

## BOSTON PIZZA ROYALTIES INCOME FUND

### MANDATE OF THE AUDIT COMMITTEE

#### I. PURPOSE

The purpose of the Audit Committee (the “**Committee**”) is to assist the board of trustees (the “**Board**”) of Boston Pizza Royalties Income Fund (the “**Fund**”) in fulfilling its oversight responsibilities with respect to the Fund, Boston Pizza Holdings Trust and Boston Pizza Holdings Limited Partnership (together with the Fund, the “**Fund Entities**”) by reviewing the financial information which will be provided to the unitholders of the Fund (the “**Unitholders**”), securityholders of the Fund Entities and others, the systems of corporate financial controls which the Board have established and the audit process.

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

- A. The Fund Entities’ annual financial statements are fairly presented in accordance with international financial reporting standards and to recommend to the Board, whether the annual financial statements should be approved.
- B. The information contained in the Fund Entities’ quarterly financial statements, the Fund’s annual report to Unitholders of the Fund and other financial publications, such as management’s discussion and analysis, is complete and accurate in all material respects and to recommend to the Board whether these materials should be approved.
- C. The Fund has appropriate systems of internal control over the safeguarding of assets and financial reporting to ensure compliance by the Fund Entities with legal and regulatory requirements.
- D. The external audit functions with respect to the Fund Entities have been effectively carried out and that any matter which the independent auditors wish to bring to the attention of the Board has been addressed. The Committee will also recommend to the Board the reappointment or appointment of auditors of the Fund Entities and their remuneration.
- E. In performing its functions, the Committee must comply with the requirements of applicable rules and laws, including National Instrument 52-110 *Audit Committees* (“**NI 52-110**”) and applicable exchange policies. Nothing herein is intended to expand, or shall result in the expansion of, applicable standards of liability under the amended and restated declaration of trust of the Fund dated December 7, 2010 or applicable corporate and securities laws.

#### II. COMPOSITION AND TERMS OF OFFICE

- A. The members of the Committee must include that number of individuals that are independent of the Fund and of Boston Pizza International Inc. (“**BPI**”) as is prescribed by applicable securities laws, regulations and policies. “Independent” shall have the meaning, given to it in NI 52-110, as may be amended from time to time.
- B. At the time of his or her appointment to the Committee, each member of the Committee shall be financially literate. “Financial literacy” shall be determined by the Board in the exercise of its business judgment, and shall include the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Fund Entities’ financial statements.

- C. The Chair of the Committee shall be appointed by the Board and shall not be an officer or an employee of BPI or its affiliates.
- D. Any member of the Committee, including the Chair, may be removed or replaced at any time by the Board and shall cease to be a member upon ceasing to be a trustee of the Fund (a “Trustee”). Each member of the Committee shall hold office until the member resigns or is replaced, whichever first occurs.

### **III. MEETINGS**

- A. The Committee will meet at least four (4) times per year. The Chair of the Committee shall set the agenda, date and time for such meetings. Additional meetings may be held as deemed necessary by the Chair of the Committee or as requested by any member of the Committee or by the internal or external auditors.
- B. The meetings will be scheduled to permit timely review of the interim and annual financial statements of the Fund, as applicable.
- C. If all members consent, and proper notice has been given, or waived, a member or members of the Committee may participate in a meeting of the Committee by means of such telephonic, electronic or other communication facilities as to permit all persons participating in the meeting to communicate adequately with each other, and a member participating in such a meeting by any such means is deemed to be present at that meeting.
- D. A quorum for the transaction of business at all meetings of the Committee shall be a majority of the members of the Committee. Questions arising at any meeting shall be determined by a majority of votes of the members of the Committee present, and in case of an equality of votes the Chair of the Committee shall not have a second casting vote.
- E. The Committee may invite such Trustees, officers and employees of the Fund Entities as it may see fit from time to time to attend meetings of the Committee and assist in the discussion and consideration of the business of the Committee.
- F. The Committee shall keep regular minutes of proceedings and shall cause them to be recorded in books kept for that purpose, and shall report the same to the Board at such times as the Board may, from time to time, require.
- G. The Committee shall review and approve minutes from prior meetings.
- H. Supporting schedules and information reviewed by the Committee will be available for examination by any Trustee upon request to the Secretary of the Committee.
- I. The Committee shall choose as its Secretary such Committee member as it deems appropriate.
- J. The external and internal auditors of the Fund Entities shall be given notice of, and have the right to appear before and to be heard at, every meeting of the Committee, and shall appear before the Committee when requested to do so by the Committee.

#### **IV. DUTIES AND RESPONSIBILITIES**

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

##### **A. Financial Reporting Control Systems**

The Committee shall:

1. Review and recommend approval for the Chair of the Committee's letter to the Board;
2. review reports from senior officers of Boston Pizza GP Inc. ("GP") outlining any significant changes in financial risks facing the Fund;
3. review all press releases relating to financial results, and submit to the Board for final approval;
4. annually review the guidelines of the Committee, including approving the internal Audit Committee mandate and plan for the following year, and, based on this review, make recommendations to the Governance, Nominating and Compensation Committee;
5. review any correspondence received from securities commissions regarding material financial matters, including reviewing and approving, in advance, any communication regarding material financial matters to any securities regulators;
6. review reports from management regarding any changes in legislation, guidelines or regulations regarding financial reporting;
7. review BPI's IT disaster recovery plan; and
8. obtain assurance from the external and internal auditors regarding the overall control environment and the adequacy of accounting system controls of the Fund.

##### **B. Interim Financial Statements and MD&A**

The Committee shall:

1. review interim financial statements of the Fund Entities and the interim management's discussion and analysis of the Fund prior to their release and recommend their approval to the Board. This will include a detailed review of quarterly and year-to-date results; and
2. review narrative comments accompanying interim financial statements.

##### **C. Annual Financial Statements, MD&A and Other Financial Information**

The Committee shall:

1. review annual financial statements of the Fund Entities and the annual management's discussion and analysis of the Fund prior to their release and recommend their approval to the Board. This will include a detailed review of annual results;

2. review narrative comments accompanying annual financial statements.
3. review any changes in accounting policies or financial reporting requirements that may affect the current year's financial statements;
4. obtain summaries of significant transactions, and other potentially difficult matters whose treatment in the annual financial statements merits advance consideration;
5. obtain draft annual financial statements in advance of the Committee meeting and assess, on a preliminary basis, the reasonableness of the financial statements in light of the analyses provided by management;
6. review reports provided by management regarding compliance with all financial covenants included in lending agreements with the Fund and BPI's lenders;
7. review the recommendation from senior management regarding quarterly distributions for the Fund and recommend these distributions and intra-quarter distribution press releases to the Board for approval, as deemed appropriate;
8. review a summary provided by legal counsel of the status of any material pending or threatened litigation, claims and assessments against the Fund, and the report from management on any fraud or illegal activities;
9. review compliance report from management regarding: (a) regulatory matters, (b) CEO and CFO certification, (c) Canadian ownership of the Fund, and (d) related party transactions;
10. discuss any annual financial statements and the auditors' report thereon in detail with management and the auditors;
11. review other financial information and financial documents that require the approval of the Board, including statements in prospectuses and other offering memoranda, news releases containing financial information, or other documents including financial or future oriented financial information and statements required by regulatory authorities;
12. review and recommend for approval to the Board the annual report of the Fund and other annual reporting documents including the Fund's annual information form;
13. review and recommend approval of the January 1 roll-in adjustments to the Board, and ensure that BPI's relative percentage interests in respect of the Class B Units and Class 2 GP Units are within two percent (2%) of each other before and after roll-in;
14. review and recommend to the Board approval of true-up adjustments, and ensure that BPI's relative percentage interests in respect of the Class B Units and Class 2 GP Units are within two percent (2%) of each other before and after true-up;
15. review management's internal audit report;
16. review the audited statements of franchise revenues reported by Boston Pizza restaurants and the auditor's report thereon;
17. review and approve authorization spending limits for the Fund Entities; and

18. review non-Trustee related insurance coverage

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

The Committee shall:

1. oversee the work of the external auditor and will communicate directly with the external auditor as required. The external auditor must report directly to the Committee;
2. review the audit plan with the external auditors;
3. review the external auditor's report on the results of their audit, including the management representation letter, SUD list, ICOFR report and confirmation of independence;
4. discuss in private with the external auditors matters affecting the conduct of their audit and other corporate matters;
5. recommend to the Board each year the retention or replacement of the external auditors; if there is a plan to change auditors, review all issues related to the change and the steps planned for an orderly transition;
6. annually review and recommend for approval to the Board the terms of engagement and the remuneration of the external auditor;
7. review and approve the auditor's report on specified audit procedures for Boston Pizza Canada Limited Partnership;
8. approve in advance any non-audit services provided by the external auditors;
9. review any new employees hired by BPI that were formerly employed by the external auditor;
10. resolve disagreements between the external auditors and the Fund's or GP's management; and
11. engage independent counsel and other advisors as it determines prudent, advisable or necessary to carry out its duties.

E. **Risk Management**

The Committee must be satisfied that adequate procedures are in place for the review of potential risks that could affect the Fund, and it will oversee the risk treatment plans and controls through semi-annual review, and annual recommendation to the Board.

F. **Disclosure Controls and Procedures**

At least annually, the Committee shall review, discuss with one or more members of the Disclosure Committee of Management and, to the extent the Committee deems appropriate, the internal auditor and the external auditor, the Fund's and BPI's disclosure controls and procedures and make recommendations to the Board respecting the Fund's and BPI's Disclosure Policy. More particularly, the Committee shall:

1. review minutes from Disclosure Committee of Management meetings;

2. discuss and review the Disclosure Committee of Management's annual self-evaluation and certification process of the design and effectiveness of the disclosure controls and procedures;
3. discuss with one or more members of the Disclosure Committee of Management at least annually the guidelines and policies with respect to financial, fraud and disclosure risk assessments; and
4. receive updates from the Disclosure Committee of Management in the form of meeting minutes.

**V. ACCOUNTABILITY**

- A. The Committee shall report to the Board at its next regular meeting all such action it has taken since the previous report.
- B. The Committee is empowered to investigate any activity of any of the Fund Entities and all employees are to co-operate as requested by the Committee. The Committee may retain persons having special expertise to assist it in fulfilling its responsibilities.
- C. The Committee is authorized to request the presence at any meeting, but without voting rights, of a representative from the external auditors, senior management, internal audit, legal counsel or anyone else who could contribute substantively to the subject of the meeting and assist in the discussion and consideration of the business of the Committee.
- D. The Committee will establish procedures for the receipt, retention and treatment of complaints received by the Fund regarding accounting, internal accounting controls or auditing matters and for the confidential, anonymous submission of concerns regarding questionable accounting or auditing practices.