a

MANAGEMENT'S DISCUSSION AND ANALYSIS
BOSTON PIZZA ROYALTIES INCOME FUND
For the Period and Year ended December 31, 2016

manner that diminishes the value of such trademarks. If this occurs, the value of the BP Rights may suffer and gross revenue by Boston Pizza Restaurants could decline. Similarly, negative publicity or events associated with such trademarks in jurisdictions outside of Canada may negatively affect the image and reputation of Boston Pizza Restaurants in Canada, resulting in a decline in gross revenue by Boston Pizza Restaurants.

Government Regulation

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

Regulations Governing Food Service and Alcoholic Beverages

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

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

Laws Concerning Employees

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

Sales Tax Regulations

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
BOSTON PIZZA ROYALTIES INCOME FUND
For the Period and Year ended December 31, 2016

of disposable spending is adversely affected by increased after-tax prices, Franchise Sales is at risk of declining if retail sales taxes increase.

Franchise Regulation Risk

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

Potential Litigation and Other Complaints

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

Insurance

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

Dependence on Key Personnel

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

Security of Confidential Consumer Information and Personal Information

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
BOSTON PIZZA ROYALTIES INCOME FUND
For the Period and Year ended December 31, 2016

material adverse effect on Franchise Sales, Royalty, Distribution Income and the ability of BP Canada LP to pay Distribution Income to Holdings LP, or BPI to pay the Royalty to Royalties LP or interest on the BP Loan to the Fund.

Reliance on Technology

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

Risks Related to the Structure of the Fund

Investment Eligibility

There can be no assurance that the Units will continue to be qualified investments for registered retirement savings plans, registered retirement income funds, deferred profit sharing plans, registered education savings plans, registered disability savings plans or tax-free savings accounts under the *Income Tax Act (Canada)* (the "**Tax Act**"). In addition, a Unit may be a prohibited investment in respect of a registered 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. The Tax Act imposes penalties for the acquisition or holding of non-qualified or prohibited investments.

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

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

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

Royalties LP, Holdings LP and the Fund are each entirely dependent upon the operations and assets of BPI and BP Canada LP to pay the Royalty to Royalties LP, Distribution Income to Holdings LP and interest on the BP Loan to the Fund, and each is subject to the risks encountered by BPI and BP Canada LP in the operation of their

MANAGEMENT'S DISCUSSION AND ANALYSIS
BOSTON PIZZA ROYALTIES INCOME FUND
For the Period and Year ended December 31, 2016

business, including the risks relating to the casual dining restaurant industry referred to above and the results of operations and financial condition of BPI and BP Canada LP.

Leverage: Restrictive Covenants

Royalties LP and Holdings LP have third-party debt service obligations under the Credit Facilities. The degree to which Royalties LP and Holdings LP are leveraged could have important consequences to Unitholders, including: (i) a portion of Royalties LP's and Holdings LP's cash flow from operations could be dedicated to the payment of the principal of and interest on their indebtedness, thereby reducing funds available for distribution to the Fund; and (ii) certain of Royalties LP's and Holdings LP's borrowings are at variable rates of interest, which exposes them to the risk of increased interest rates. The Credit Facilities are due on May 5, 2020, at which time Royalties LP and Holdings LP will need to refinance such loans. There can be no assurance that refinancing of this indebtedness will be available to Royalties LP or Holdings LP, or available to Royalties LP or Holdings LP on acceptable terms. If Royalties LP and Holdings LP cannot refinance this indebtedness on acceptable terms upon maturity, it will negatively impact the ability of Royalties LP and Holdings LP to make distributions on their partnership securities, which in turn will negatively impact Distributable Cash and the Fund's ability to make distributions on the Units. Royalties LP's and Holdings LP's ability to make scheduled payments of principal or interest on, or to refinance, their indebtedness depends on future cash flows, which is dependent on Distribution Income Holdings LP receives from BP Canada LP, Royalty payments Royalties LP receives from BPI, prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond its control.

The Credit Facilities contain numerous restrictive covenants that limit the discretion of Royalties LP's and Holdings LP's management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of Royalties LP and Holdings LP to incur additional indebtedness, to create liens or other encumbrances, to pay distributions or make certain other payments, investments, loans and guarantees, to sell or otherwise dispose of assets, to allow a change of control, to change the terms of their limited partnership agreements and to merge or consolidate with another entity. A failure to comply with the obligations in the 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 Credit Facilities were to be accelerated, there can be no assurance that Royalties LP's, Holdings LP's and the Trust's assets would be sufficient to repay that indebtedness.

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 Royalties LP's and Holdings LP's Performance

Although the Fund's policy is to distribute the total amount of cash received by the Fund from the Trust on the Trust Units and the Trust Notes 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 to pay SIFT Tax, in order to maximize returns to Unitholders, there can be no assurance regarding the amounts of income to be generated by the Fund, Royalties LP or Holdings LP. The actual amount distributed in respect of the Units will depend upon numerous factors, including amount of and payment of Distribution Income by BP Canada LP, and the Royalty and interest on the BP Loan by BPI.

MANAGEMENT'S DISCUSSION AND ANALYSIS
BOSTON PIZZA ROYALTIES INCOME FUND
For the Period and Year ended December 31, 2016

Restrictions on Certain Unitholders and Liquidity of Units

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

Fund not a Corporation

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

Nature of Units

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

Possible Unitholder Liability

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
BOSTON PIZZA ROYALTIES INCOME FUND
For the Period and Year ended December 31, 2016

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

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

The Fund May Issue Additional Units Diluting Existing Unitholders' Interests

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

Income Tax Matters

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

Distributions on the Trust Units 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 Royalties LP level, and Distribution Income may accrue at the Holdings LP level, for income tax purposes whether or not actually paid. As a result, the income of Royalties LP or Holdings LP allocated to the Fund (through the Trust and Holdings LP), in respect of a particular fiscal year may exceed the cash distributed by Royalties LP or Holdings LP to the Fund (through the Trust and Holdings LP) in such year. The Declaration of Trust provides that the trustees of the Fund may declare distributions to Unitholders in such amounts as the trustees may determine from time to time. Where, in a particular year, the Fund does not have sufficient available cash to distribute the amounts so declared to Unitholders (for instance, where distributions on the Trust Units 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 reduces 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.

Internal Control Over Financial Reporting

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

Additional 1.5% of Franchise Sales

The effective acquisition of the additional 1.5% of Franchise Sales is in the form of an equity investment in limited partnership units of BP Canada LP. The Fund's right to be paid 1.5% of Franchise Sales (less BPI's pro rata interest) on distributions on limited partnership units ranks behind debts and other obligations of BP Canada LP, including unsecured debts. This is different from the Fund's right to receive the Royalty, which is a secured debt

MANAGEMENT'S DISCUSSION AND ANALYSIS
BOSTON PIZZA ROYALTIES INCOME FUND
For the Period and Year ended December 31, 2016

from BPI to Royalties LP. If BP Canada LP becomes insolvent, there is a risk that the Fund will not receive distributions on its investment in BP Canada LP.

ADDITIONAL INFORMATION

Additional information relating to the Fund, Royalties LP, Royalties GP, the Trust, Holdings LP, Holdings GP, BPI and BP Canada LP, including the Fund's Annual Information Form dated February 15, 2017, is available on SEDAR at www.sedar.com and on the Fund's website at www.bpincomefund.com.

NOTE REGARDING FORWARD-LOOKING INFORMATION

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

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

- future distributions and dates distributions are to be paid or payable;
- adjustments to Additional Entitlements that are to occur in the future and when such adjustments will occur;
- how changes in distributions will be implemented;
- how distributions will be funded;
- expectations that cash flow will be sufficient to pay distributions;
- the future expansion of Boston Pizza Restaurants;
- the Fund's current sources of liquidity being sufficient to cover its currently known short and long-term obligations;
- Boston Pizza is well positioned for future growth and should continue to strengthen its position as the number one casual dining brand in Canada by achieving positive SSSG and continuing to open new Boston Pizza locations across Canada;
- that Boston Pizza will continue to serve more customers annually than any other casual dining restaurant chain in Canada;
- BPI's and BP Canada LP's strategies to drive higher guest traffic and higher average guest cheques; and
- the Fund maintaining a Payout Ratio close to 100% over time.

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

- the Fund maintaining the same distribution policy;
- absence of amendments to material contracts;
- no strategic changes of direction occurring;
- absence of changes in law;
- protection of BP Rights;
- pace of commercial real estate development;
- franchisees' access to financing;
- franchisees duly paying franchise fees and other amounts;
- there will be no closures of Boston Pizza Restaurants that materially affect the amount of Royalty or Distribution Income paid by BPI and BP Canada LP, respectively, to the Fund;
- future results being similar to historical results;
- expectations related to future general economic conditions; and
- management of BPI and BP Canada LP maintaining current strategies to drive higher guest traffic and higher average guest cheques.

MANAGEMENT'S DISCUSSION AND ANALYSIS
BOSTON PIZZA ROYALTIES INCOME FUND
For the Period and Year ended December 31, 2016

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

- competition;
- weather;
- 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; 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 in this MD&A.

This MD&A discusses some of the factors that could cause actual results to differ materially from those expressed in or underlying such forward-looking information. Forward-looking information is provided as of the date hereof and, except as required by law, 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 policies, procedures and systems of internal control which provide reasonable assurance that the Fund's assets are safeguarded and the financial records are relevant, reliable, and provide a proper basis for the preparation of the consolidated financial statements and other financial information.

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

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



Mark Pacinda

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



William C. Brown

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

February 15, 2017



KPMG LLP
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Vancouver BC V7Y 1K3
Canada
Telephone (604) 691-3000
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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 which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015, the consolidated statements of comprehensive income, changes in unitholders' equity and cash flows for the years then ended, 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.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Boston Pizza Royalties Income Fund as at December 31, 2016 and December 31, 2015 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

A handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, slightly slanted style. Below the signature is a long, horizontal, slightly curved line that extends to the right.

Chartered Professional Accountants

February 15, 2017
Vancouver, Canada

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

	December 31, 2016	December 31, 2015
Assets		
Current assets		
Cash and cash equivalents	\$ 3,541	\$ 3,241
Interest receivable on Note Receivable from Boston Pizza International Inc. (note 4)	150	150
Royalty receivable from Boston Pizza International Inc.	2,921	2,888
Distributions receivable from Boston Pizza Canada Limited Partnership	871	903
Prepaid expenses	39	39
Current income tax receivable	15	-
	<u>7,537</u>	<u>7,221</u>
Note Receivable from Boston Pizza International Inc. (note 4)	24,000	24,000
Investment in Units of Boston Pizza Canada Limited Partnership (note 7)	148,551	123,818
Intangible assets – BP Rights (note 8)	264,193	258,135
Interest rate swaps (note 6)	51	-
	<u>\$ 444,332</u>	<u>\$ 413,174</u>
Liabilities and Unitholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 521	\$ 461
Distributions payable to Fund unitholders	2,333	2,214
Interest payable on Class B Units and Class C Units (note 9)	596	492
Current income tax payable	-	22
	<u>3,450</u>	<u>3,189</u>
Interest rate swaps (note 6)	-	651
Credit Facilities (note 6)	86,756	84,175
Deferred income taxes (note 5)	6,620	3,860
Class B Unit Liability (note 9)	60,294	41,276
Class C Unit liability (note 9)	24,000	24,000
	<u>295,800</u>	<u>298,381</u>
Unitholders' equity	(32,588)	(42,358)
	<u>263,212</u>	<u>256,023</u>
Organization and nature of operations (note 1)		
Subsequent events (note 15)		
	<u>\$ 444,332</u>	<u>\$ 413,174</u>

The accompanying notes are an integral part of these consolidated financial statements. Approved by the Trustees:



William Brown



W. Murray Sadler



David Merrell

BOSTON PIZZA ROYALTIES INCOME FUND
Consolidated Statements of Comprehensive Income
For the years ended December 31, 2016 and 2015
(Expressed in thousands of Canadian dollars, except per Fund unit data)

	2016	2015
Revenue		
Royalty income (note 11)	\$ 33,145	\$ 32,560
Distribution income (note 7 and 11)	10,700	8,173
Total revenue	43,845	40,733
Administration charge from Boston Pizza International Inc.	400	375
Professional fees	207	199
Other administrative expenses	345	361
Trustee fees and expenses	222	291
Total administrative expenses	1,174	1,226
Profit before net interest expense, fair value adjustments and income taxes	42,671	39,507
Interest income	(1,808)	(1,844)
Interest expense on debt	2,461	2,084
Interest expense on Class B and Class C unit liabilities (note 9)	6,392	5,492
Net interest expense	7,045	5,732
Profit before fair value adjustments and income taxes	35,626	33,775
Fair value adjustment on investment in Boston Pizza Canada Limited Limited Partnership (note 7)	(24,733)	14,869
Fair value adjustment on Class B Unit Liability (note 9)	12,960	(8,546)
Fair value adjustment on interest rate swaps (note 6)	(702)	613
Total fair value adjustments	(12,475)	6,936
Profit before income taxes	48,101	26,839
Current income taxes (note 5)	7,576	7,253
Deferred income taxes (note 5)	2,760	432
Total tax expense	10,336	7,685
Net income and comprehensive income for the period	\$ 37,765	\$ 19,154
Weighted average Fund units outstanding	20,296,414	18,747,488
Weighted average fully diluted Fund units outstanding	20,296,414	21,049,563
Basic earnings per Fund unit (note 3(f))	\$ 1.86	\$ 1.02
Diluted earnings per Fund unit (note 3(f))	\$ 1.86	\$ 0.59

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

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

	Fund units	Accumulated deficit	Total unitholders' equity
Balance – January 1, 2016	\$ 298,381	\$ (42,358)	\$ 256,023
Acquisition of Fund units (note 6)	(2,581)	-	(2,581)
Net income and comprehensive income for the period	-	37,765	37,765
Distributions declared (note 10)	-	(27,995)	(27,995)
Balance – December 31, 2016	\$ 295,800	\$ (32,588)	\$ 263,212
Balance – January 1, 2015	\$ 193,987	\$ (38,319)	\$ 155,668
Issuance of Fund units, net of costs (note 7)	105,337	-	105,337
Deferred tax benefit (note 7)	-	1,482	1,482
Acquisition of Fund units (note 6)	(943)	-	(943)
Net income and comprehensive income for the period	-	19,154	19,154
Distributions declared (note 10)	-	(24,675)	(24,675)
Balance – December 31, 2015	\$ 298,381	\$ (42,358)	\$ 256,023

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

BOSTON PIZZA ROYALTIES INCOME FUND
Consolidated Statements of Cash Flows
For the years ended December 31, 2016 and 2015
(Expressed in thousands of Canadian dollars)

	2016	2015
Cash flows provided by (used in)		
Operating activities		
Net income for the period	\$ 37,765	\$ 19,154
Adjustments for:		
Deferred income taxes	2,760	432
Fair value adjustment on investment in Boston Pizza		
Canada Limited Partnership	(24,733)	14,869
Fair value adjustment on Class B Unit Liability	12,960	(8,546)
Fair value adjustment on interest rate swaps	(702)	613
Interest expense on Class B and Class C unit liabilities	6,392	5,492
Changes in non-cash working capital	(8)	(971)
Current income tax expense	7,576	7,253
Current income tax paid	(7,613)	(7,229)
Interest income	(1,808)	(1,844)
Interest expense	2,461	2,084
Interest received	1,808	1,844
Net cash generated from operating activities	36,858	33,151
Financing activities		
Proceeds from the issuance of Fund units	-	111,552
Transaction costs related to the issuance of Fund units	-	(5,700)
Entitlement costs related to the issuance of Fund units	-	(515)
Distributions paid to Fund unitholders	(27,876)	(24,037)
Interest paid on Class B and Class C unit liabilities	(6,288)	(5,390)
Interest paid on long-term debt	(2,394)	(1,961)
Acquisition of Fund units	(2,581)	(943)
Proceeds from long-term debt	2,581	34,258
Net cash (used) generated in financing activities	(36,558)	107,264
Investing activities		
Investment in Boston Pizza Canada Limited Partnership	-	(138,687)
Net cash used in investing activities	-	(138,687)
Increase in cash and cash equivalents	300	1,728
Cash and cash equivalents – beginning of period	3,241	1,513
Cash and cash equivalents – end of period	\$ 3,541	\$ 3,241

Supplemental cash flow information (note 14)

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

1. General information:

(a) Organization:

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

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

The Fund was also established to acquire, directly from a Canadian chartered bank the \$24.0 million loan that BPI borrowed from that bank (the “**BP Loan**” or the “**Note Receivable**”).

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

(b) Nature of operations:

The Fund, as indirect owner of the BP Rights, has granted BPI exclusive license to the use of the BP Rights for a term of 99 years beginning in July, 2002 (the “**License and Royalty Agreement**”). In return, BPI pays the Fund a royalty of 4.0% of Franchise Sales of Boston Pizza Restaurants in the Royalty Pool (the “**Royalty**”). The Fund, through its indirect investment in BP Canada LP is entitled to receive a distribution equal to 1.5% of Franchise Sales of Boston Pizza Restaurants in the Royalty Pool less the pro rata portion payable to BPI in respect of its retained interest in the Fund (the “**Distribution**”). There are 372 Boston Pizza Restaurants in the Royalty Pool as at December 31, 2016 (December 31, 2015 – 366). BP Canada LP carries on business as a franchisor of casual dining pizza and pasta restaurants and operates only in Canada. The rights to operations outside of Canada are owned by an affiliated company.

Substantially all of the Fund’s revenues are earned from certain operations of BPI and BP Canada LP, accordingly, the revenues of the Fund and its ability to pay distributions to Fund unitholders are dependent on the ongoing ability of BPI and BP Canada LP to generate and pay Royalty and Distribution to the Fund.

2. Basis of preparation:

(a) Statement of compliance:

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

These consolidated financial statements were authorized for issue by the Trustees on February 15, 2017.

(b) Functional and presentation currency:

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

(c) Use of estimates and judgments:

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

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

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

Judgment

- Consolidation

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

Estimates

- Intangible Assets – the BP Rights (note 8)

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

2. Basis of preparation (continued):

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

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

- Investment in Boston Pizza Canada Limited Partnership Fair Value Adjustment (note 7)

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

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

- Class B Unit Fair Value Adjustment (note 9)

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

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

3. Significant accounting policies:

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

(a) Basis of measurement:

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

- The investment in BP Canada LP (Class 1 LP Units and Class 2 LP Units) is measured at fair value through the statement of comprehensive income.
- Class B Unit Liability is measured at fair value through the statement of comprehensive income.
- The Fund holds derivative financial instruments to manage its interest rate exposure. Financial derivatives not using hedge accounting are recognized initially at fair value; attributable transaction costs are recognized in profit and loss as incurred. Subsequent to initial recognition, financial derivatives are recognized at fair value and changes therein are accounted for through the statement of comprehensive income.

BOSTON PIZZA ROYALTIES INCOME FUND
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

3. Significant accounting policies (continued):

(b) Consolidation:

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

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

(c) Cash and cash equivalents:

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

(d) Revenue:

Royalty income, Distribution income, and interest income 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, 2016, \$27.9 million (2015 – \$24.0 million) in discretionary cash distributions were paid to Fund unitholders.

The amount of cash available to be distributed to Fund unitholders is determined with reference to the Fund’s cash flow from operations adjusted for items such as BPI’s entitlements in respect of Class C general partner units of Royalties LP (“**Class C Units**”), BPI’s entitlement in respect of its Class B Units, specified investment flow-through (“**SIFT**”) tax expense and SIFT tax paid.

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

(f) Basic and diluted earnings per Fund unit:

Basic earnings per Fund unit is based on the weighted average number of Fund units outstanding during the period. Diluted earnings per Fund unit is based on the weighted average number of Fund units, including BPI’s Class B Units (note 9) and Class 2 general partnership units of BP Canada LP (“**Class 2 GP Units**”) (note 7) outstanding during the period.

Diluted earnings per Fund unit includes the Class B Units (note 9) and Class 2 GP Units (note 7) and is calculated by adjusting the weighted average number of Fund units outstanding to assume conversion of all Class B Units and Class 2 GP Units.

For the year ended December 31, 2016 the basic and diluted earnings per Fund unit is \$1.86. For December 31, 2015 the basic and diluted earnings per Fund unit were \$1.02 and \$0.59 respectively, with the dilution a result of changes in the Class B Unit Liability.

BOSTON PIZZA ROYALTIES INCOME FUND
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

3. Significant accounting policies (continued):

(f) Basic and diluted earnings per Fund unit (continued):

The following reconciles the basic earnings to the diluted earnings:

(in thousands, except per Fund unit data)	2016	2015
Net income for the period	\$ 37,765	\$ 19,154
Adjusted for:		
Decrease in interest expense on Class B Unit Liability	4,592	3,692
Fair value adjustment on Class B Unit Liability	12,960	(8,546)
Increase in Fund's current and deferred income taxes	(2,102)	(1,865)
Fund's diluted earnings	53,215	12,435
Weighted average fully diluted Fund units outstanding	22,937,403	21,049,563
Diluted earnings per Fund unit	\$ 2.32 (Anti-dilutive)	\$ 0.59 (Dilutive)

(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, 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 comprehensive income. Those categories are: fair value through profit or loss; loans and receivables; available for sale assets; and, other liabilities.

- 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. Derivative financial instruments are also included in this category unless they are designated as hedges.

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.

The investment in BP Canada LP is classified as a financial asset measured at fair value through profit or loss as the Class 1 LP Units and Class 2 LP Units contain an embedded derivative where the Fund is entitled to receive distributions that are not closely related to

3. Significant accounting policies (continued):

(g) Financial instruments (continued):

the host contract, and the Class 2 LP Units have similar provisions to the Class 2 GP Units held by BPI which are exchangeable into Fund units.

The Class B Unit Liability is classified as a financial liability at fair value through profit or loss due to the terms of the instrument permitting the exchange of Class B Units into Fund units at the holders' option.

- Derivative financial instruments: The requirement of the Fund to settle the Note Receivable from BPI in exchange for Class C Units (note 9(b)) 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. Additionally, the Fund has classified its interest rate swaps (the "**Swaps**") as derivative instruments which are accounted for at fair value through profit and loss.
- 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, Royalty receivable from BPI, distributions receivable from BP Canada LP 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.

- Financial liabilities at amortized cost: Financial liabilities at amortized cost include accounts payable and accrued liabilities, distributions payable to Fund unitholders, interest payable on Class B Units and Class C Units, Class C Unit liability, and the amount drawn on the Fund's Credit Facilities (defined below). 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.

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

- Level 1 – quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – pricing inputs are other than quoted in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date.

BOSTON PIZZA ROYALTIES INCOME FUND
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

3. Significant accounting policies (continued):

(g) Financial instruments (continued):

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

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

The following table presents the carrying amounts of each category of financial assets and liabilities:

(in thousands)	December 31, 2016	December 31, 2015
Assets carried at fair value		
Class 1 Limited Partnership Units of Boston Pizza		
Canada Limited Partnership	\$ 33,314	\$ 33,314
Class 2 Limited Partnership Units of Boston Pizza		
Canada Limited Partnership	115,237	90,504
Fair value of interest rate swaps	51	-
	\$ 148,602	\$ 123,818
Assets carried at amortized cost		
Cash and cash equivalents	\$ 3,541	\$ 3,241
Interest receivable on Note Receivable from		
Boston Pizza International Inc.	150	150
Royalty receivable from		
Boston Pizza International Inc.	2,921	2,888
Distribution receivable from Boston Pizza Canada		
Limited Partnership	871	903
Note Receivable from		
Boston Pizza International Inc.	24,000	24,000
	\$ 31,483	\$ 31,182
Liabilities carried at fair value		
Fair value of interest rate swaps	\$ -	\$ 651
Class B Unit Liability	60,294	41,276
	\$ 60,294	\$ 41,927
Liabilities carried at amortized cost		
Accounts payable and accrued liabilities	\$ 521	\$ 461
Distributions payable to Fund unitholders	2,333	2,214
Interest payable on Class B Units and Class C Units	596	492
Credit Facilities	86,756	84,175
Class C Unit liability	24,000	24,000
	\$ 114,206	\$ 111,342

3. Significant accounting policies (continued):

(g) Financial instruments (continued):

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

The Class 1 LP Units are entitled to distributions determined with respect to the interest cost incurred on Facility D (note 6). Thus, the fair value of the Class 1 LP Units is estimated using a market-corroborated input (interest rate on the credit facility). The Fund estimates the fair value of Class 1 LP Units at carrying value adjusted for interest rate risk.

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

The fair value of the Class B Unit Liability is also determined via a market approach as the Class B Units held by BPI are exchangeable into Fund units. The fair value of the Class B Unit Liability is calculated by multiplying the total number of Fund units into which the Class B Units are exchangeable, including the Class B Holdback, at the end of the period by the closing price of Fund units at the end of the period (or previous business day if not a business day).

The Fund has recorded the Credit Facilities at amortized cost. Royalties LP and Holdings LP use the Swaps to manage risks from fluctuations in interest rates on \$83.2 million of this balance, and any changes in the fair value of the Swaps are recorded in the consolidated statement of comprehensive income in the period in which they arise. Without factoring in the Swaps, the fair value of the \$83.2 million of the Credit Facilities approximates its carrying amount since the debt has variable interest rates at terms that the Fund believes are reflective of currently available terms.

The fair value of the remaining Credit Facilities balance, which equals the carrying amount, is \$3.5 million (December 31, 2015 – \$17.3 million) since the debt has variable interest rates at terms that the Fund believes are reflective of currently available terms.

(h) Impairment of financial assets:

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.

3. Significant accounting policies (continued):

(h) Impairment of financial assets (continued):

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 reversal is limited to an amount that does not state the asset at more than what its amortized cost would have been in the absence of impairment.
- The Fund has reviewed its interest receivable on the Note Receivable from BPI, the Royalty receivable from BPI, and the Note Receivable from BPI, distributions receivable from BP Canada LP and has determined that no indicators of impairment exist.

(i) Impairment of non-financial assets:

Long-lived assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Long-lived assets that are not amortized, such as the BP Rights, are subject to an annual impairment test (note 8). For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. Impairment losses may be reversed if the fair value of the asset is determined to be greater than its carrying amount.

The Fund tested the BP Rights for impairment at December 31, 2016 and determined no impairment exists (note 8).

(j) Financial risk management:

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

Credit risk

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

BOSTON PIZZA ROYALTIES INCOME FUND
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

3. Significant accounting policies (continued):

(j) Financial risk management (continued):

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

As at December 31, 2016, the Fund had no provision for credit risk recorded in its financial statements (December 31, 2015 – nil).

Liquidity risk

Liquidity risk results from the Fund's potential inability to meet its financial obligations. Beyond effective net working capital and cash management, the Fund constantly monitors its operations and cash flows to ensure that current and future distributions to Fund unitholders will be met. At December 31, 2016, all current liabilities had a maturity of less than three months.

The Fund's capital resources are comprised of its cash and cash equivalents, the interest receivable on the Note Receivable from BPI, the Royalty receivable from BPI, Distribution receivable from BP Canada LP and its undrawn Facility A (note 6).

(in thousands)	
Cash and cash equivalents	\$ 3,541
Interest receivable on Note Receivable from Boston Pizza International Inc.	150
Royalty receivable from Boston Pizza International Inc.	2,921
Distribution receivable from Boston Pizza Canada Limited Partnership	871
Undrawn Facility A	2,000
	\$ 9,483

The Fund's obligations under the Credit Facilities, as detailed in note 6, are secured by a first charge over the assets of the Fund, mature at dates specified in note 6 and have no scheduled repayment terms before maturity.

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

BOSTON PIZZA ROYALTIES INCOME FUND
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

3. Significant accounting policies (continued):

(j) Financial risk management (continued):

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

(in thousands)	Value	Maturity
Accounts payable and accrued liabilities	521	< 1 year
Distributions payable to Fund unitholders	2,333	< 1 year
Interest payable on Class B Units and Class C Units	596	< 1 year
Class C Unit liability	24,000	2042
Credit Facilities	86,756	2020

Interest rate risk

The Fund's exposure to interest rate risk is mainly through the Credit Facilities. The Fund has entered into Swaps under the International Swap Dealers Association Master Agreements (the "**ISDA Agreements**") to manage interest rate risk on \$83.2 million of its long-term debt and these Swaps are detailed in note 6. Therefore, the Fund's interest rate risk is mainly related to its \$3.5 million floating rate debt. A 1.0% change in short-term interest rates would result in an immaterial change interest expense based on the Fund's floating rate debt at December 31, 2016. 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.

(k) Identifiable long-lived assets:

Long-lived assets consist of the BP Rights (note 8). The long-lived assets are indefinite life assets and are not amortized but tested for impairment on an annual basis.

(l) Capital disclosures:

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

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

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

3. Significant accounting policies (continued):

(l) Capital disclosures (continued):

The Fund had debt of \$86.8 million at December 31, 2016 (December 31, 2015 – \$84.2 million). In addition, the Fund's banking covenants currently require it to limit its funded debt to rolling 12 month EBITDA to 2.25:1 and have rolling 12 month distributions to Fund unitholders not exceed rolling 12 month distributable cash plus cash on hand. The Fund's funded debt to EBITDA ratio at December 31, 2016 was 2.03:1 (December 31, 2015 – 2.13:1) and its 12 month rolling distributions to Fund unitholders did not exceed 12 month rolling distributable cash and cash on hand as at December 31, 2016. The Fund is in compliance with its covenants as at December 31, 2016.

The Fund is not subject to any other statutory capital requirements and has no commitments to sell or otherwise issue Fund units, other than the commitment to exchange Class B Units and Class 2 GP Units held by BPI for Fund units, as described in notes 9 and 10.

(m) Accounting standards and amendments adopted by the Fund:

During the year, the Fund adopted the following new standards and amendments. The adoption of these standards and amendments did not have a material impact on the Fund's presentation of its financial position or net and comprehensive income.

(i) On September 25, 2014 the IASB issued narrow-scope amendments to a total of four standards as part of its annual improvements process. Amendments were made to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, IFRS 7 Financial Instruments: Disclosures, IAS 19 Employee Benefits, and IAS 34 Interim Financial Reporting. The amendments apply for annual periods beginning on or after January 1, 2016. Earlier application was permitted, in which case, the related consequential amendments to other IFRSs would also apply. Each of the amendments has its own specific transition requirements.

(ii) On December 18, 2014 the IASB issued amendments to IAS 1, Presentation of Financial Statements, as part of its major initiative to improve presentation and disclosure in financial reports. The amendments are effective for annual periods beginning on or after January 1 2016.

(n) 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, 2018 with earlier adoption permitted. The Fund intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the amendments has not yet been determined.

(i) On May 28, 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers. IFRS 15 will replace IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers, and SIC 31 Revenue – Barter Transactions Involving Advertising Services. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based, five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds

BOSTON PIZZA ROYALTIES INCOME FUND
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

3. Significant accounting policies (continued):

- (n) Accounting standards and amendments issued but not yet adopted (continued):
- (i) have been introduced, which may affect the amount and/or timing of revenue recognized.
 - (ii) On July 24, 2014, the IASB issued the complete IFRS 9 (2014), Financial Instruments. IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities, and amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment. IFRS 9 (2014) includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. The mandatory effective date of IFRS 9 (2014) is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions.
 - (iii) On January 13, 2016, the IASB published a new standard, IFRS 16, Leases. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance. Lessor accounting remains largely unchanged and the distinction between operating and finance leases is retained. The new standard will apply for annual periods beginning on or after January 1, 2019. Earlier adoption is permitted only if the entity also adopts IFRS 15, Revenue from Contracts with Customers.

4. Note receivable from Boston Pizza International Inc.:

(in thousands)	December 31, 2016	December 31, 2015
Note Receivable with interest payable monthly at 7.5% per annum, due July 17, 2042	\$ 24,000	\$ 24,000

The Note Receivable 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 and guaranteed by BP Canada LP. The Note Receivable 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, 2016 (December 31, 2015 – \$0.2 million).

BOSTON PIZZA ROYALTIES INCOME FUND
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

5. Income taxes:

The Fund has recorded current income tax expense of \$7.6 million for the year ended December 31, 2016 (December 31, 2015 – \$7.3 million). The current income tax receivable is the cumulative result of the Fund's SIFT tax installments above the Fund's SIFT tax expense.

The Fund has recorded a deferred income tax expense of \$2.8 million for the year ended December 31, 2016 (December 31, 2015 – \$0.4 million). The deferred income tax liability arises mainly as a result of the Fund recording, in the current period, its cumulative share of the temporary differences between the accounting and tax bases of (i) the BP Rights owned by the Royalties LP generated since the inception of the Fund, (ii) the Fund's indirect investment in BP Canada LP, and (iii) the deferred tax benefit associated with the Fund's issuance costs related to the Transaction. This expense had no impact on the Fund's cash flow for the period.

The reconciliation to statutory tax rate is as follows:

(in thousands, except tax rate)	2016	2015
Profit before income taxes	\$ 48,101	\$ 26,839
Combined Canadian federal and provincial rate	26.0%	26.0%
Computed expected tax expense	12,506	6,978
Decreased by:		
Current year's earnings not taxable	(588)	(2,524)
(Decreased) / Increased by:		
Current year's earnings that are taxable	(1,582)	3,231
Total tax expense per statement of income	\$ 10,336	\$ 7,685

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

(in thousands)	December 31, 2016	December 31, 2015
Deferred income tax liabilities:		
Difference related to the BP Rights	\$ 5,170	\$ 5,050
Difference related to the investment in BP Canada LP	2,340	-
Difference related issuance costs	(890)	(1,190)
Net deferred tax liability	\$ 6,620	\$ 3,860

As at December 31, 2016, there is a recognized taxable temporary difference associated with the Fund's investment in BP Canada LP of \$18.0 million. As at December 31, 2015, there was an unrecognized deductible temporary difference associated with the Fund's investment in BP Canada LP of \$11.3 million.

6. Credit facilities:

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

- (i) a \$2.0 million committed operating facility issued to Royalties LP ("**Facility A**");
- (ii) a \$55.0 million committed revolving credit facility issued to Royalties LP for the purpose of refinancing any previous credit facilities prior to May 5, 2015 and to facilitate the Fund repurchasing and canceling Fund units under normal course issuer bids, substantial issuer bids or to finance the cash component of any exchange of general partner units of BP Canada LP ("**Facility B**"); and
- (iii) a \$33.3 million committed revolving credit facility issued to Holdings LP for the purpose of subscribing for Class 1 LP Units ("**Facility D**").

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

During the year, Holdings LP entered into an interest rate swap under the ISDA Agreements with the Lender to fix the interest rate at 2.37% (assuming existing debt to EBITDA levels are maintained) for a term of five years for \$16.3 million of the 33.3 million drawn on Facility D.

The Fund recorded a financial derivative asset based on the fair value of the Swaps at December 31, 2016 of \$0.1 million (December 31, 2015 – \$0.7 million financial derivative liability) in accordance with accounting for derivatives under IFRS. The Fund intends to hold the Swaps to maturity.

On December 22, 2015, the Fund announced that it had received Toronto Stock Exchange ("**TSX**") approval of a Notice of Intention to make a Normal Course Issuer Bid through the facilities of the TSX or other Canadian marketplaces from December 29, 2015 to no later than December 28, 2016 (the "**2015/2016 NCIB**"). The 2015/2016 NCIB permitted the Fund to repurchase for cancellation up to 500,000 Fund units, being approximately 2.4% of issued and outstanding Fund units (as at December 21, 2015).

From January 1, 2016 to December 28, 2016, the Fund acquired 155,700 (2015 – 54,000) Fund units under the 2015/2016 NCIB at an average price of \$16.58 (2015 – \$17.48) per Fund unit for a total of \$2.6 million (2015 – \$0.9 million) and financed such purchases by drawing on Facility B.

The Fund established an automatic securities purchase plan ("**ASPP**") with its broker to allow for the repurchase of Fund units under the 2015/2016 NCIB at any time, including when it ordinarily would not be active in the market due to its own internal trading blackout periods, insider trading rules or otherwise. The ASPP terminated on the earliest of: (a) the date on which the purchase limits specified in the ASPP have been obtained, (b) the date on which the 2015/2016 NCIB terminates, (c) the date on which the Fund terminates the ASPP in accordance with the terms of the ASPP, in which case the Fund will issue a press release announcing such termination, and (d) December 28, 2016. The ASPP terminated on December 28, 2016 with all purchases under the ASPP made on the open market through the facilities of the TSX in accordance with the requirements of the TSX or other Canadian marketplaces by registered investment dealers.

BOSTON PIZZA ROYALTIES INCOME FUND
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

6. Credit facilities (continued):

The Credit Facilities bear interest at fixed or variable interest rates, as selected by Royalties LP or Holdings LP, as applicable comprised of either the Lender's current rate for fixed rate operating loans or a combination of the Lender's bankers' acceptance rates plus between 1.0% and 1.5%, or the Lender's prime rate plus between 0.0% and 0.5%, depending upon debt to EBITDA ratios. The credit agreement expires on May 5, 2020.

The Credit Facilities are guaranteed by the Fund, the Trust, Boston Pizza Holdings GP, Holdings LP, Royalties LP and BPGP, all of whom have granted security for their obligations under those guarantees, No guarantee or security has been given by BPI or BP Canada LP with respect to the Credit Facilities.

As of December 31, 2016, no amount was drawn on Facility A, \$53.5 million was drawn on Facility B and \$33.3 million was drawn on Facility D.

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

(in thousands)	December 31, 2016	December 31, 2015
Credit Facility managed by interest rate swaps:		
Bank of Montreal Credit Facility B bearing interest at 1.44% plus between 1.00% and 1.50% per annum, with a maturity date of August 1, 2017	\$ 30,000	\$ 30,000
Bank of Montreal Credit Facility B bearing interest at 1.92% plus between 1.00% and 1.50% per annum, with a maturity date of June 1, 2018	6,000	6,000
Bank of Montreal Credit Facility B bearing interest at 1.51% plus between 1.00% and 1.50% per annum, with a maturity date of February 1, 2022	13,900	13,900
Bank of Montreal Credit Facility D bearing interest at 1.25% plus between 1.00% and 1.50% per annum, with a maturity date of August 1, 2020	17,000	17,000
Bank of Montreal Credit Facility D bearing interest at 0.87% plus between 1.00% and 1.50% per annum, with a maturity date of March 1, 2021	16,314	-
Credit Facility at variable interest rates:		
Bank of Montreal Credit Facility B bearing interest at short-term fixed rate operating loan rates (0.88% at December 31, 2016 and 0.84% at December 31, 2015) plus 1.50% per annum, with a maturity date of May 5, 2020	3,542	961
Bank of Montreal Credit Facility D bearing interest at short-term fixed rate operating loan rates (0.84% at December 31, 2015) plus 1.50% per annum, with a maturity date of May 5, 2020	-	16,314
	\$ 86,756	\$ 84,175

The fair value of the Fund's debt is \$86.8 million since a portion of the debt has variable interest rates at terms that the Fund believes are reflective of those currently available. Accordingly, the impact of a 1.0% change in the prime rate would not result in a significant change in the fair value of the debt.

BOSTON PIZZA ROYALTIES INCOME FUND
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

6. Credit facilities (continued):

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

(in thousands)	
2017	-
2018	-
2019	-
2020	86,756
	\$ 86,756

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 prior to maturity.

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

On March 23, 2015, the Fund and BPI announced that they had entered into an agreement pursuant to which the Fund's Franchise Sales Participation would be increased by 1.5%, from 4.0% to 5.5%, less the pro rata portion payable to BPI in respect of its retained interest in the Fund. The Transaction was approved by Fund unitholders on May 5, 2015 and was completed on May 6, 2015.

The Transaction was financed by a \$111.6 million bought deal offering of 5,047,613 Fund units, and increased borrowing of \$33.3 million by the Fund. The Fund used a portion of proceeds to pay for \$5.7 million in issuance costs (which resulted in a \$1.5 million deferred tax benefit) and \$0.5 million in an entitlement payment equal to a distribution on the 5,047,613 Fund units. The net proceeds of \$138.7 million were used to purchase 1,000 Class 1 LP Units and 5,047,613 Class 2 LP Units. The Fund has classified this investment as a financial asset measured at fair value through profit or loss using level 2 inputs.

The investment in BP Canada LP is comprised of:

(in thousands, except per unit data)	Issued and outstanding LP Units		Investment in BP Canada LP
Issued and outstanding Class 1 LP Units upon closing of the Transaction on May 6, 2015	1,000	\$	33,314
Issued and outstanding Class 2 LP Units upon closing of the Transaction on May 6, 2015	5,047,613		105,373
Fair value adjustment on investment in Units of Boston Pizza Canada Limited Partnership			(14,869)
Balance at December 31, 2015		\$	123,818
Fair value adjustment on investment in Units of Boston Pizza Canada Limited Partnership			24,733
Balance at December 31, 2016		\$	148,551

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

The carrying value of the Class 1 LP Units approximates the fair value as the Fund's interest cost is reflective of available market interest rates. The fair value of the Class 2 LP Units are determined at each period end by multiplying the issued and outstanding Class 2 LP Units held by the Fund at the end of the period by the closing price of Fund units at the end of the period (or previous business day if not a business day). At the completion of the Transaction, the initial cost of each Class 2 LP Units acquired by the Fund was \$20.88. As at December 31, 2016, the closing price of a Fund unit was \$22.83 (December 31, 2015 - \$17.93) while the number of issued and outstanding Class 2 LP Units held by the Fund was 5,047,613. (December 31, 2015 – 5,047,613). The fair value adjustment of the investment in BP Canada LP at December 31, 2016 was a \$24.7 million gain (December 31, 2015 - \$14.9 million loss).

BPI receives its proportionate share of the incremental 1.5% of Franchise Sales through distributions on Class 2 GP Units that were exchangeable for 847,575 Fund units (as at December 31, 2016), enabling BPI to maintain its 14.8% retained interest in the Fund. BPI will continue to pay the Fund the balance of the Franchise Sales Participation in the form of Royalty fees.

The number of Fund units that BPI is entitled to receive in exchange for its Class 2 GP Units is adjusted on January 1 of each year (each, an "**Adjustment Date**") to reflect the addition of new Boston Pizza Restaurants to the Royalty Pool (the number of Fund units BPI is indirectly entitled to receive in connection therewith is the "**Class 2 Additional Entitlements**", with 80% of the Class 2 Additional Entitlements being received on the Adjustment Date with the balance (the "**Class 2 Holdback**") being received once the performance of the new stores and the actual effective tax rate paid by the Fund are known for certain), all in a manner similar to adjustments to the Class B Units that BPI holds. BPI also has the right to further increase the Fund's Franchise Sales Participation by up to an additional 1.5% of Franchise Sales (in 0.5% increments) upon meeting certain financial thresholds designed to ensure that the additional Franchise Sales Participation is accretive to the Fund and that BPI retains the financial capacity to satisfy its obligations to the Fund. The Fund has an obligation to issue Fund units when BPI exercises its rights to exchange Class 2 GP Units for Fund units. As at December 31, 2016, BPI's Class 2 GP Units were exchangeable for 847,575 Fund units (December 31, 2015 – 752,387). Should an exchange occur, BP Canada LP would issue additional Class 2 LP Units to the Fund, the Fund would issue additional Fund units to BPI, resulting in an increase in the Fund's investment in BP Canada LP recognizing its entitlement to a larger portion of distributions.

8. Intangible assets – BP Rights:

Royalties LP and BPI entered into the License and Royalty Agreement to allow BPI the use of the BP Rights for a term of 99 years beginning in July 2002, for which BPI pays the Royalty. Since the trademarks may remain in force indefinitely, the BP Rights have an indefinite life, are recognized at cost and are not amortized but are tested for indicators of impairment at each reporting date and tested for impairment annually on December 31. In January of each year, new Boston Pizza Restaurants are added to the Royalty Pool. In exchange for adding new Boston Pizza Restaurants into the Royalty Pool, BPI is granted the Class B Additional Entitlements (note 9), the fair value of which are determined using the expected annual Franchise Sales of the new Boston Pizza Restaurants discounted by the yield of the Fund units. The value of the Class B Additional Entitlements is adjusted in the following year once the annual Franchise Sales of the new Boston Pizza Restaurants and the actual effective tax rate of the Fund are known for certain.

BOSTON PIZZA ROYALTIES INCOME FUND
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

8. Intangible assets – BP Rights (continued):

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

(in thousands)	
Balance – January 1, 2015	\$ 250,341
Class B Additional Entitlements for net 8 new restaurants opened in 2014 and added to the Royalty Pool in 2015 – granted January 1, 2015	8,132
Adjustment to prior year Class B Additional Entitlements for actual performance of new restaurants opened in 2013 and added to the Royalty Pool in 2014 and actual effective tax rate	(338)
Balance – December 31, 2015	258,135
Class B Additional Entitlements for net 6 new restaurants opened in 2015 and added to the Royalty Pool in 2016 – granted January 1, 2016	5,587
Adjustment to prior year Class B Additional Entitlements for actual performance of new restaurants opened in 2014 and added to the Royalty Pool in 2015 and actual effective tax rate	471
Balance – December 31, 2016	\$ 264,193

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

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

As at December 31, 2016, 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. The Fund has determined that no impairment exists.

9. Royalties LP unit liabilities:

(a) Class B Units:

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

9. Royalties LP unit liabilities (continued):

(a) Class B Units (continued):

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

On January 1, 2016, 12 new Boston Pizza Restaurants that opened during the period from January 1, 2015 to December 31, 2015 were added to the Royalty Pool while six Boston Pizza Restaurants that closed during 2015 were removed. The Franchise Sales of these six net new Boston Pizza Restaurants has been estimated at \$14.5 million. The total number of Boston Pizza Restaurants in the Royalty Pool was increased to 372. As a result of the contribution of the additional net Franchise Sales to the Royalty Pool, BPI received Class B Additional Entitlements (including the Class B Holdback) equivalent to 317,294 (2015 – 373,523) Fund units.

BPI also received a proportionate increase in monthly distributions from Royalties LP. Of the 317,294 Class B Additional Entitlements, 20% (2016 – 63,459 Class B Holdback; 2015 – 74,705 Class B Holdback), remained unissued and were not eligible for conversion to Fund units until January 1, 2017 (2015 units – January 1, 2016) based on the actual performance of the new Boston Pizza Restaurants and the actual effective tax rate paid by the Fund.

In early 2016, adjustments to Royalty payments and Class B Additional Entitlements were made based on the actual performance of eight net new additional Boston Pizza Restaurants added to the Royalty Pool on January 1, 2015 and the actual effective tax rate paid by the Fund in 2015. Based on these adjustments, BPI received Class B Additional Entitlements equivalent to 96,325 Fund units.

BOSTON PIZZA ROYALTIES INCOME FUND
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

9. Royalties LP unit liabilities (continued):

	Issued and outstanding Class B Additional Entitlements	Issued and outstanding Class B Additional Entitlements including Class B Holdback	Class B Unit Liability
Balance at December 31, 2014	1,855,925	1,944,863	\$ 42,028
Class B Additional Entitlements for addition of 8 net new restaurants opened in 2014 and added to the Royalty Pool in 2015 – granted January 1, 2015	298,818	373,523	8,132
Adjustment to prior year Class B Additional Entitlements for actual performance of new restaurants opened in 2013 and added to Royalty Pool in 2014 and actual effective tax rate	72,627	(16,311)	(338)
Fair value adjustment	-	-	(8,546)
Balance at December 31, 2015	2,227,370	2,302,075	41,276
Class B Additional Entitlements for addition of 6 net new restaurants opened in 2015 and added to the Royalty Pool in 2016 – granted January 1, 2016	253,835	317,294	5,587
Adjustment to prior year Class B Additional Entitlements for actual performance of new restaurants opened in 2014 and added to Royalty Pool in 2015 and actual effective tax rate	96,325	21,620	471
Fair value adjustment	-	-	12,960
Balance at December 31, 2016	2,577,530	2,640,989	\$ 60,294

The fair value of the Class B Unit Liability is determined at end of each period by multiplying the issued and outstanding Class B Additional Entitlements (including Class B Holdback) held by BPI at the end of the period by the closing price of Fund units at the end of the period (or previous business day if not a business day). As at December 31, 2016, the closing price of a Fund unit was \$22.83 (December 31, 2015 – \$17.93) while the number of Fund units BPI would be entitled to receive if it exchanged all of its Class B Units (including Class B Holdback) was 2,640,989 (December 31, 2015 – 2,302,075). Consequently, the Class B Unit Liability was valued at \$60.3 million (December 31, 2015 – \$41.3 million). The fair value adjustment of the Class B Unit Liability at December 31, 2016 was a \$13.0 million loss.

The Fund has no obligation to settle this financial liability in cash. If BPI were to exchange all of its Class B Units for Fund units on December 31, 2016, the Fund would issue the equivalent number of Fund units and the Class B Unit Liability would be extinguished.

BOSTON PIZZA ROYALTIES INCOME FUND
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

9. Royalties LP unit liabilities (continued):

(b) Class C units:

BPI holds 2,400,000 Class C Units. Royalties LP has an obligation to pay \$0.0625 per Class C Unit on a monthly basis as long as the Note Receivable from BPI (note 4) 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.

10. Fund units:

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

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

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 December 31, 2016, the Class B Units held by BPI were exchangeable into 2,577,530 Fund units and the Class 2 GP Units held by BPI were exchangeable into 847,575 Fund units, for a total of 14.4% of the issued and outstanding Fund units on a fully diluted basis.

(in thousands, except unit data)	Number of Units	Units as equity
Opening balance at January 1, 2016	20,441,763	\$ 298,381
Acquisition of Fund units	(155,700)	(2,581)
Balance at December 31, 2016	20,286,063	\$ 295,800

(c) Distributions declared to Fund unitholders during the year ended December 31, 2016 totaled \$28.0 million (2015 – \$24.7 million) or \$1.38 per Fund unit (2015 – \$1.32).

BOSTON PIZZA ROYALTIES INCOME FUND
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

11. Operations:

(in thousands, except number of Restaurants in the Royalty Pool)	2016	2015
Restaurants in the Royalty Pool	372	366
Franchise Sales reported by Restaurants in the Royalty Pool	\$ 828,619	\$ 814,001
Royalty income – 4% of Franchise Sales	33,145	32,560
Distribution income – 1.5% of Franchise sales (2015 from the effective date of the Transaction, less BPI retained interest)	10,700	8,173

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

12. Related party transactions:

BPI and BP Canada LP are considered to be related parties of the Fund by virtue of common officers and directors in Royalties LP, BPI, and BP Canada LP. The Fund has engaged 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, 2016 was \$0.4 million (December 31, 2015 – \$0.4 million). As at December 31, 2016, interest payable to BPI on Class B Units and Class C Units was \$0.6 million (December 31, 2015 – \$0.5 million), interest receivable from BPI was \$0.2 million (December 31, 2015 – \$0.2 million), Royalty receivable from BPI was \$2.9 million (December 31, 2015 – \$2.9 million), and distribution receivable from BP Canada LP was \$0.9 million (December 31, 2015 – \$0.9 million).

13. 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)	2016	2015
Remuneration paid to Trustees	\$ 198	\$ 276

14. Supplemental cash flow information:

(a) Non-cash transactions:

(in thousands)	2016	2015
Roll-in of new stores – January 1, net	\$ 6,058	\$ 7,794

BOSTON PIZZA ROYALTIES INCOME FUND
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

14. Supplemental cash flow information (continued):

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

(in thousands)	2016	2015
Change in:		
Royalty receivable from Boston Pizza International Inc.	\$ (33)	\$ (116)
Distribution receivable from Boston Pizza Canada Limited Partnership	32	(903)
Prepaid expenses	-	4
Accounts payable and accrued liabilities	60	167
Adjusted for:		
Interest expense	(2,461)	(2,084)
Interest paid on long-term debt	2,394	1,961
Changes in non-cash working capital	\$ (8)	\$ (971)

15. Subsequent events:

- (a) On January 1, 2017, 13 new Boston Pizza Restaurants that opened across Canada between January 1, 2016 and December 31, 2016 were added to the Royalty Pool and the two restaurants that permanently closed during 2016 were removed from the Royalty Pool. The total number of restaurants in the Royalty Pool increased to 383 from 372. In return for adding net additional Royalty and Distribution from the eleven net new Boston Pizza Restaurants added to the Royalty Pool, BPI received 415,229 Additional Entitlements (representing 80% of the total Additional Entitlements), comprised of 301,985 Class B Additional Entitlements and 113,244 Class 2 Additional Entitlements, and the Holdback was 103,807 Additional Entitlements (representing 20% of the total Additional Entitlements), comprised of 75,496 Class B Holdback and 28,311 Class 2 Holdback. The Holdback remains unissued and is not eligible for conversion to Fund units until the first quarter of 2018. BPI receives an increase in monthly distributions based on 100% of the Additional Entitlements, subject to a reconciliation of the distributions paid to BPI in respect of these Additional Entitlements that will occur once the actual performance of these eleven net new restaurants and the actual effective tax rate paid by the Fund for 2017 are known.
- (b) In the first quarter of 2017, adjustments to Royalty and Distribution payments and Class B Additional Entitlements and Class 2 Additional Entitlements were made based on the actual performance of six net new additional Boston Pizza Restaurants added to the Royalty Pool on January 1, 2016 and the effective tax rate paid by the Fund in 2016. Based on these adjustments, BPI received 104,420 Class B Additional Entitlements and 39,158 Class 2 Additional Entitlements.

NOTES



BOSTON PIZZA INTERNATIONAL INC.

Management's Discussion & Analysis

82

Consolidated Financial Statements

107



MANAGEMENT'S DISCUSSION AND ANALYSIS
BOSTON PIZZA INTERNATIONAL INC.
For the Period and Year ended December 31, 2016

FINANCIAL HIGHLIGHTS

The tables below set out selected information from the annual consolidated financial statements of Boston Pizza International Inc. ("BPI"), which includes the accounts of Boston Pizza Canada Limited Partnership ("BP Canada LP") and BPI's subsidiaries, together with other data, and should be read in conjunction with the annual consolidated financial statements of BPI for the years ended December 31, 2016 and December 31, 2015. BPI and Boston Pizza Royalties Income Fund (the "Fund") completed a transaction on May 6, 2015 pursuant to which, among other things, BP Canada LP became the exclusive franchisor of Boston Pizza Restaurants (defined below) in Canada and the Fund made an indirect investment in BP Canada LP. As a result, the information in the tables below is not necessarily directly comparable with prior historical financial statements or Management's Discussion and Analysis ("MD&A") of BPI. Refer to the "General Development of the Business – Significant Acquisition – The Transaction" section of the Fund's Annual Information Form dated February 15, 2017 for more details. The financial information reported in the tables are reported in accordance with International Financial Reporting Standards ("IFRS") except as otherwise noted and are stated in Canadian dollars.

<i>For the years ended December 31</i>	2016	2015	2014
<i>(in thousands of dollars - except number of restaurants and per share items)</i>			
System-Wide Gross Sales ¹	1,080,559	1,059,549	1,011,966
Number of Boston Pizza Restaurants ²	383	372	366
Franchise Sales reported by Boston Pizza Restaurants ³	837,810	823,892	787,922
Income Statement Data			
Total revenues	93,140	87,526	82,525
Royalty expense	33,145	32,560	31,277
Distribution expense	10,700	8,173	-
Operating expenses excluding Royalty expense and Distribution expense	46,312	48,480	43,276
Earnings (loss) before interest and fair value gain (loss) on financial instruments	2,983	(1,687)	7,972
Net interest income	4,448	3,625	3,155
Fair value gain (loss) on financial instruments	(11,773)	6,323	1,409
Earnings (loss) before income taxes	(4,342)	8,261	12,536
Current and deferred income tax expense	5,786	18,665	987
Net and comprehensive income (loss)	(10,128)	(10,404)	11,549
Basic and diluted earnings (loss) per share	(0.10)	(0.10)	0.11
Dividends per share	-	1.13	0.31
Balance Sheet Data			
	Dec 31, 2016	Dec 31, 2015	Dec 31, 2014
Total assets	168,277	151,465	156,059
Total liabilities	430,179	403,239	279,330

- 1) "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 or BP Canada LP, as applicable, by franchised Boston Pizza Restaurants in Canada, without audit or other form of independent assurance, and in the case of both (i) and (ii), including revenue from the sale of liquor, beer, wine and revenue from BPI or BP Canada LP, as applicable, approved national promotions and discounts and excluding applicable sales and similar taxes.
- 2) As at the end of the applicable period.
- 3) Franchise sales is the basis on which Royalty and Distributions are payable; it means the revenues of Boston Pizza Restaurants 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 or BP Canada LP, as applicable, by franchised Boston Pizza Restaurants in Canada, without audit or other form of independent assurance, and in the case of both (i) and (ii), after deducting revenue from the sale of liquor, beer, wine and revenue from BPI or BP Canada LP, as applicable, approved national promotions and discounts and excluding applicable sales and similar taxes. Nevertheless, BP Canada LP periodically conducts audits of the Franchise Sales reported to it by its franchisees, and the Franchise Sales reported herein include results from sales audits of earlier periods.

MANAGEMENT'S DISCUSSION AND ANALYSIS
BOSTON PIZZA INTERNATIONAL INC.
For the Period and Year ended December 31, 2016

SUMMARY OF QUARTERLY RESULTS

	Q4 2016	Q3 2016	Q2 2016	Q1 2016
(in thousands of dollars - except number of restaurants and per share items)				
System-Wide Gross Sales ¹	270,800	281,538	274,039	254,182
Number of Boston Pizza Restaurants ²	383	378	374	370
Franchise Sales reported by Boston Pizza Restaurants ³	208,617	219,121	212,023	198,049
<u>Income Statement Data</u>				
Total revenues	23,455	25,634	22,961	21,090
Royalty expense	8,165	8,624	8,434	7,922
Distribution expense	2,617	2,790	2,728	2,565
Operating expenses excluding Royalty expense and Distribution expense	11,123	12,701	12,152	10,336
Earnings (loss) before interest and fair value gain (loss) on financial instruments	1,550	1,519	(353)	267
Net interest income	1,665	1,058	1,110	615
Fair value loss on financial instruments	(2,430)	(4,404)	(3,104)	(1,835)
Earnings (loss) before income taxes	785	(1,827)	(2,347)	(953)
Current and deferred income tax expense	1,790	1,943	1,121	932
Net and comprehensive loss	(1,005)	(3,770)	(3,468)	(1,885)
Basic and diluted loss per share	(0.01)	(0.04)	(0.03)	(0.02)

	Q4 2015	Q3 2015	Q2 2015	Q1 2015
(in thousands of dollars - except number of restaurants and per share items)				
System-Wide Gross Sales ¹	272,017	275,009	263,852	248,671
Number of Boston Pizza Restaurants ²	372	369	368	366
Franchise Sales reported by Boston Pizza Restaurants ³	209,675	215,562	204,725	193,930
<u>Income Statement Data</u>				
Total revenues	22,466	22,736	21,949	20,375
Royalty expense	8,215	8,494	8,115	7,736
Distribution expense	2,708	2,799	2,666	-
Operating expenses excluding Royalty expense and Distribution expense	12,116	11,244	11,968	13,152
Earnings (loss) before interest and fair value gain (loss) on financial instruments	(573)	199	(800)	(513)
Net interest income	1,397	872	890	466
Fair value gain (loss) on financial instruments	(1,950)	10,097	(2,878)	1,054
Earnings (loss) before income taxes	(1,126)	11,168	(2,788)	1,007
Current and deferred income tax expense (recovery)	1,834	(1,456)	17,885	402
Net and comprehensive income (loss)	(2,960)	12,624	(20,673)	605
Basic and diluted earnings (loss) per share	(0.03)	0.12	(0.20)	0.01

MANAGEMENT'S DISCUSSION AND ANALYSIS
BOSTON PIZZA INTERNATIONAL INC.
For the Period and Year ended December 31, 2016

OVERVIEW

General

This MD&A covers the three month period from October 1, 2016 to December 31, 2016 (the "**Period**") and the twelve month period from January 1, 2016 to December 31, 2016 (the "**Year**") and is dated February 15, 2017. It provides additional analysis of the operations, financial position and financial performance of BPI and should be read in conjunction with BPI's applicable annual consolidated financial statements and accompanying notes. The annual consolidated financial statements of BPI are in Canadian dollars and have been prepared in accordance with IFRS.

BPI is a privately controlled company and prior to April 6, 2015 was the exclusive franchisor of the Boston Pizza (defined below) concept in Canada. On April 6, 2015, BP Canada LP, a British Columbia limited partnership controlled and operated by BPI, became the exclusive franchisor of the Boston Pizza concept in Canada. On May 6, 2015, the Fund completed an indirect investment in BP Canada LP to effectively increase the Fund's indirect interest in Franchise Sales of Boston Pizza Restaurants in the Royalty Pool (defined below) by 1.5%, from 4.0% to 5.5% less the pro rata portion payable to BPI in respect of its retained interest in the Fund (the "**Transaction**"). Refer to the "General Development of the Business – Significant Acquisition – The Transaction" section of the Fund's Annual Information Form dated February 15, 2017 for more details.

On June 20, 2016, BPI indirectly, through a newly incorporated subsidiary, acquired an existing Boston Pizza Restaurant from a franchisee of BP Canada LP (the "**Acquired Restaurant**"). This is the fourth Boston Pizza Restaurant corporately owned by BPI. The other three corporately owned Boston Pizza Restaurants are used by BPI as testing facilities and training centres for franchisees.

BPI and BP Canada LP compete in the casual dining sector of the restaurant industry and Boston Pizza is the number one casual dining brand in Canada. With 382 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.

Royalty

Prior to April 6, 2015, BPI charged, and from and after April 6, 2015, BP Canada LP charges, a 7% royalty fee on Franchise Sales for full-service and fast casual Boston Pizza restaurants open in Canada and a 5% royalty fee on Franchise Sales for Boston Pizza quick express restaurants that are open in Canada (collectively, the "**Boston Pizza Restaurants**"). BPI pays Boston Pizza Royalties Limited Partnership ("**Royalties LP**"), an entity controlled by the Fund, a 4% royalty fee (the "**Royalty**") on Franchise Sales from the Boston Pizza Restaurants in the royalty pool (the "**Royalty Pool**") for the use of the Boston Pizza trademarks in Canada (the "**BP Rights**"⁴). As at December 31, 2016, there were 372 Boston Pizza Restaurants in the Royalty Pool and 383 restaurants in operation.

Distributions from BP Canada LP

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

4) BP Rights are the trademarks that as at July 17, 2002 were registered or the subject of pending applications for registration under the *Trade-marks Act* (Canada), and other trademarks and 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).

MANAGEMENT'S DISCUSSION AND ANALYSIS
BOSTON PIZZA INTERNATIONAL INC.
For the Period and Year ended December 31, 2016

Class 2 LP Units and Class 2 GP Units, BPI is entitled to all residual distributions from BP Canada LP on the Class 3 general partnership units ("**Class 3 GP Units**"), Class 4 general partnership units ("**Class 4 GP Units**"), Class 5 general partnership units ("**Class 5 GP Units**") and Class 6 general partnership units ("**Class 6 GP Units**") of BP Canada LP that BPI holds.

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

Business Strategy

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

- **The commitment to franchisee profitability**
- **The commitment to continually enhance the Boston Pizza brand**
- **The commitment to continually improve the guest experience**
- **The commitment to engage with communities**

BPI and BP Canada LP realize that franchisees have to be profitable to succeed. To enhance profitability and to facilitate the growth of Boston Pizza, BPI and BP Canada LP aggressively enhance and promote the Boston Pizza brand through national television and radio advertising, and national and local promotions. The costs associated with national marketing of Boston Pizza are paid for by Boston Pizza Co-op Advertising (the "**Co-op**"). Franchisees pay 3% of Franchise Sales into the Co-op; 76% of these funds are used to purchase television, on-line 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 guests' experience so that they will return to Boston Pizza again and again. Boston Pizza and its franchisees connect with their communities by hosting events, engaging with local organizations, and supporting philanthropic causes. Management is confident that this "Four Pillars" strategy will continue to focus BPI's and BP Canada LP's efforts, develop new markets and continue to strengthen Boston Pizza's position as Canada's number one casual dining brand.

MANAGEMENT'S DISCUSSION AND ANALYSIS
BOSTON PIZZA INTERNATIONAL INC.
For the Period and Year ended December 31, 2016

OPERATING RESULTS

Same Store Sales Growth ("SSSG")

SSSG⁵, a key driver of distribution growth for Unitholders, is the change in gross revenues of Boston Pizza Restaurants as compared to the gross revenues for the same period in the previous year, where restaurants were open for a minimum of 24 months. The two principal factors that affect SSSG are changes in customer traffic and changes in average guest cheque.

Period

SSSG was negative 3.1% for the Period compared to positive 2.2% SSSG reported in the fourth quarter of 2015. Franchise Sales, the basis upon which the Royalty and Distributions are paid by BPI and BP Canada LP, respectively, indirectly to the Fund, excludes revenue from sales of liquor, beer, wine and approved national promotions and discounts. On a Franchise Sales basis, SSSG was negative 3.1% for the Period compared to positive 1.8% for the fourth quarter of 2015. The negative SSSG for the Period was principally due to the impact of progressively weaker general economic conditions in regions directly connected to the Canadian oil and gas industry, partially offset by menu re-pricing and higher sales as a result of Boston Pizza's nacho promotion.

Year

SSSG was negative 0.3% for the Year compared to positive 1.8% SSSG reported in 2015. On a Franchise Sales basis, SSSG was negative 0.5% for the Year compared to positive 1.7% in 2015. The negative SSSG for the Year was principally due to the impact of progressively weaker general economic conditions in regions directly connected to the Canadian oil and gas industry, partially offset by menu re-pricing and higher sales as a result of Boston Pizza's nacho promotion.

New Store Openings, Closures and Renovations

During the Period, five new Boston Pizza Restaurants opened (Year – 13) and no Boston Pizza Restaurants closed (Year – 2). Subsequent to December 31, 2016, no Boston Pizza Restaurants opened and one Boston Pizza Restaurant closed. As well during the Period, 19 Boston Pizza Restaurants were renovated (Year – 50). Restaurants typically close for two to three weeks to complete the renovation and experience an incremental sales increase in the year following the re-opening. Subsequent to December 31, 2016, two additional restaurants were renovated. The total number of Boston Pizza Restaurants in operation as of February 15, 2017 is 382.

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 each year compared to the first and fourth quarters. Tourism is also a seasonal factor positively impacting the second and third quarters of each year.

Revenues

Period

BPI's total revenue was \$23.5 million for the Period compared to \$22.5 million for the fourth quarter of 2015. BPI's revenue was principally derived from royalty revenue received by BP Canada LP from franchised Boston Pizza Restaurants, sales from corporately owned restaurants, initial franchise fees, supplier contributions and franchise

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
BOSTON PIZZA INTERNATIONAL INC.
For the Period and Year ended December 31, 2016

renewal fees. The increase in total revenue earned by BPI during the Period was primarily due to higher sales from corporately owned restaurants mainly resulting from the Acquired Restaurant, and higher supplier contributions.

Year

BPI's total revenue was \$93.1 million for the Year compared to \$87.5 million in 2015. BPI's revenue was principally derived from royalty revenue received by BP Canada LP from franchised Boston Pizza Restaurants, sales from corporately owned restaurants, initial franchise fees, supplier contributions and franchise renewal fees. The increase in total revenue earned by BPI for the Year was primarily due to higher sales from corporately owned restaurants mainly resulting from the Acquired Restaurant, and increased royalty revenue resulting from the opening of new Boston Pizza restaurants since the prior year, partially offset by negative SSSG for the Year. Supplier contributions were also higher during the Year compared with 2015.

Royalty Expense

Period

BPI's Royalty expense to Royalties LP (being 4% of Franchise Sales from Boston Pizza Restaurants in the Royalty Pool) was \$8.2 million for the Period consistent with \$8.2 million for the fourth quarter in 2015. The Royalty expense was unchanged as additional Franchise Sales from six Net New Restaurants added to the Royalty Pool on January 1, 2016, were offset by negative SSSG for the Period.

Year

BPI's Royalty expense to Royalties LP (being 4% of Franchise Sales from Boston Pizza Restaurants in the Royalty Pool) was \$33.1 million for the Year compared to \$32.6 million in 2015. The increase in Royalty expense was primarily due to the additional Franchise Sales from six Net New Restaurants added to the Royalty Pool on January 1, 2016, partially offset by negative SSSG for the Year.

Distribution Expense

Period

BPI's Distribution expense (being 1.5% of Franchise Sales from Boston Pizza Restaurants in the Royalty Pool, less BPI's retained interest) was \$2.6 million for the Period compared to \$2.7 million for the fourth quarter of 2015. Distribution expense in respect of the Period was based on the Royalty Pool of 372 Boston Pizza Restaurants reporting Franchise Sales of \$204.1 million for the Period. In the fourth quarter of 2015, Distribution expense was based on the Royalty Pool of 366 Boston Pizza Restaurants reporting Franchise Sales of \$205.4 million.

Year

BPI's Distribution expense (being 1.5% of Franchise Sales from Boston Pizza Restaurants in the Royalty Pool, less BPI's retained interest) was \$10.7 million for the Year compared to \$8.2 million in 2015. The \$2.5 million increase in Distribution expense for the Year was primarily due to the combined effects of BPI not incurring any Distribution expense during the first quarter of 2015 and the additional Franchise Sales from six Net New Restaurants added to the Royalty Pool on January 1, 2016, partially offset by negative SSSG for the Year. BPI did not incur any Distribution expense during the first quarter of 2015 as BPI only became obliged to pay Distributions on the Class 1 LP Units and Class 2 LP Units to Holdings LP upon the completion of the Transaction on May 6, 2015.

Operating Expenses Excluding Royalty Expense and Distribution Expense

Period

BPI's operating expenses excluding Royalty expense and Distribution expense were \$11.1 million for the Period compared to \$12.1 million for the fourth quarter in 2015. Operating expenses excluding Royalty expense and Distribution expense include compensation of \$5.2 million, other costs associated with services provided to

MANAGEMENT'S DISCUSSION AND ANALYSIS
BOSTON PIZZA INTERNATIONAL INC.
For the Period and Year ended December 31, 2016

franchised Boston Pizza Restaurants of \$2.9 million, operational costs of corporately owned restaurants of \$2.7 million, depreciation and amortization of \$0.9 million, and management fees for services rendered by companies under common control of \$0.1 million. This was partially offset by the amortization of deferred gain on the sale of BP Rights to Royalties LP of \$0.6 million. For the same period in 2015, BPI's operating expenses excluding Royalty expense and Distribution expense include compensation of \$6.8 million, other costs associated with services provided to franchised Boston Pizza Restaurants of \$3.1 million, the operational costs of corporately owned restaurants of \$2.0 million, depreciation and amortization of \$0.7 million, and management fees for services rendered by companies under common control of \$0.1 million. This was partially offset by the amortization of deferred gain on the sale of BP Rights to Royalties LP of \$0.6 million.

The \$1.0 million decrease in operating expenses excluding Royalty expense and Distribution expense for the Period was primarily due to decreased compensation costs and costs of services provided to franchised Boston Pizza Restaurants, partially offset by increased operational costs of corporately owned restaurants due to the Acquired Restaurant.

The deferred gain on the sale of BP Rights to Royalties LP is amortized over 99 years beginning in 2002 for the term of the License and Royalty Agreement between Royalties LP and BPI. The net deferred gain as at December 31, 2016 was \$218.8 million (December 31, 2015 – \$215.3 million).

Year

BPI's operating expenses excluding Royalty expense and Distribution expense were \$46.3 million for the Year compared to \$48.5 million in 2015. Operating expenses excluding Royalty expense and Distribution expense include compensation of \$21.4 million, other costs associated with services provided to franchised Boston Pizza Restaurants of \$13.3 million, operational costs of corporately owned restaurants of \$10.7 million, depreciation and amortization of \$3.0 million, and management fees for services rendered by companies under common control of \$0.5 million. This was partially offset by the amortization of deferred gain on the sale of BP Rights to Royalties LP of \$2.6 million. For the same period in 2015, BPI's operating expenses excluding Royalty expense and Distribution expense include compensation of \$25.1 million, other costs associated with services provided to franchised Boston Pizza Restaurants of \$12.4 million, costs relating to the Transaction of \$2.3 million, the operational costs of corporately owned restaurants of \$7.9 million, depreciation and amortization of \$2.5 million, and management fees for services rendered by companies under common control of \$0.8 million. This was partially offset by the amortization of deferred gain on the sale of BP Rights to Royalties LP of \$2.5 million.

The \$2.2 million decrease in operating expenses excluding Royalty expense and Distribution expense for the Year was primarily due to \$2.3 million of costs related to the Transaction having been incurred in 2015 with no corresponding expenses having been incurred for the Year. Excluding the costs related to the Transaction, operating expenses excluding Royalty expense and Distribution expense for the Year have increased by \$0.1 million compared to 2015 primarily due to operating costs in respect of the Acquired Restaurant and costs associated with the bi-annual franchisee conference that were incurred in the Year, partially offset by lower compensation costs.

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

Period

BPI's earnings before interest and fair value gain (loss) on financial instruments was \$1.6 million for the Period compared to a loss before interest and fair value gain (loss) on financial instruments of \$0.6 million for the fourth quarter of 2015. The \$2.2 million increase in earnings before fair value gain (loss) on financial instruments for the Period was principally due to higher revenue and lower operating expenses excluding Royalty expense and Distribution expense as discussed above.

Year

BPI's earnings before interest and fair value gain (loss) on financial instruments was \$3.0 million for the Year compared to a loss before interest and fair value gain (loss) on financial instruments of \$1.7 million in 2015. The

MANAGEMENT'S DISCUSSION AND ANALYSIS
BOSTON PIZZA INTERNATIONAL INC.
For the Period and Year ended December 31, 2016

\$4.7 million increase in earnings before fair value gain (loss) on financial instruments for the Year was principally due to higher revenue and lower operating expenses excluding Royalty expense and Distribution expense as discussed above.

Net Interest Income

Period

BPI's net interest income during the Period was \$1.7 million, comprised mainly of \$2.2 million of interest income received by BPI on its Class B general partner units and Class C general partner units of Royalties LP ("**Class B Units**" and "**Class C Units**", respectively), partially offset by \$0.5 million of interest paid by BPI to the Fund on the BP Loan (defined below). BPI's net interest income for the fourth quarter of 2015 was \$1.4 million, comprised mainly of \$1.9 million of interest income received by BPI on the Class B Units and Class C Units, partially offset by \$0.5 million of interest paid by BPI to the Fund on the BP Loan.

Year

BPI's net interest income for the Year was \$4.4 million, comprised mainly of \$6.4 million of interest income received by BPI on its Class B Units and Class C Units, partially offset by \$1.8 million of interest paid by BPI to the Fund on the BP Loan. BPI's net interest income in 2015 was \$3.6 million, comprised mainly of \$5.5 million of interest income received by BPI on the Class B Units and Class C Units, partially offset by \$1.8 million of interest paid by BPI to the Fund on the BP Loan.

Fair Value Gain (Loss) on Financial Instruments

Period

During the Period, BPI recorded a fair value loss on financial instruments of \$2.4 million compared to a loss of \$2.0 million for the same period in 2015. The change in fair value was principally due to the change in the price of Fund Units into which Class B Units are exchangeable and upon which the Class 2 LP Units liability is measured.

BPI estimates the fair value of the Class B Units by multiplying the number of Fund Units that BPI would be entitled to receive if it exchanged all of the Class B Units (including the Class B Holdback) held by BPI at the end of the Period by the closing price of a Fund Unit at the end of the Period (or previous business day, if such a day is not a business day). As at December 31, 2016, the Fund's closing price was \$22.83 per Unit (September 30, 2016 – \$21.82 per Unit) while the number of Fund Units BPI would be entitled to receive if it exchanged all of its Class B Units (including the Class B Holdback) was 2,640,989 (September 30, 2016 – 2,640,989). BPI's Class B Units were calculated to be valued at \$60.3 million (September 30, 2016 – \$57.6 million), resulting in a fair value gain of \$2.7 million for the Period. In general, the value of the Class B Units will increase as the market price of Fund Units increases and vice versa.

The Class 1 LP Units are entitled to distributions determined with respect to the interest cost paid by the Fund on the credit facility of the Fund drawn on at the time of the Transaction to pay for the Fund's indirect investment in Class 1 LP Units of BP Canada LP. BPI estimates the fair value of the Class 1 LP Units liability using a market-corroborated input, being the interest rate on the applicable credit facility. Consequently, BPI estimated the fair value of Class 1 LP Units liability as at December 31, 2016 to be \$33.3 million (September 30, 2016 – \$33.3 million), resulting in no fair value adjustment for the Period.

BPI estimates the fair value of the Class 2 LP Units liability by multiplying the number of Class 2 LP Units indirectly held by the Fund at the end of the Period by the closing price of a Fund Unit at the end of the Period (or previous business day, if such day is not a business day). As at December 31, 2016, the Fund indirectly held 5,047,613 Class 2 LP Units (September 30, 2016 – 5,047,613) and the Fund's closing price was \$22.83 per Unit (September 30, 2016 – \$21.82 per Unit). Consequently, BPI estimated the fair value of the Class 2 LP Units liability as at December 31, 2016 to be \$115.2 million (September 30, 2016 – \$110.1 million), resulting in a fair value loss of \$5.1 million for the Period. In general, the Class 2 LP Units liability will increase as the market price of a Fund Unit increases and vice versa.

MANAGEMENT'S DISCUSSION AND ANALYSIS
BOSTON PIZZA INTERNATIONAL INC.
For the Period and Year ended December 31, 2016

Year

BPI had a fair value loss on financial instruments of \$11.8 million for the Year compared to a gain of \$6.3 million in 2015. The change in fair value was principally due to (i) the change in the price of Fund Units into which Class B Units are exchangeable, partially offset by the increase in BPI's Class B Additional Entitlements granted January 1 of each year, and (ii) the change in the price of Fund Units upon which the Class 1 LP Units liability and Class 2 LP Units liability are measured.

As at December 31, 2015, the Fund's closing price was \$17.93 per Fund Unit while the number of Fund Units that BPI would be entitled to receive if it exchanged all of the Class B Units (including the Class B Holdback) held by BPI as at December 31, 2015 was 2,302,075. The Class B Units (on a fully-diluted basis) as at December 31, 2015 were valued at \$41.3 million. As discussed above, the Class B Units as at the end of the Year were valued at \$60.3 million. The difference between the value of the Class B Units at the end of the Year and December 31, 2015 is an increase of \$19.0 million, comprised of \$6.1 million of Class B Additional Entitlements received by BPI on January 1, 2016, and a fair value gain of \$13.0 million.

Holdings LP acquired the Class 1 LP Units on May 6, 2015 for \$33.3 million. As discussed above, BPI estimated the fair value of the Class 1 LP Unit liability to be \$33.3 million as at December 31, 2016 (December 31, 2015 – \$33.3 million), resulting in no fair value adjustment for the Year.

As at December 31, 2015, the Fund indirectly held 5,047,613 Class 2 LP Units and the Fund's closing price was \$17.93 per Unit. Consequently, BPI estimated the fair value of the Class 2 LP Unit liability as at December 31, 2015 to be \$90.5 million. As discussed above, BPI estimated the fair value of the Class 2 LP Unit liability as at December 31, 2016 to be \$115.2 million, resulting in a fair value loss of \$24.7 million for the Year.

Earnings (Loss) before Income Taxes

Period

Given the combined effects of the above-noted factors, BPI had earnings before income taxes of \$0.8 million for the Period compared to loss before income taxes of \$1.1 million for the fourth quarter of 2015. The \$1.9 million increase in earnings before income taxes was primarily due to \$2.2 million increase in earnings before interest and fair value gain (loss) of financial instruments, partially offset by a net \$0.4 million change in fair value on financial instruments.

Year

Given the combined effects of the above-noted factors, BPI had a loss before income taxes of \$4.3 million for the Year compared to earnings before income taxes of \$8.3 million in 2015. The \$12.6 million increase in loss before income taxes was primarily due to a net \$18.1 million change in fair value on financial instruments, partially offset by higher earnings before interest and fair value gain (loss) of financial instruments of \$4.7 million as mentioned above.

Income Taxes

Period

BPI recorded a \$0.9 million current income tax expense for the Period compared to a \$0.1 million current income tax recovery for the fourth quarter in 2015. The increase in current income tax expense from a recovery position for the Period is primarily due to earnings before interest and fair value gain (loss) on financial instruments for the Period compared to a loss in the fourth quarter of 2015.

BPI recorded a deferred income tax expense of \$0.9 million for the Period compared to a deferred income tax expense of \$1.9 million for the fourth quarter of 2015. The decrease in deferred income tax expense is primarily associated with the change in fair value on the Class B Units.

MANAGEMENT'S DISCUSSION AND ANALYSIS
BOSTON PIZZA INTERNATIONAL INC.
For the Period and Year ended December 31, 2016

Year

BPI recorded a \$1.9 million current income tax expense for the Year compared to a current income tax expense of \$18.7 million in 2015. The decrease in current income tax expense is primarily due to corporate income tax expense paid in relation to the completion of the Transaction during 2015 with no corresponding expense for the Year, partially offset by the increase in earnings before interest and fair value gain (loss) on financial instruments.

BPI recorded a deferred income tax expense of \$3.9 million for the Year compared to a deferred income tax recovery of \$0.1 million in 2015. The increase in deferred income tax expense is primarily associated with the change in fair value on the Class B Units.

Net and Comprehensive Income (Loss)

Period

BPI's net and comprehensive loss during the Period was \$1.0 million compared to net and comprehensive loss of \$3.0 million during the same period in 2015. The net and comprehensive loss for the Period was primarily due to the fair value loss on financial instruments. The decrease of \$2.0 million in net and comprehensive loss is primarily due to higher earnings before interest and fair value gain (loss) on financial instruments partially offset by the change in the fair value loss on financial instruments for the Period, compared to the same period in 2015.

Year

BPI's net and comprehensive loss for the Year was \$10.1 million compared to net and comprehensive loss of \$10.4 million in 2015. The net and comprehensive loss for the Year was primarily due to the fair value loss on financial instruments. The decrease in net and comprehensive loss of \$0.3 million is primarily due to the corporate income tax expense paid in relation to the completion of the Transaction during 2015 with no corresponding expense for the Year combined with higher earnings before interest and fair value gain (loss) on financial instruments during the Year, partially offset by the change in fair value loss on financial instruments for the Year.

New Restaurants Added to the Royalty Pool

Boston Pizza Restaurants Added to Royalty Pool on January 1, 2016

On January 1, 2016, 12 new Boston Pizza Restaurants that opened across Canada between January 1, 2015 and December 31, 2015 were added to the Royalty Pool and the six restaurants that permanently closed during 2015 were removed from the Royalty Pool. The estimated 2016 annual Franchise Sales for the 12 new Boston Pizza Restaurants that opened less the revenue from the six permanent closures was \$14.5 million. The estimated Royalty and Distributions expected to be received by the Fund in 2016 from these six Net New Restaurants was 5.5% of that amount, or approximately \$0.8 million. The pre-tax amount for the purposes of calculating the Additional Entitlements, therefore, was approximately \$0.7 million, or 92.5% of \$0.8 million. The estimated effective tax rate that the Fund paid in the calendar year 2016 was 24.0%. Accordingly, the after-tax additional Royalty and Distributions for the purposes of calculating the Additional Entitlements was approximately \$0.6 million (\$0.7 million x (1 - 0.24)). In return for adding net additional Royalty and Distributions from the six Net New Restaurants added to the Royalty Pool, BPI received 349,023 Additional Entitlements (representing 80% of the estimated total Additional Entitlements), comprised of 253,835 Class B Additional Entitlements and 95,188 Class 2 Additional Entitlements, and the Holdback was 87,256 Additional Entitlements (representing 20% of the estimated total Additional Entitlements), comprised of 63,459 Class B Holdback and 23,797 Class 2 Holdback. The 349,023 Additional Entitlements represented 1.5% of Fund Units on a fully diluted basis on January 1, 2016. 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 six Net New Restaurants and the actual effective tax rate paid by the Fund for 2016 were known. See "Subsequent Events" below.

MANAGEMENT'S DISCUSSION AND ANALYSIS
BOSTON PIZZA INTERNATIONAL INC.
For the Period and Year ended December 31, 2016

Audit of Boston Pizza Restaurants Added to Royalty Pool on January 1, 2015

In January 2016, an audit of the Franchise Sales of the 14 new Boston Pizza Restaurants that were added to the Royalty Pool on January 1, 2015 was performed and the Fund's actual effective tax rate for 2015 was determined. The purpose of this was to compare the actual Franchise Sales from these 14 new Boston Pizza Restaurants to the estimated amount of Franchise Sales expected to be generated by these 14 new Boston Pizza Restaurants in 2015 and to compare the actual effective tax rate paid by the Fund for 2015 to the estimated effective tax rate the Fund expected to pay for 2015. The original Franchise Sales expected to be generated from these 14 new Boston Pizza Restaurants less the Franchise Sales from the six permanent closures that occurred in 2014 was \$16.7 million, and the actual Franchise Sales generated from these eight Net New Restaurants was \$0.2 million greater. The original effective tax rate for the Fund was expected to be 26.0% and the actual effective tax rate for the Fund for 2015 was 22.6%. As a result, Royalties LP increased interest paid to BPI by a nominal amount in January 2016 to reconcile the difference paid on the full number of Class B Additional Entitlements and the effective tax rate. BPI received only 80% of the Class B Additional Entitlements at the Adjustment Date in 2015. Following the audit, BPI received 96,325 Class B Additional Entitlements. No adjustment was made in respect of Class 2 Additional Entitlements as the Transaction had not occurred as at January 1, 2015 and BPI did not receive any Class 2 Additional Entitlements in respect of the eight Net New Restaurants added to the Royalty Pool on January 1, 2015.

Subsequent Events

Boston Pizza Restaurants Added to Royalty Pool on January 1, 2017

On January 1, 2017, 13 new Boston Pizza Restaurants that opened across Canada between January 1, 2016 and December 31, 2016 were added to the Royalty Pool and the two restaurants that permanently closed during 2016 were removed from the Royalty Pool. The estimated 2017 annual Franchise Sales for the 13 new Boston Pizza Restaurants that opened less the Franchise Sales from the two permanent closures was \$18.4 million. The estimated Royalty and Distributions expected to be received by the Fund in 2017 from these 11 Net New Restaurants was 5.5% of that amount, or approximately \$1.0 million. The pre-tax amount for the purposes of calculating the Additional Entitlements, therefore, was approximately \$0.9 million, or 92.5% of \$1.0 million. The estimated effective tax rate that the Fund will pay in the calendar year 2017 was 24.0%. Accordingly, the after-tax additional Royalty and Distributions for the purposes of calculating the Additional Entitlements was approximately \$0.7 million ($\$0.9 \text{ million} \times (1 - 0.24)$). In return for adding net additional Royalty and Distributions from the 11 Net New Restaurants added to the Royalty Pool, BPI received 415,229 Additional Entitlements (representing 80% of the estimated total Additional Entitlements), comprised of 301,985 Class B Additional Entitlements and 113,244 Class 2 Additional Entitlements, and the Holdback was 103,807 Additional Entitlements (representing 20% of the estimated total Additional Entitlements), comprised of 75,496 Class B Holdback and 28,311 Class 2 Holdback. The 415,229 Additional Entitlements represented 1.7% of Fund Units on a fully diluted basis on January 1, 2017. The full 519,036 Additional Entitlements (being 415,229 Additional Entitlements received by BPI plus the 103,807 Holdback) represented 2.1% of the Fund Units on a fully diluted basis on January 1, 2017. BPI receives an increase in monthly distributions based on 100% of the Additional Entitlements, subject to a reconciliation of the distributions paid to BPI in respect of these Additional Entitlements that will occur once the actual performance of these 11 Net New Restaurants and the actual effective tax rate paid by the Fund for 2017 are known. Once both the actual performance of these 11 Net New Restaurants for 2017 and the actual effective tax rate paid by the Fund for 2017 are known, the number of Additional Entitlements will be adjusted in 2018 to reflect the actual Royalty and Distributions received by the Fund in 2017 and actual effective tax rate paid by the Fund in 2017.

Audit of Boston Pizza Restaurants Added to Royalty Pool on January 1, 2016

In January 2017, an audit of the Franchise Sales of the 12 new Boston Pizza Restaurants that were added to the Royalty Pool on January 1, 2016 was performed and the Fund's actual effective tax rate for 2016 was determined. The purpose of this was to compare the actual Franchise Sales from these 12 new Boston Pizza Restaurants to the estimated amount of Franchise Sales expected to be generated by these 12 new Boston Pizza Restaurants in 2016 and to compare the actual effective tax rate paid by the Fund for 2016 to the estimated effective tax rate the Fund expected to pay for 2016. The original Franchise Sales expected to be generated from these 12 new Boston

MANAGEMENT'S DISCUSSION AND ANALYSIS
BOSTON PIZZA INTERNATIONAL INC.
For the Period and Year ended December 31, 2016

Pizza Restaurants less the Franchise Sales from the six permanent closures that occurred in 2015 was \$14.5 million, and the actual Franchise Sales generated from these six Net New Restaurants was \$1.3 million greater. The original effective tax rate for the Fund was expected to be 24.0% and the actual effective tax rate for the Fund for 2016 was 21.1%. As a result, Royalties LP increased interest paid to BPI by a nominal amount in early 2017 to reconcile the difference paid on the full number of Class B Additional Entitlements and the effective tax rate. In addition, BP Canada LP will reduce the next distribution payable to Holdings LP on its Class 2 LP Units by a nominal amount, and will correspondingly increase the next distribution payable to BPI on its Class 2 GP Units by the same amount, to reconcile the difference paid on the full number of Class 2 Additional Entitlements and the effective tax rate. BPI received only 80% of the estimated Additional Entitlements at the Adjustment Date in 2016. Following the audit, BPI received 143,578 Additional Entitlements, comprised of 104,420 Class B Additional Entitlements and 39,158 Class 2 Additional Entitlements.

Fund Units Outstanding

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
BOSTON PIZZA INTERNATIONAL INC.
For the Period and Year ended December 31, 2016

	Dec. 31, 2016 Excluding Holdback	Dec. 31, 2016 Including Holdback	Feb 15, 2017 Excluding Holdback	Feb. 15, 2017 Including Holdback
<u>Units Outstanding</u>				
Total Issued and Outstanding Fund Units	20,286,063	20,286,063	20,286,063	20,286,063
<u>Class B Additional Entitlements Outstanding</u>				
Class B Additional Entitlements (Excluding Jan. 1, 2017 Adjustment Date)	2,577,530	2,577,530	2,577,530	2,577,530
Class B Holdback (Excluding Jan. 1, 2017 Adjustment Date)	N/A	63,459	N/A	N/A ⁽¹⁾
Class B Additional Entitlements – Issued Jan. 1, 2017 (11 Net New Restaurants)	N/A	N/A	301,985	301,985 ⁽²⁾
Class B Holdback – Created Jan. 1, 2017 (11 Net New Restaurants)	N/A	N/A	N/A	75,496 ⁽²⁾
Class B Holdback – Issued in respect of 2016 after audit	N/A	N/A	104,420	104,420 ⁽³⁾
Total Class B Additional Entitlements	2,577,530	2,640,989	2,983,935	3,059,431
<u>Class 2 Additional Entitlements Outstanding</u>				
Class 2 Additional Entitlements (Excluding Jan. 1, 2017 Adjustment Date)	847,575	847,575	847,575	847,575
Class 2 Holdback (Excluding Jan. 1, 2017 Adjustment Date)	N/A	23,797	N/A	N/A ⁽¹⁾
Class 2 Additional Entitlements – Issued Jan. 1, 2017 (11 Net New Restaurants)	N/A	N/A	113,244	113,244 ⁽²⁾
Class 2 Holdback – Created Jan. 1, 2017 (11 Net New Restaurants)	N/A	N/A	N/A	28,311 ⁽²⁾
Class 2 Holdback – Issued in respect of 2016 after audit	N/A	N/A	39,158	39,158 ⁽³⁾
Total Class 2 Additional Entitlements	847,575	871,372	999,977	1,028,288
<u>Summary</u>				
Total Issued and Outstanding Fund Units	20,286,063	20,286,063	20,286,063	20,286,063
Total Additional Entitlements	3,425,105	3,512,361	3,983,912	4,087,719
Total Diluted Units	23,711,168	23,798,424	24,269,975	24,373,782
BPI's Total Percentage Ownership	14.4%	14.8%	16.4%	16.8%

(1) Additional Entitlements from the six Net New Restaurants added to the Royalty Pool on January 1, 2016 prior to the audit of the six Net New Restaurants and determination of the actual effective tax rate paid by the Fund.

(2) Additional Entitlements from 11 Net New Restaurants added to the Royalty Pool on January 1, 2017. The actual number of Additional Entitlements will be determined in early 2018, effective January 1, 2017, once audited results of the 11 Net New Restaurants and the actual effective tax rate paid by the Fund are known.

(3) Additional Entitlements from the six Net New Restaurants added to the Royalty Pool on January 1, 2016 determined in 2017 once audited results of the six Net New Restaurants and actual effective tax rate paid by the Fund were known.

BPI also holds 100% of the special voting units (the “**Special Voting Units**”) of the Fund, which entitle BPI to one vote in respect of matters to be voted upon by unitholders of the Fund for each Fund Unit that BPI would be entitled to receive if it exchanged all of its Class B Units and Class 2 GP Units for Fund Units. As of February 15, 2017, BPI was entitled to 3,983,912 votes, representing 16.4% of the aggregate votes held by holders of Fund Units and Special Voting Units. The number of Fund Units that BPI is entitled to receive upon the exchange of its Class B Units and Class 2 GP Units and the number of votes that BPI is entitled to in respect of its Special Voting Units is adjusted annually to reflect any additional Boston Pizza Restaurants that were added to the Royalty Pool.

MANAGEMENT'S DISCUSSION AND ANALYSIS
BOSTON PIZZA INTERNATIONAL INC.
For the Period and Year ended December 31, 2016

LIQUIDITY & CAPITAL RESOURCES

BPI is an entirely franchised business except for four corporate restaurants. For 2017, BPI has forecast capital requirements of approximately \$4.5 million, which consist mainly of the development of software applications, computer equipment and corporate restaurant renovations. BPI believes it has sufficient cash and capital resources to cover expenditures, capital requirements, commitments and repayments for 2017. BPI constantly monitors its operations and cash flows to ensure that current and future obligations will be met. BPI believes its current sources of liquidity are sufficient to cover its currently known short and long-term obligations.

Cash Flows

Cash Flow from Operating Activities

Period

During the Period, operating activities generated \$3.6 million of cash, compared to \$0.6 million of cash used during the same period in 2015. The increase in cash generated during the Period of \$4.2 million was primarily due to higher earnings (loss) before interest and fair value gain (loss) on financial instruments combined with timing of cash receipts from accounts receivable and timing of cash payments for accounts payable and prepaid expenses.

Year

For the Year, operating activities generated \$3.4 million of cash, compared to \$22.3 million of cash used in 2015. The increase in cash generated for the Year of \$25.7 million was primarily due to the completion of the Transaction resulting in BPI paying income taxes of \$18.0 million in 2015 with no corresponding amount during for the Year, higher earnings (loss) before interest and fair value gain (loss) on financial instruments, combined with timing of cash receipts from accounts receivable and timing of cash payments for accounts payable and prepaid expenses.

Cash Flow from Financing Activities

Period

During the Period, financing activities used \$1.5 million of cash compared to \$0.9 million of cash used during the same period in 2015. The increase in cash used during the Period of \$0.6 million was due to an increase in payment of promissory notes owing to BPI's parent company.

Year

For the Year, financing activities used \$5.2 million of cash compared to \$20.3 million of cash generated in 2015. The increase in cash used for the Year of \$25.5 million was primarily due to 2015 including proceeds from the issuance of BP Canada LP units of \$138.7 million relating to the Transaction, partially offset by payment of dividends of \$98.1 million, with no corresponding amounts for the Year. Cash used for the Year included payment of \$4.9 million of promissory notes owing to BPI's parent company and \$1.8 million of interest on the BP Loan compared to \$18.2 million and \$1.8 million respectively in 2015. Cash generated for the Year also includes proceeds of long-term debt of \$1.8 million related to the Acquired Restaurant (see "Liquidity and Capital Resources – Long Term Debt Obligations – Acquired Restaurant Credit Facility" below for details).

Cash Flow from Investing Activities

Period

During the Period, investing activities generated \$0.7 million of cash compared to \$0.3 million of cash generated during the same period in 2015. Cash generated from investing activities represents distributions received by BPI on the Class B Units and Class C Units. Cash used from investing activities represents purchases of property and equipment as well as intangible assets. The increase in cash generated during the Period of \$0.4 million was due

MANAGEMENT'S DISCUSSION AND ANALYSIS
BOSTON PIZZA INTERNATIONAL INC.
For the Period and Year ended December 31, 2016

to increased distributions received on Class B Units and decreased purchases of intangible assets, compared with the same period in 2015.

Year

For the Year, investing activities generated \$1.1 million of cash compared to \$3.3 million of cash generated in 2015. Cash generated from investing activities represents distributions received by BPI on the Class B Units and Class C Units. Cash used from investing activities represents purchases of property and equipment as well as intangible assets. The decrease in cash generated for the Year of \$2.2 million was primarily due to the purchase of the Acquired Restaurant for \$2.8 million and increased purchase of property and equipment of \$0.8 million, partially offset by an increase in distributions received on Class B Units of \$0.9 million and lower intangible purchases of \$0.4 million.

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, 2016, no funds were drawn from the line of credit (December 31, 2015 – nil). 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 acquired by the Fund as part of the Fund's initial public offering of Fund 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 interest 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. To secure BPI's obligations under the BP Loan, BPI granted the Fund a general security interest over all of BPI's present and after acquired property of BPI except: (i) Fund 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. In addition, BP Canada LP has guaranteed the obligations of BPI under the BP Loan, and BP Canada LP has granted the Fund a general security interest over all present and after acquired property of BP Canada LP to secure BP Canada LP's obligations under that guarantee.

Acquired Restaurant Credit Facility

During the second quarter of 2016, one of BPI's subsidiaries established a \$2.6 million credit facility with a Canadian chartered bank for the purposes of funding a portion of the acquisition cost for the Acquired Restaurant and making future renovations to the Acquired Restaurant. This credit facility bears interest at the bank's prime rate plus 1.0%, is repayable in monthly payments of blended interest and principal over 10 years and is guaranteed by BPI. As at December 31, 2016, this credit facility was drawn down \$1.8 million. BPI and BPI's subsidiary were in compliance with all of the financial covenants and financial condition tests governing this credit facility as of the end of the Period.

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 related companies.

Contractual Obligations and Commercial Commitments

A summary of the estimated amount and estimated timing of cash flows related to BPI's contractual obligations and commercial commitments as at December 31, 2016 is as follows:

MANAGEMENT'S DISCUSSION AND ANALYSIS
BOSTON PIZZA INTERNATIONAL INC.
For the Period and Year ended December 31, 2016

(in thousands of dollars)	< 1 year	1 – 2 years	3 – 4 years	> 5 years	Total	Book Value
Accounts payable and accrued liabilities and income taxes payable	11,310	-	-	-	11,310	11,310
Promissory note payable ¹	1,602	-	-	-	1,602	1,602
Long-term debt ²	413	857	645	1,132	3,047	2,601
Other long-term liabilities	-	1,644	507	218	2,369	2,369
Operating lease commitments ³	3,107	6,051	6,522	8,210	23,890	-
	16,432	8,552	7,674	9,560	42,218	17,882

Note:

⁽¹⁾ Represents the current position of promissory note payable which is non-interest bearing and is due on demand.

⁽²⁾ Includes estimated interest on long-term debt.

⁽³⁾ Represents minimum annual rental payments under operating lease contracts for office space, restaurants space and lease company.

Related Party Transactions

The Fund is considered to be a related party of BPI by virtue of common officers and directors of BPI and the managing general partner of Royalties LP, and was party to the following transactions with BPI as at the end of the Period:

- The Fund has engaged Royalties LP, its administrator, to provide certain administrative services on behalf of the Fund. In turn, certain of the administrative services are performed by BPI, as general partner of Royalties LP. Under the terms of the limited partnership agreement governing Royalties LP, BPI is entitled to be reimbursed for certain out-of-pocket expenses incurred in performing these services. The total amount paid to BPI in respect of these services for the Period was \$0.1 million (Q4 2015 - \$0.1 million) and \$0.4 million for the Year (2015 - \$0.4 million). BPI paid interest to the Fund of \$0.5 million on the BP Loan for the Period (Q4 2015 - \$0.5 million) and \$1.8 million Year (2015 - \$1.8 million).
- As at December 31, 2016, the Royalty payable by BPI to Royalties LP was \$2.9 million (Q4 2015 - \$2.9 million). BPI incurred royalty expenses of \$8.2 million for the Period (Q4 2015 - \$8.2 million) and \$33.1 million for the Year (2015 - \$32.6 million).
- As at December 31, 2016, Distributions payable by BPI to Holdings LP was \$0.9 million (Q4 2015 - \$0.9 million). BPI incurred Distribution expense of \$2.6 million for the Period (Q4 2015 - \$2.7 million) and \$10.7 million for the Year (2015 - \$8.2 million).

BPI earned revenues from a company under common control of \$0.9 million for the Period (Q4 2015 - \$0.8 million) and \$3.3 million for the Year (2015 - \$3.1 million). Included in compensation expense costs are management fees of \$0.4 million for the Period (Q4 2015 - \$0.6 million) and \$1.6 million for the Year (2015 - \$1.3 million) to companies under common control. Additionally included in management fees for the Period is \$0.1 million (Q4 2015 - \$0.1 million) and \$0.5 million for the Year (2015 - \$0.8 million) paid to BPI's parent company for services rendered. As at the end of the Period, there was no amount included in accounts payable due to associated companies (December 31, 2015 - \$0.1 million). As at the end of the Period, BPI had accounts receivable from associated companies of \$1.0 million (December 31, 2015 - \$0.9 million). As at the end of the Period, BPI owed its parent company \$1.6 million under promissory notes (December 31, 2015 - \$7.1 million).

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
BOSTON PIZZA INTERNATIONAL INC.
For the Period and Year ended December 31, 2016

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

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

CRITICAL ACCOUNTING ESTIMATES

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

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

Estimate – Investment in Royalties LP

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

Estimate – Accounts Receivable

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

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
BOSTON PIZZA INTERNATIONAL INC.
For the Period and Year ended December 31, 2016

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

(i) Class B Units

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

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

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

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

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

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

Judgment – Consolidation

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
BOSTON PIZZA INTERNATIONAL INC.
For the Period and Year ended December 31, 2016

CHANGES IN ACCOUNTING POLICIES

Narrow-Scope Amendments

On September 25, 2014 the IASB issued narrow-scope amendments to a total of four standards as part of its annual improvements process. Amendments were made to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, IFRS 7 Financial Instruments: Disclosures, IAS 19 Employee Benefits, and IAS 34 Interim Financial Reporting. The amendments will apply for annual periods beginning on or after January 1, 2016. Earlier application was permitted, in which case, the related consequential amendments to other IFRSs would also apply. Each of the amendments has its own specific transition requirements. BPI adopted this amendment for its fiscal year ended December 31, 2016 and the amendment did not have a material impact on the presentation of BPI's financial position and net income.

IAS 1, Presentation of Financial Statements

On December 18, 2014, the IASB issued amendments to IAS 1, Presentation of Financial Statements, as part of its major initiative to improve presentation and disclosure in financial reports. The amendments are effective for annual periods beginning on or after January 1, 2016. Earlier application was permitted. BPI adopted this amendment for its fiscal year ended December 31, 2016 and the amendment did not have a material impact on the presentation of BPI's financial position and net income.

IFRS 15, Revenue from Contracts with Customers

On May 28, 2014, the International Accounting Standards Board ("IASB") issued IFRS 15, Revenue from Contracts with Customers. IFRS 15 will replace IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers, and SIC 31 Revenue – Barter Transactions Involving Advertising Services. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based, five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. BPI has not yet assessed the impact of this standard or determined whether it will be adopted early.

IFRS 9 (2014), Financial Instruments

On July 24, 2014, the IASB issued the complete IFRS 9 (2014), Financial Instruments. IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities and amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment. IFRS 9 (2014) includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. The mandatory effective date of IFRS 9 (2014) is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Earlier application is permitted. BPI has not yet assessed the impact of this standard or determined whether it will be adopted early.

IFRS 16, Leases

On January 13, 2016, the International Accounting Standards Board published a new standard, IFRS 16, Leases. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting remains largely unchanged and the distinction between operating and finance leases is retained. The new standard will apply for annual periods beginning on or after January 1, 2019. Earlier application is permitted only if the entity also adopts IFRS 15, Revenue from Contracts

MANAGEMENT'S DISCUSSION AND ANALYSIS
BOSTON PIZZA INTERNATIONAL INC.
For the Period and Year ended December 31, 2016

with Customers. BPI has not yet assessed the impact of this standard or determined whether it will be adopted early.

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.

Boston Pizza is well positioned for future growth and should continue to strengthen its position as the number one casual dining brand in Canada by achieving positive SSSG and opening 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 and BP Canada LP's strategies to drive higher guest traffic include attracting a wide variety of guests into the restaurant, sports bar and take-out/delivery parts of each location, offering a compelling value proposition to guests and leveraging a larger marketing budget versus the previous year along with a revised calendar of national and local store promotions. Increased average cheque levels are expected to be achieved through a combination of culinary innovation and annual menu re-pricing. In addition, the franchise agreement governing each Boston Pizza Restaurant requires a complete store renovation every seven years. Restaurants typically close for two to three weeks to complete the renovation and experience an incremental sales increase in the year following the re-opening.

Boston Pizza remains well positioned for future expansion as evidenced by the 11 Net New Restaurants that opened in 2016 and the two new locations currently under construction. BPI's management believes that Boston Pizza will continue to serve more guests in more locations than any other casual dining brand in Canada by pursuing further restaurant development opportunities across the country.

RISKS & UNCERTAINTIES

Risks Related to the Business of BPI and BP Canada LP

The Restaurant Industry and its Competitive Nature

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
BOSTON PIZZA INTERNATIONAL INC.
For the Period and Year ended December 31, 2016

Growth of the Royalty and Distributions

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

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

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

BPI and BP Canada LP Revenue

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

Intellectual Property

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
BOSTON PIZZA INTERNATIONAL INC.
For the Period and Year ended December 31, 2016

jurisdictions outside of Canada may negatively affect the image and reputation of Boston Pizza Restaurants in Canada, resulting in a decline in gross revenue by Boston Pizza Restaurants.

Government Regulation

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

Regulations Governing Food Service and Alcoholic Beverages

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

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

Laws Concerning Employees

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

Sales Tax Regulations

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
BOSTON PIZZA INTERNATIONAL INC.
For the Period and Year ended December 31, 2016

Franchise Regulation Risk

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

Potential Litigation and Other Complaints

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

Insurance

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

Dependence on Key Personnel

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

Security of Confidential Consumer Information and Personal Information

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
BOSTON PIZZA INTERNATIONAL INC.
For the Period and Year ended December 31, 2016

Reliance on Technology

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

ADDITIONAL INFORMATION

Additional information relating to BPI, the Fund, Royalties LP, Boston Pizza GP Inc., Boston Pizza Holdings Trust, Holdings LP, Boston Pizza Holdings GP Inc. and BP Canada LP, including the Fund's Annual Information Form dated February 15, 2017, is available on SEDAR at www.sedar.com and on the Fund's website at www.bpincomefund.com.

NOTE REGARDING FORWARD-LOOKING INFORMATION

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

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

- that Boston Pizza will continue to serve more customers annually than any other casual dining restaurant chain in Canada;
- the future expansion of Boston Pizza Restaurants;
- expected increases in average guest cheque levels and how these expected increases will be achieved;
- Boston Pizza is well positioned for future growth and should continue to strengthen its position as the number one casual dining brand in Canada by achieving positive SSSG and continuing to open new Boston Pizza locations across Canada;
- estimates relating to the amount and timing to cash flows related to BPI's contractual obligations and commercial commitments;
- adjustments to Additional Entitlements that are to occur in the future and when such adjustments will occur;
- belief that BPI has sufficient cash and capital resources for 2017, and that its current sources of liquidity are sufficient to cover known short and long-term obligations;
- BPI constantly monitoring its operations and cash flows to ensure that current and future obligations will be met;
- BPI and BP Canada LP aggressively promoting to enhance the Boston Pizza brand; and
- BP Canada LP's strategies to drive higher guest traffic.

MANAGEMENT'S DISCUSSION AND ANALYSIS
BOSTON PIZZA INTERNATIONAL INC.
For the Period and Year ended December 31, 2016

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

- absence of amendments to material contracts;
- no strategic changes of direction occurring;
- absence of changes in law;
- protection of BP Rights;
- pace of commercial real estate development;
- franchisees' access to financing;
- franchisees duly paying franchise fees and other amounts;
- there will be no closures of Boston Pizza Restaurants that materially affect the amount of Royalty paid by BPI to Royalties LP or the amount of Distributions paid by BP Canada LP to Holdings LP;
- future results being similar to historical results; and
- expectations related to future general economic conditions.

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

- competition;
- weather;
- 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; 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 in this MD&A and the MD&A of the Fund for the twelve month period ended December 31, 2016.

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



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Boston Pizza International Inc.

We have audited the accompanying consolidated financial statements of Boston Pizza International Inc., which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015, the consolidated statements of comprehensive income (loss), changes in shareholders' deficiency and cash flows for the years then ended, 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.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Boston Pizza International Inc. as at December 31, 2016 and December 31, 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

A handwritten signature in black ink that reads 'KPMG LLP' in a cursive, slanted font. A horizontal line is drawn underneath the signature.

Chartered Professional Accountants

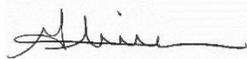
February 15, 2017
Vancouver, Canada

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

	December 31, 2016	December 31, 2015
Assets		
Current assets		
Cash and cash equivalents	\$ 5,868	\$ 6,611
Accounts receivable (note 4)	10,059	10,022
Prepaid expenses and other current assets	962	1,995
Income tax receivable	-	1,029
Advertising fund restricted assets (note 3(n))	17,175	15,603
Interest receivable from Boston Pizza Royalties Limited Partnership	596	492
	<u>34,660</u>	<u>35,752</u>
Long-term receivables (note 4)	608	795
Investment in Boston Pizza Royalties Limited Partnership (note 5)	84,294	65,276
Property and equipment (note 6)	6,338	5,054
Intangible assets (note 7)	5,635	3,913
Deferred income taxes (note 14)	36,742	40,675
	<u>168,277</u>	<u>151,465</u>
Total assets	\$ 168,277	\$ 151,465
Liabilities and Shareholder Deficiency		
Current liabilities		
Accounts payable and accrued liabilities	\$ 11,310	\$ 10,303
Income tax payable	457	-
Current portion of deferred revenue	1,526	1,426
Current portion of long-term debt (note 9)	330	225
Promissory notes payable (note 10 and 12)	1,602	7,136
Advertising fund restricted liabilities (note 3(n))	17,175	15,603
	<u>32,400</u>	<u>34,693</u>
Long-term debt (note 9)	2,271	792
Deferred revenue	1,778	2,368
Note payable to Boston Pizza Royalties Income Fund (note 10)	24,000	24,000
Other long-term liabilities	2,369	2,228
Boston Pizza Canada Limited Partnership units liability (note 11)	148,551	123,818
Deferred gain (note 13)	218,810	215,340
	<u>297,279</u>	<u>297,279</u>
Shareholder deficiency		
Accumulated deficit	(261,902)	(251,774)
	<u>168,277</u>	<u>151,465</u>
Organization and nature of operations (note 1)		
Subsequent events (note 22)		
Total liabilities and shareholder deficiency	\$ 168,277	\$ 151,465

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

Approved on behalf of the Board:



George Melville, Director



James Treliving, Director

BOSTON PIZZA INTERNATIONAL INC.
Consolidated Statements of Comprehensive Income (Loss)
For the years ended December 31, 2016 and 2015
(Expressed in thousands of Canadian dollars, except per share data)

	2016	2015
Revenue		
Franchise, restaurant and other	\$ 93,140	\$ 87,526
Royalty expense (note 18)	33,145	32,560
Distribution expense (note 11 and 18)	10,700	8,173
Restaurant operating costs	10,736	7,896
Compensation expense (note 18)	21,395	25,118
Transaction expense (note 11)	-	2,258
Other expenses (note 16)	13,281	12,418
Depreciation and amortization (note 6 and 7)	2,963	2,482
Management fee (note 18)	525	825
Amortization of deferred gain (note 13)	(2,588)	(2,517)
Operating expenses	90,157	89,213
Earnings (loss) before interest, fair value loss (gain) on financial instruments, and taxes	2,983	(1,687)
Interest income from Boston Pizza Royalties Limited Partnership	(6,392)	(5,492)
Interest on loan from Boston Pizza Royalties Income Fund (note 18)	1,800	1,800
Interest on long-term debt	144	67
Net interest income	(4,448)	(3,625)
Fair value loss (gain) on financial instruments (note 5 and 11)	11,773	(6,323)
Earnings (loss) before income taxes	(4,342)	8,261
Current income tax expense (note 11 and 14)	1,853	18,720
Deferred income tax expense (recovery) (note 14)	3,933	(55)
Total tax expense	5,786	18,665
Net and comprehensive loss	\$ (10,128)	\$ (10,404)
Basic and diluted loss per share	\$ (0.10)	\$ (0.10)

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

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

	Share Capital	Accumulated Deficit	Total Deficiency
Balance – January 1, 2016	\$ -	\$ (251,774)	\$ (251,774)
Net and comprehensive loss for the period	-	(10,128)	(10,128)
Balance – December 31, 2016	\$ -	\$ (261,902)	\$ (261,902)
Balance – January 1, 2015	\$ -	\$ (123,271)	\$ (123,271)
Net and comprehensive loss for the period	-	(10,404)	(10,404)
Dividends declared (note 12)	-	(118,070)	(118,070)
Amalgamation (note 1)	-	(29)	(29)
Balance – December 31, 2015	\$ -	\$ (251,774)	\$ (251,774)

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

BOSTON PIZZA INTERNATIONAL INC.
Consolidated Statements of Cash Flows
For the years ended December 31, 2016 and 2015
(Expressed in thousands of Canadian dollars)

	2016	2015
Cash flows generated from (used in)		
Operating activities		
Net and comprehensive loss	\$ (10,128)	\$ (10,404)
Adjustments for:		
Depreciation and amortization	2,963	2,482
Current income tax expense	1,853	18,720
Deferred income tax expense (recovery)	3,933	(55)
Amortization of deferred gain	(2,588)	(2,517)
Fair value loss (gain) on financial instruments	11,773	(6,323)
Interest income from Boston Pizza Royalties Limited Partnership	(6,392)	(5,492)
Interest on loan from Boston Pizza Royalties Income Fund	1,800	1,800
Interest on long-term debt	144	67
Change in non-cash operating items (note 19(a))	446	(624)
Income tax paid	(1,544)	(20,197)
Income tax received	1,177	242
Net cash generated from (used in) operating activities	3,437	(22,301)
Financing activities		
Proceeds from issuance of Boston Pizza Canada Limited Partnership units (note 11)	-	138,687
Repayment of long-term debt	(217)	(292)
Proceeds from long-term debt (note 20)	1,800	-
Payment of promissory notes payable (note 10)	(4,884)	(18,200)
Payment of dividends (note 12)	-	(98,070)
Interest paid	(1,944)	(1,867)
Net cash generated from (used in) financing activities	(5,245)	20,258
Investing activities		
Interest received from Investment in Boston Pizza Royalties Limited Partnership	6,288	5,390
Purchase of property and equipment	(1,138)	(375)
Purchase of intangible assets	(1,307)	(1,690)
Acquisition of franchised restaurant (note 20)	(2,778)	-
Net cash generated from investing activities	1,065	3,325
Increase (decrease) in cash and cash equivalents	(743)	1,282
Cash and cash equivalents – beginning of period	6,611	5,329
Cash and cash equivalents – end of period	\$ 5,868	\$ 6,611

Supplemental cash flow information (note 19)

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. These consolidated financial statements include the accounts of Boston Pizza International Inc., its wholly-owned subsidiaries Lansdowne Holdings Ltd., Winston Churchill Pizza Ltd., Laval Corporate Training Centre Inc. and Front & John Pizza Ltd., and Boston Pizza Canada Limited Partnership (“**BP Canada LP**”). On April 7, 2015, BPI acquired all of the shares of Richcal Ventures Ltd., one of the then-parent companies of BPI, from the other parent company of BPI, resulting in Richcal Ventures Ltd. becoming a wholly-owned subsidiary of BPI. On April 8, 2015, BPI and Richcal Ventures Ltd. vertically amalgamated pursuant to the provisions of the *Canada Business Corporations Act* under the name Boston Pizza International Inc. On June 20, 2016, BPI acquired a franchised restaurant to operate as a corporately owned entity. Refer to note 20 for further details.

The Company’s principal business activity is the operation and franchising of Boston Pizza restaurants in Canada. The principal business office is located at 10760 Shellbridge Way, Richmond, BC. As at December 31, 2016, 383 Boston Pizza restaurants were in operation (December 31, 2015 – 372).

2. Basis of preparation:

(a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”) as issued by the International Accounting Standards Board (“**IASB**”). These consolidated financial statements were approved by the Directors for issue on February 15, 2017.

(b) Functional and presentation currency:

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

(c) Use of estimates and judgments:

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

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

2. Basis of preparation (continued):

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

Estimates:

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

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

- **Class B Unit Fair Value Adjustment**

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

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

The Company has elected under IFRS to measure the Class 1 limited partnership units (“**Class 1 LP Units**”) and Class 2 limited partnership units (“**Class 2 LP Units**”) of BP Canada LP as financial liabilities at fair value through profit and loss because the entitlements to distributions are considered embedded derivatives to the Class 1 LP Units and Class 2 LP Units. The fair value of the Class 1 LP Units and Class 2 LP Units liability for the Company mirrors the fair value of the investment in units of BP Canada LP asset recorded by the Fund for any particular period. The Class 1 LP Units are entitled to distributions with respect to the interest cost incurred on a certain credit facility held by the Fund. Thus, the fair value of the Class 1 LP Units is estimated using a market-corroborated

2. Basis of preparation (continued):

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

Estimates (continued):

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

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

• **Accounts Receivable**

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

Judgment:

• **Consolidation**

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

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

BOSTON PIZZA INTERNATIONAL INC.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

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 5)
- Embedded derivative of the Investment in Boston Pizza Royalties Limited Partnership relating to the Class C Units (note 5)
- BP Canada LP units liability (note 11)

(b) Consolidation:

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

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

The parent company of BPI is T & M Management Services Ltd.

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

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

(c) Investment in Boston Pizza Royalties Limited Partnership:

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

3. Significant accounting policies (continued):

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

period by the closing price of a Fund Unit at the end of the period (or previous business day if the end of the period is not a business day). Royalties LP was established to hold the trademarks and trade names used in connection with the operation of Boston Pizza restaurants in Canada (collectively, the “**BP Rights**”). Royalties LP and the Company also entered into a license and royalty agreement to allow the Company the use of the BP Rights for a term of 99 years, for which the Company pays Royalties LP a royalty expense, being 4% of the franchise sales of certain restaurants located in Canada (the “**Royalty Pool**”).

(d) Boston Pizza Canada Limited Partnership units liability:

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

(e) Cash and cash equivalents:

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

(f) Property and equipment:

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

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

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

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

BOSTON PIZZA INTERNATIONAL INC.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

3. Significant accounting policies (continued):

(g) Depreciation and amortization:

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

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

Assets	Basis	Rate
Office furniture and equipment	Declining balance	20 – 30%
Office furniture and equipment under capital lease	Straight-line at various rates	up to 3 years
Leasehold improvements	Straight-line	shorter of term of the lease or useful life

(h) Intangible assets:

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

(i) Revenue recognition and deferred revenue:

(i) Franchise revenues:

Monthly franchise fee:

Monthly franchise fees are recorded as they are earned.

Franchise fee deposits:

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

(ii) Corporately owned restaurant revenues:

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

(iii) Supplier contributions:

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

(j) Earnings per share:

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

3. Significant accounting policies (continued):

(j) Earnings per share (continued):

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

(k) Income taxes:

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

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

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

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

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

(l) Deferred gain:

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

3. Significant accounting policies (continued):

(m) Gift cards:

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

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

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

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

The Advertising Fund recognizes income on unredeemed gift cards (“**Gift Card Breakage**”) when it can determine that the likelihood of the gift 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.

(n) Advertising fund:

The Company operates 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 statement of comprehensive income (loss) 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 are considered restricted and are recorded as such on the Company’s statement of financial position. The Company collects 3% of Franchise Sales from franchisees and Company-operated restaurants for contribution to the Advertising Fund. These contributions are used for local, regional and national advertising, promotional programs, brand protection and to administer the gift card program. The deficit balance of the Advertising Fund as at December 31, 2016 was \$6.3 million (\$4.9 million at December 31, 2015), which was included in Advertising Fund restricted assets.

3. Significant accounting policies (continued):

(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 on the statement of financial position 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.

Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the statement of comprehensive income (loss). Gains and losses arising from changes in fair value are presented in the statement of comprehensive income (loss) 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.

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 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.

- Derivative financial instruments: The right to transfer Class C 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 its fair value to be nil.

BOSTON PIZZA INTERNATIONAL INC.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

3. Significant accounting policies (continued):

(o) Financial instruments (continued):

Measurement Categories

The following table shows the carrying values of assets and liabilities for each of these categories at December 31, 2016 and 2015.

(in thousands)	December 31, 2016	December 31, 2015
Financial assets		
Loans and receivables:		
Cash and cash equivalents	\$ 5,868	\$ 6,611
Accounts receivable	10,059	10,022
Interest receivable from Boston Pizza Royalties Limited Partnership	596	492
Long-term receivables	608	795
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	60,294	41,276
	\$ 101,425	\$ 83,196
Financial Liabilities		
Amortized cost:		
Accounts payable and accrued liabilities	\$ 11,310	\$ 10,303
Promissory notes payable	1,602	7,136
Long-term debt	2,601	1,017
Note Payable to Boston Pizza Royalties Income Fund	24,000	24,000
Other long-term liabilities	2,369	2,228
Fair value through profit or loss:		
Class 1 Boston Pizza Canada Limited Partnership units liability	33,314	33,314
Class 2 Boston Pizza Canada Limited Partnership units liability	115,237	90,504
	\$ 190,433	\$ 168,502

The carrying value of current financial assets and liabilities approximate their fair value due to their short-term nature. The carrying value of long-term receivables approximates fair value as there are no significant changes in credit risk associated with the receivables since recognition. The long-term debt approximates fair value based on prevailing market interest rates in effect. The Class C Units investment and note payable to the Fund approximate fair value due to the requirement of the Fund to settle the loan in exchange for the Class C Units investment.

3. Significant accounting policies (continued):

(o) Financial instruments (continued):

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

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

The fair value of the Class B Units Investment in Royalties LP and the Class 1 and Class 2 LP Units liability of BP Canada LP are determined using Level 2 inputs and are measured on a recurring basis. The methods and assumptions used in estimating the financial asset and the financial liability are described in note 2(c) as well as note 5 and 11, respectively.

(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 (loss).

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 reversal is limited to an amount that does not state the asset at more than what amortized cost would have been in the absence of impairment.

(q) Impairment of non-financial assets:

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

BOSTON PIZZA INTERNATIONAL INC.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

3. Significant accounting policies (continued):

(q) Impairment of non-financial assets (continued):

asset's carrying amount exceeds its recoverable amount. The Company evaluates impairment losses for potential reversals when events or circumstances warrant such consideration.

(r) Financial risk management:

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

Interest rate risk

Interest rate risk results from the Company's long-term debt. 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 \$2.6 million (2015 – \$0.9 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)	December 31, 2016	December 31, 2015	Maturity
Accounts payable and accrued liabilities	\$ 11,310	\$ 10,303	Less than 1 year
Income tax payable	457	-	Less than 1 year
Current portion of long-term debt	330	225	Less than 1 year
Promissory notes payable	1,602	7,136	Less than 1 year
Long-term debt	2,271	792	2017 – 2027
Loan from Boston Pizza Royalties			
Income Fund	24,000	24,000	2042
Other long-term liabilities	2,369	2,228	2017 – 2022

Credit risk

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

BOSTON PIZZA INTERNATIONAL INC.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

3. Significant accounting policies (continued):

(r) Financial risk management (continued):

evaluations. Cash balances are deposited with a major Canadian banking institution. The Company's maximum exposure to credit risk is the value of its accounts receivable of \$10.1 million (2015 – \$10.0 million) and long-term trade receivables of \$0.6 million (2015 – \$0.8 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, 2016	December 31, 2015
Liquidity:		
Cash and cash equivalents	\$ 5,868	\$ 6,611
Undrawn credit facilities	7,500	7,500
Total liquidity	\$ 13,368	\$ 14,111
Capitalization:		
Promissory notes payable	\$ 1,602	\$ 7,136
Note payable to Boston Pizza Royalties Income Fund	24,000	24,000
Long-term debt	2,601	1,017
Total debt	\$ 28,203	\$ 32,153
Deferred gain	\$ 218,810	\$ 215,340
Shareholder deficiency	(261,902)	(251,774)
	\$ (43,092)	\$ (36,434)

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

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

The Company's credit facility includes a \$7.5 million unsecured line of credit which is subject to certain financial covenants (note 8).

3. Significant accounting policies (continued):

(s) Capital disclosures (continued):

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

As at December 31, 2016, the Company is in compliance with all financial covenants.

(t) New Accounting standards and amendments that were adopted:

During the year, the Company adopted the following new standards and amendments. The adoption of these standards and amendments did not have a material impact on the Company's presentation of its' financial position or net and comprehensive income (loss).

(i) On September 25, 2014 the IASB issued narrow-scope amendments to a total of four standards as part of its annual improvements process. Amendments were made to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, IFRS 7 Financial Instruments: Disclosures, IAS 19 Employee Benefits, and IAS 34 Interim Financial Reporting. The amendments apply for annual periods beginning on or after January 1, 2016. Earlier application was permitted, in which case, the related consequential amendments to other IFRSs would also apply. Each of the amendments has its own specific transition requirements.

(ii) On December 18, 2014 the IASB issued amendments to IAS 1, Presentation of Financial Statements, as part of its major initiative to improve presentation and disclosure in financial reports. The amendments are effective for annual periods beginning on or after January 1 2016.

(u) 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, 2018 with earlier adoption permitted. The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the amendments has not yet been determined.

(i) On May 28, 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers. IFRS 15 will replace IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers, and SIC 31 Revenue – Barter Transactions Involving Advertising Services. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based, five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized.

(ii) On July 24, 2014, the IASB issued the complete IFRS 9 (2014), Financial Instruments. IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the

BOSTON PIZZA INTERNATIONAL INC.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

3. Significant accounting policies (continued):

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

- (ii) business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities, and amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment. IFRS 9 (2014) includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. The mandatory effective date of IFRS 9 (2014) is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions.
- (iii) On January 13, 2016, the IASB published a new standard, IFRS 16, Leases. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance. Lessor accounting remains largely unchanged and the distinction between operating and finance leases is retained. The new standard will apply for annual periods beginning on or after January 1, 2019. Earlier adoption is permitted only if the entity also adopts IFRS 15, Revenue from Contracts with Customers.

4. Accounts and other receivables:

(in thousands)	December 31, 2016	December 31, 2015
Receivables due from related parties	\$ 1,042	\$ 906
Other trade receivables	9,017	9,116
	\$ 10,059	\$ 10,022
Long-term receivables:		
Long-term trade receivables (net of allowance)	608	795
	\$ 608	\$ 795

Trade receivables from franchisees are classified as long-term when payment is expected to take longer than twelve months. The Company continues to make every effort to collect all long-term receivable balances, including establishing payment plans with existing franchisees.

The aging of trade receivables at the reporting dates is as follows:

BOSTON PIZZA INTERNATIONAL INC.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

4. Accounts and other receivables (continued):

(in thousands)	December 31, 2016	December 31, 2015
Current	\$ 8,284	\$ 7,727
Past due 1-30 days	1,181	1,548
Past due 31-60 days	479	605
Past due 61-90 days	296	332
Past due over 91 days	427	605
	\$ 10,667	\$ 10,817

The allowance for doubtful accounts was \$1.5 million as at December 31, 2016 (December 31, 2015 – \$1.5 million) with \$0.2 million (December 31, 2015 – \$0.1 million) applied to short-term trade receivables and \$1.3 million to long-term trade receivables (December 31, 2015 – \$1.4 million). The Company's collections policy is to first apply cash receipts against the oldest outstanding invoices.

5. Investment in Boston Pizza Royalties Limited Partnership:

The Company's total investment in Royalties LP is comprised of 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 Royalties LP is represented by the shares of Boston Pizza GP Inc. and the general partnership unit. The value of the equity investment in Royalties LP is nominal, as substantially all of the cash flows from Royalties LP are attributable to partnership units such as the Class B Units and Class C Units, while the shares of Boston Pizza GP Inc. and the general Partnership unit receive nominal distributions. The value of the Class C Units included in the Investment in Boston Pizza Royalties Limited Partnership measured at amortized cost was \$24.0 million as at December 31, 2016 and 2015.

The investment in Royalties LP is considered an equity interest. The Fund controls the relevant activities of Royalties LP and thus consolidates its financial results. The value of the investment has exposure to variability as it relates to the Company's ownership of the Class B Units measured at fair value using the closing price of a Fund Unit.

As at December 31, 2016, the closing price of a Fund Unit was \$22.83 (December 31, 2015 – \$17.93 per Unit) while the number of Fund Units BPI would be entitled to receive if it exchanged all of its Class B Units (including Class B Holdback) was 2,640,989 (2015 – 2,302,075) resulting in a Class B Unit valuation of \$60.3 million (2015 – \$41.3 million).

The investment in Royalties LP is comprised of:

(in thousands)	2016	2015
Class B Units, at fair value	\$ 60,294	\$ 41,276
Class C Units, at amortized cost	24,000	24,000
	\$ 84,294	\$ 65,276

BOSTON PIZZA INTERNATIONAL INC.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

5. Investment in Boston Pizza Royalties Limited Partnership (continued):

The Class B Units are comprised of the following:

(in thousands, except unit data)	Issued and outstanding Additional Entitlements	Issued and outstanding Additional Entitlements including Holdback	Class B Unit Entitlement
Opening – January 1, 2015	1,855,925	1,944,863	\$ 42,028
Class B Additional Entitlements for addition of 8 net new restaurants opened in 2014 and added to the Royalty Pool in 2015 – granted January 1, 2015 (note 13)	298,818	373,523	8,132
Adjustment to prior year Class B Additional Entitlements for actual performance of new restaurants opened in 2013 and added to Royalty Pool in 2014, as well as actual effective tax rate paid by the Fund (note 13)	72,627	(16,311)	(338)
Fair value loss on Class B Units	-	-	(8,546)
Ending - December 31, 2015	2,227,370	2,302,075	\$ 41,276
Class B Additional Entitlements for addition of 6 net new restaurants opened in 2015 and added to the Royalty Pool in 2016 – granted January 1, 2016 (note 13)	253,835	317,294	5,587
Adjustment to prior year Class B Additional Entitlements for actual performance of new restaurants opened in 2014 and added to Royalty Pool in 2015, as well as actual effective tax rate paid by the Fund (note 13)	96,325	21,620	471
Fair value gain on Class B Units	-	-	12,960
Ending - December 31, 2016	2,577,530	2,640,989	\$ 60,294

BOSTON PIZZA INTERNATIONAL INC.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

6. Property and equipment:

Cost (in thousands)	Office furniture and equipment	Office furniture and equipment under capital lease	Leasehold improvements	Total
Opening - January 1, 2015	\$ 8,862	\$ 2,811	\$ 9,610	\$ 21,283
Net additions for the year	338	77	68	483
Ending - December 31, 2015	9,200	2,888	9,678	21,766
Net additions for the year	1,597	1	1,012	2,610
Ending - December 31, 2016	\$ 10,797	\$ 2,889	\$ 10,690	\$ 24,376

Accumulated Depreciation (in thousands)	Office furniture and equipment	Office furniture and equipment under capital lease	Leasehold improvements	Total
Opening - January 1, 2015	\$ 6,727	\$ 2,694	\$ 6,173	\$ 15,594
Depreciation for the year	558	80	480	1,118
Ending - December 31, 2015	7,285	2,774	6,653	16,712
Depreciation for the year	1,213	64	49	1,326
Ending - December 31, 2016	\$ 8,498	\$ 2,838	\$ 6,702	\$ 18,038

Net book value

At December 31, 2015	\$ 1,915	\$ 114	\$ 3,025	\$ 5,054
At December 31, 2016	2,299	51	3,988	6,338

Net additions for the year include \$1.35 million related to the acquisition by Front & John Pizza Ltd. Refer to note 20 for further details.

BOSTON PIZZA INTERNATIONAL INC.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

7. Intangible assets:

Cost (in thousands)		Computer Software and other	Reacquired Franchise Rights	Total
Opening - January 1, 2015	\$	10,992	-	10,992
Net additions for the year		1,690	-	1,690
Ending - December 31, 2015		12,682	-	12,682
Net additions for the year		2,009	1,350	3,359
Ending - December 31, 2016	\$	14,691	1,350	16,041

Amortization (in thousands)		Computer software and other	Reacquired Franchise Rights	Total
Opening - January 1, 2015	\$	7,405	-	7,405
Amortization for the year		1,364	-	1,364
Ending - December 31, 2015		8,769	-	8,769
Amortization for the year		1,496	141	1,637
Ending - December 31, 2016	\$	10,265	141	10,406

Net book value

At December 31, 2015	\$	3,913	-	3,913
At December 31, 2016		4,426	1,209	5,635

Net additions for the year include \$1.35 million related to the acquisition by Front & John Pizza Ltd. Refer to note 20 for further details.

BOSTON PIZZA INTERNATIONAL INC.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

8. 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 is secured by a first charge over the Class B Units held by the Company and a charge over all other assets of the Company, subordinate to the Fund and its subsidiaries general security agreement for BPI's obligations under the license and royalty agreement and note payable to the Fund together with certain charges of another lender over specific restaurant equipment owned by BPI's subsidiaries.

The Company has, as part of the security granted to the lender, agreed to pledge a minimum number of Class B Units held by the Company which are convertible into Fund Units which would have value, at any time equal to at least 200% of the amount outstanding on the Line of Credit.

On December 31, 2016 and 2015, there were no amounts outstanding under the line of credit.

9. Long-term debt:

Long-term debt consists of:

(in thousands)	December 31, 2016	December 31, 2015
CWB Franchise Finance term loans bearing variable interest at CWB prime plus 2.69% per annum and due in 2020-2021 secured by restaurant equipment and cross guarantees by subsidiaries.	\$ 751	\$ 908
BMO term loans bearing variable interest at prime plus 1.00% per annum and due in 2027 secured by restaurant equipment (refer to note 20).	1,800	-
Capital leases	50	109
	2,601	1,017
Current portion	330	225
	\$ 2,271	\$ 792

The fair value of the Company's long-term debt is \$2.6 million (December 31, 2015 – \$1.0 million) based on prevailing market rates that approximate the rate on the Company's debt. The impact of a 1% increase in the variable rate would result in a minimal impact on the fair market value and the statement of comprehensive income (loss).

BOSTON PIZZA INTERNATIONAL INC.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

9. Long-term debt (continued):

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

(in thousands)	December 31, 2016	
Long-term debt:		
2017	\$	290
2018		338
2019		362
2020		330
2021 and thereafter		1,231
		<u>2,551</u>
Capital lease obligations:		
2017		40
2018		10
		<u>50</u>
	\$	<u>2,601</u>

10. Promissory notes payable:

(in thousands)	December 31, 2016	December 31, 2015
Promissory note Payable to 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	1,602	7,136
	<u>25,602</u>	<u>31,136</u>
Current portion	1,602	7,136
	<u>\$ 24,000</u>	<u>\$ 24,000</u>

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 loan may not be assigned without the prior consent of the Company.

The Company, as the holder of 2,400,000 Class C Units, has the right to transfer such Class C 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 Units transferred.

10. Promissory notes payable (continued):

During the year, the Company made cash payments of \$4.9 million (2015 – \$18.2 million) against the non-interest bearing, due upon demand, promissory notes payable. During the year, the Company also reduced the promissory notes payable by \$0.7 million (2015 – \$0.6 million) through an offset of intercompany receivable from its parent company.

11. Boston Pizza Canada Limited Partnership units liability:

On March 23, 2015, the Fund and BPI announced that they had entered into an agreement pursuant to which the Fund's interest in Franchise Sales of Boston Pizza Restaurants in the Royalty Pool (the "**Franchise Sales Participation**") would be increased by 1.5%, from 4.0% to 5.5%, less the pro rata portion payable to BPI in respect of its retained interest in the Fund (the "**Transaction**"). On April 6, 2015, BPI sold its rights to be the exclusive franchisor of Boston Pizza Restaurants in Canada to a new subsidiary, BP Canada LP. In the formation of the new subsidiary and transfer of franchisor rights, BPI paid corporate income taxes of \$18.0 million and refundable commodity taxes of \$12.2 million. The Transaction was approved by unitholders of the Fund on May 5, 2015 and was completed on May 6, 2015.

The Fund increased its Franchise Sales Participation through making an indirect investment in BP Canada LP, which is controlled and operated by BPI, and acts as the exclusive franchisor of Boston Pizza Restaurants in Canada. The Fund raised net proceeds of \$138.7 million and used the net proceeds to purchase limited partnership units in BP Canada LP which entitles it to receive distributions equal in aggregate to 1.5% of Franchise Sales, less BPI's proportionate share.

BP Canada LP issued limited partnership units to the Fund for \$138.7 million. The limited partnership units consist of 1,000 Class 1 LP Units and 5,047,613 Class 2 LP Units. The Class 1 LP Units entitle the Fund to a cash distribution equal to the interest payable on the Fund's Credit Facility D plus 0.05% to a maximum amount of 1.5% of Franchise Sales. The Class 2 LP Units entitle the Fund to a cash distribution equal to 1.5% of Franchise Sales less the Class 1 LP Units distribution amount, less BPI's proportionate share. BPI classifies the Class 1 LP Units and Class 2 LP Units as financial liabilities through profit or loss because the entitlements to distributions are considered embedded derivatives to the Class 1 and Class 2 LP Unit liabilities. BPI measures the Class 1 LP Units and Class 2 LP Units at fair value using level 2 inputs. BPI estimated the Class 1 LP Units liability to be \$33.3 million as at December 31, 2016, which is the same value as at acquisition on May 6, 2015, resulting in no fair value adjustment for the year. The Fund acquired the Class 2 LP Units for approximately \$20.88 per Class 2 LP Unit. As at December 31, 2016, the closing price of a Fund Unit was \$22.83 (December 31, 2015 - \$17.93 per Fund Unit), resulting in a fair value adjustment in BP Canada LP Units liability for the year ended December 31, 2016 of \$24.7 million (2015 – \$14.9 million). Refer to note 2(c) for further details on the fair value methodology.

In 2015, BPI incurred \$2.3 million in expenses related to the Transaction which is included as an operating expense in the statement of comprehensive income (loss).

BOSTON PIZZA INTERNATIONAL INC.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

11. Boston Pizza Canada Limited Partnership units liability (continued):

The BP Canada LP units liability is comprised of:

	Issued and outstanding LP Units		BP Canada LP units liability
Issued and outstanding Class 1 LP Units upon closing of the Transaction on May 6, 2015	1,000	\$	33,314
Issued and outstanding Class 2 LP Units upon closing of the Transaction on May 6, 2015	5,047,613	\$	105,373
Fair value loss (gain)		\$	(14,869)
Balance at December 31, 2015			\$ 123,818
Fair value loss (gain)		\$	24,733
Balance at December 31, 2016			\$ 148,551

BPI receives its proportionate share of the incremental 1.5% of Franchise Sales through distributions on Class 2 GP Units of BP Canada LP that were exchangeable for 847,575 Fund Units as at December 31, 2016. The Company will continue to pay the Fund the balance of the Franchise Sales Participation in the form of Royalty fees. The number of Fund Units that the Company is entitled to receive in exchange for its Class 2 GP Units is adjusted periodically to reflect the addition of new Boston Pizza Restaurants to the Royalty Pool (the “**Class 2 Additional Entitlements**”, and together with the Class B Additional Entitlements, the “**Additional Entitlements**”), with 80% of the estimated Class 2 Additional Entitlements being received on the Adjustment Date with the balance (the “**Class 2 Holdback**”, and together with the Class B Holdback, the “**Holdback**”) being received once the performance of the new stores and the actual effective tax rate of the Fund are known for certain, similar to adjustments to the Class B Units that the Company holds. BPI also has the right to further increase the Fund’s Franchise Sales Participation by up to an additional 1.5% of Franchise Sales (in 0.5% increments) upon meeting certain financial thresholds designed to ensure that the additional Franchise Sales Participation is accretive to the Fund and that BPI retains the financial capacity to satisfy its obligations to the Fund. As at December 31, 2016, the Company had the right to receive 847,575 Fund Units when it exercises its rights to exchange their Class 2 GP Units into Fund Units. Should an exchange occur, the Company would record an investment in the Fund and record a gain in the statement of comprehensive income (loss).

BOSTON PIZZA INTERNATIONAL INC.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

12. Dividends declared:

No dividends were declared in 2016.

On June 1, 2015, the Company declared a \$53.7 million eligible dividend on Class A Common shares of which \$33.7 million was settled through cash and \$20.0 million was settled through non-interest bearing, due upon demand, promissory notes payable.

13. Deferred gain:

(in thousands)	December 31, 2016	December 31, 2015
Balance, beginning of year	\$ 215,340	\$ 210,063
Additional Entitlements	6,058	7,794
Amortization of deferred gain	(2,588)	(2,517)
Balance, end of year	\$ 218,810	\$ 215,340

The Class B Additional Entitlements are calculated as 92.5% of the net Franchise Sales added to the Royalty Pool from the net new Boston Pizza Restaurants, multiplied by 4% (being the Royalty that is payable on such net Franchise Sales), multiplied by one minus the effective average tax rate estimated to be paid by the Fund, divided by the yield of the Fund, divided by the weighted average price of a Fund Unit over a specified period.

The Company receives 80% of the estimated Class B Additional Entitlements initially with the balance received when the actual full year performance of the new restaurants and the actual effective tax rate of the Fund is known with certainty. Monthly distributions from the Fund are based on full Class B Additional Entitlements, and are subject to adjustment early in the next fiscal year when full performance of the restaurants and actual effective tax rate of the Fund is known with certainty.

On January 1, 2016, 12 new Boston Pizza Restaurants that opened during the period from January 1, 2015 to December 31, 2015 were added to the Royalty Pool while six Boston Pizza Restaurants that closed during 2015 were removed. The Franchise Sales of these six net new Boston Pizza Restaurants has been estimated at \$14.5 million. The total number of Boston Pizza Restaurants in the Royalty Pool was increased to 372. As a result of the contribution of the additional net Franchise Sales to the Royalty Pool, BPI received Class B Additional Entitlements (including the Class B Holdback) equivalent to 317,294 (2015 – 373,523) Fund Units.

BPI also received a proportionate increase in monthly distributions from Royalties LP. Of the 317,294 Class B Additional Entitlements, 20% (2016 – 63,459 Class B Holdback; 2015 – 74,705 Class B Holdback), remained unissued and were not eligible for conversion to Fund Units until early 2017 (2015 units – early 2016) based on the actual performance of the new Boston Pizza Restaurants and the actual effective tax rate paid by the Fund.

In early 2016, adjustments to Royalty payments and Class B Additional Entitlements were made based on the actual performance of eight net new additional Boston Pizza Restaurants added to the Royalty Pool on January 1, 2015 and the actual effective tax rate paid by the Fund in 2015. Based on these adjustments, BPI received Class B Additional Entitlements equivalent to 96,325 Fund Units.

BOSTON PIZZA INTERNATIONAL INC.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

14. 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)	2016	2015
Earnings (loss) before income taxes	\$ (4,342)	\$ 8,261
Combined Canadian federal and provincial tax rates	26.2%	26.2%
Computed expected tax expense (recovery)	(1,138)	2,164
Increased (reduced) by:		
Permanent differences	667	548
Tax impact related to gain on the Transaction	-	18,478
Fair value adjustment on BP Canada LP units liability	6,489	(3,901)
Difference from rates other than statutory rate	(244)	16
Change in statutory tax rates	12	1,360
Income tax expense	\$ 5,786	\$ 18,665

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, 2016	December 31, 2015
Future income tax assets (liabilities):		
Investment in Boston Pizza Royalties Limited Partnership	\$ (21,669)	\$ (16,880)
Deferred gain	57,387	56,491
Deferred revenue	530	665
Other	494	399
	\$ 36,742	\$ 40,675

15. 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.

BOSTON PIZZA INTERNATIONAL INC.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

16. Other expenses:

The following are the components of other expenses:

(in thousands)	December 31, 2016	December 31, 2015
Marketing and advertising	\$ 3,839	\$ 2,657
Travel	2,620	2,624
Office, rent & utilities	2,502	2,351
Research & Development	1,678	1,917
Professional Fees	486	574
Other	2,156	2,295
	\$ 13,281	\$ 12,418

17. 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 and thereafter are as follows:

(in thousands)	December 31, 2016
2017	3,107
2018	3,120
2019	2,931
2020	3,366
2021	3,156
2022 and thereafter	8,210

18. Related party and subsidiary transactions:

The Company earned revenues of \$3.3 million (2015 – \$3.1 million) from a company under common control.

Included in compensation expense costs are management fees of \$1.6 million (2015 – \$1.3 million) to the Company's parent. Additionally management fees of \$0.5 million (2015 – \$0.8 million) were 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 \$5.4 million for the year ended December 31, 2016 (2015 – \$8.6 million).

At December 31, 2016, there was no amount included in accounts payable (2015 – \$0.1 million) due to associated companies. Included in accounts receivable is \$1.0 million (2015 – \$0.9 million) due from associated companies.

The Company paid interest on a note payable to the Fund of \$1.8 million (2015 – \$1.8 million) and incurred royalty expenses of \$33.1 million (2015 – \$32.6 million). The Company incurred distribution expense of \$10.7 million (2015 – \$8.2 million) to the Fund equal in aggregate to 1.5% of Franchise

BOSTON PIZZA INTERNATIONAL INC.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

18. Related party and subsidiary transactions (continued):

Sales, less the pro rata portion payable to the Company in respect of its Class 2 GP Units. Refer to note 11 for further information.

As at December 31, 2016, the Company owes \$1.6 million (2015 – \$7.1 million) in a promissory note payable to the parent company.

19. Supplemental cash flow information:

(a) Change in non-cash operating items:

(in thousands)	2016	2015
Accounts receivable	\$ (687)	\$ (104)
Prepaid expenses and other current assets	1,302	(1,225)
Accounts payable and accrued liabilities	(7)	791
Deferred revenue	(490)	(110)
Long-term receivables	187	213
Other long-term liabilities	141	(189)
	\$ 446	\$ (624)

(b) Supplementary information:

(in thousands)	2016	2015
Non-cash transactions:		
Property & equipment acquired through lease transactions	\$ 1	\$ 109
Property & equipment and intangible asset additions included in accounts payable	122	-
Intangible asset additions included in accounts payable	702	-
Accounts receivable settled through amalgamation	-	11
Long-term receivables settled through amalgamation	-	18
Settlement of dividends payable through issuance of promissory notes payable	-	20,000
Promissory notes payable settled through forgiveness of long-term receivables from affiliated companies	-	9,115
Promissory notes payable settled through forgiveness of intercompany receivable	650	600
Promissory notes payable related to management fees	-	406
Additional Entitlements received from Royalties LP	6,058	7,794

20. Acquisition of franchised restaurant:

On June 20, 2016, BPI, through its wholly owned subsidiary, Front & John Pizza Ltd., acquired certain assets of a franchised restaurant from 1804211 Ontario Inc., for a total purchase price of \$2.8 million. This asset purchase was considered to be a business combination accounted for under IFRS 3. As required by IFRS, this acquisition resulted in a new intangible asset "reacquired franchise rights" being recorded on BPI's consolidated statements of financial position with a total value of \$1.35 million. This intangible asset is being amortized on a straight-line basis to the end of the franchise agreement which is May 31, 2021. In addition, \$1.35 million of property and equipment and \$0.1 million of inventory were also acquired as part of this transaction. There was no goodwill recorded as part of this transaction.

To complete the acquisition, BPI obtained a \$2.6 million credit facility with a Canadian chartered bank for the purposes of funding a portion of the acquisition cost and for making future renovations to the acquired franchised restaurant. This credit facility bears interest at the bank's prime rate plus 1.0%, is repayable in monthly payments of blended interest and principal over 10 years and is guaranteed by BPI. As at December 31, 2016, this credit facility was drawn down \$1.8 million and BPI was in compliance with all of the financial covenants and financial condition tests governing this credit facility.

As a result of the acquisition, BPI included restaurant revenue of \$3.0 million and restaurant operating costs of \$2.8 million in its' consolidated statement of comprehensive income (loss). If the acquisition had occurred on January 1, 2016, BPI's franchise, restaurant and other revenue would have been approximately \$2.1 million higher and restaurant operation costs would have been approximately \$1.9 million higher.

21. Seasonality:

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

22. Subsequent events:

- (a) On January 1, 2017, 13 new Boston Pizza Restaurants that opened across Canada between January 1, 2016 and December 31, 2016 were added to the Royalty Pool and the two restaurants that permanently closed during 2016 were removed from the Royalty Pool. The total number of restaurants in the Royalty Pool increased to 383 from 372. In return for adding net additional Royalty and Distribution from the eleven net new Boston Pizza Restaurants added to the Royalty Pool, BPI received 415,229 Additional Entitlements (representing 80% of the estimated total Additional Entitlements), comprised of 301,985 Class B Additional Entitlements and 113,244 Class 2 Additional Entitlements, and the Holdback was 103,807 Additional Entitlements (representing 20% of the estimated total Additional Entitlements), comprised of 75,496 Class B Holdback and 28,311 Class 2 Holdback. The Holdback remains unissued and is not eligible for conversion to Fund Units until the first quarter of 2018. BPI receives an increase in monthly distributions based on 100% of the Additional Entitlements, subject to a reconciliation of the distributions paid to BPI in respect of these Additional Entitlements that will occur once the actual performance of these eleven net new restaurants and the actual effective tax rate paid by the Fund for 2017 are known.

22. Subsequent events (continued):

- (b) In the first quarter of 2017, adjustments to Royalty and Distribution payments and Class B Additional Entitlements and Class 2 Additional Entitlements were made based on the actual performance of six net new additional Boston Pizza Restaurants added to the Royalty Pool on January 1, 2016 and the effective tax rate paid by the Fund in 2016. Based on these adjustments, BPI received 104,420 Class B Additional Entitlements and 39,158 Class 2 Additional Entitlements.

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UNITHOLDER INFORMATION

BOSTON PIZZA ROYALTIES INCOME FUND TRUSTEES



Left to right: David L. Merrell, W. Murray Sadler, William C. Brown

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W. Murray Sadler

Director*

David L. Merrell

Director*

Mark Pacinda

Director
Chief Executive Officer

Wes Bews

Director
Chief Financial Officer

*Audit Committee
and Governance Committee

SHAREHOLDER INFORMATION

BOSTON PIZZA INTERNATIONAL INC. SENIOR EXECUTIVE TEAM



Left to right: **Mark Pacinda, Jim Treiving, George Melville, Wes Bews**

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George Melville

Chairman and Owner

Mark Pacinda

President and Chief Executive Officer

Wes Bews

Chief Financial Officer

