



# BOSTON PIZZA

ROYALTIES INCOME FUND

ANNUAL REPORT 2020



# 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 and served more than 50 million guests annually prior to the coronavirus disease ("COVID-19") pandemic in 2020.

As at January 1, 2021 there were 387 Boston Pizza locations in Canada, stretching from Victoria to St. John's, with all but five 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.

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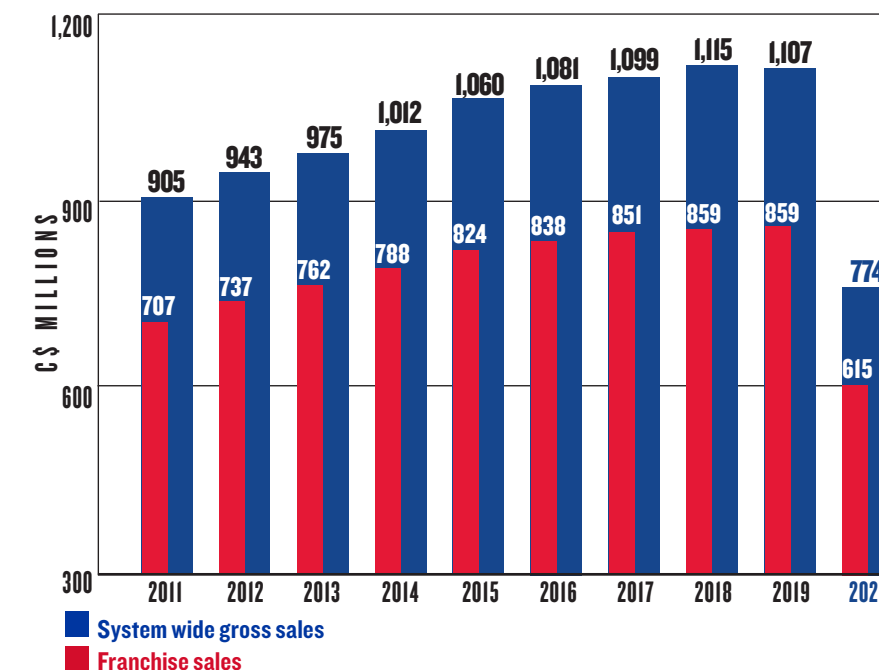


# 2020 HIGHLIGHTS<sup>1</sup>

- On March 11, 2020, the World Health Organization declared the COVID-19 outbreak a pandemic. The COVID-19 pandemic had sudden, unexpected and unprecedented impacts on the general economy, the restaurant industry and has specifically caused significant disruption to the business and revenues of Boston Pizza Royalties Income Fund (the "Fund"), Boston Pizza International Inc. ("BPI") and BP Canada LP. Please see the attached Management's Discussion & Analysis ("MD&A") for details about the material impacts that the COVID-19 pandemic initially had on the business and revenues of the Fund, BPI and BP Canada LP, and our Comprehensive COVID-19 Recovery Plan.
- Annual system-wide gross sales of \$773.5 million.
- Franchise Sales from Royalty Pool restaurants of \$613.2 million for the Year, representing a decrease of 28.2% compared to one year ago.
- Same Restaurant Sales ("SRS") of negative 29.4% for the Year and SRS on a Franchise Sales basis of negative 27.6% for the Year.
- Payout Ratio of 68.2% for the Year.
- Boston Pizza opened two new full-service restaurants and closed 11 full-service restaurants in 2020. In addition, one seasonal Boston Pizza restaurant that was believed to have permanently closed in 2019, and accordingly was removed from the royalty pool on January 1, 2020, re-opened during the Year for a net decrease of eight restaurants.
- A special one-time cash distribution to unitholders of \$0.20 per unit declared in December 2020 and payable on January 29, 2021 to unitholders of record at the close of business on December 31, 2020.
- The Fund's cash balance at the end of the Year was \$7.7 million of which \$4.3 million was used to pay the special one-time cash distribution on January 29, 2021.

<sup>1</sup> The terms that are capitalized have the meanings ascribed to them in the attached MD&A.

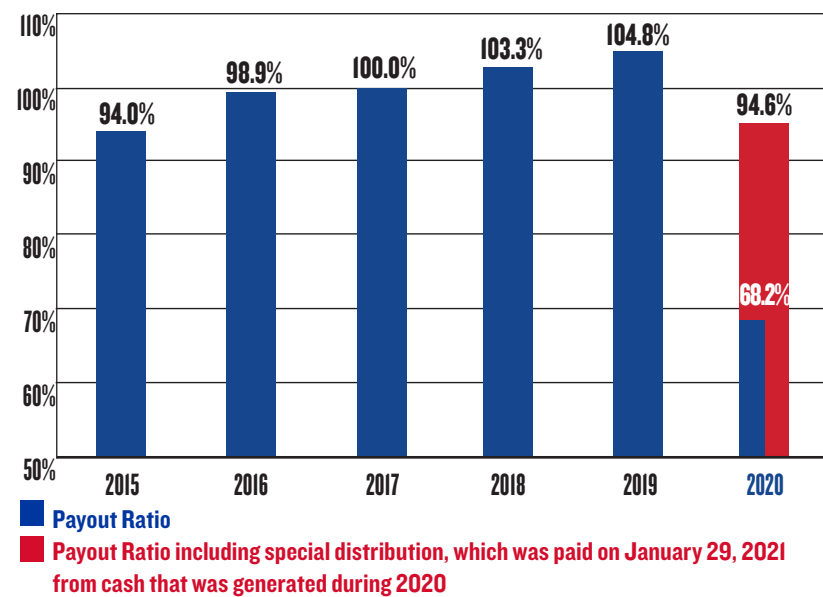
## SYSTEM-WIDE GROSS SALES & FRANCHISE SALES



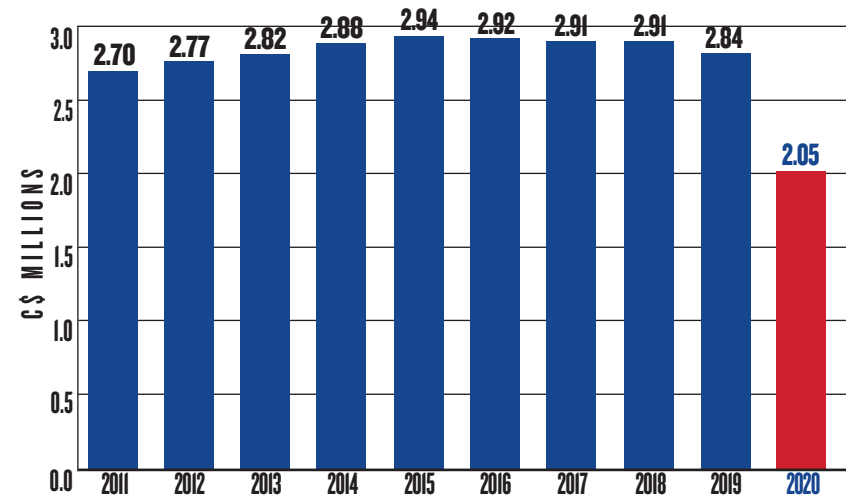
# INVESTMENT HIGHLIGHTS

- Canada's #1 casual dining brand with an established network of 387 restaurants operating in 10 provinces and two territories
- Three distinct dining experiences (Restaurant, Sports Bar and Take-out & Delivery) and multiple dayparts provide diverse sales growth opportunities
- Franchise business and the Royalty Fund model provide a stable and capital free recurring revenue stream for the Fund (investors are not directly exposed to profitability and expenses of underlying business)
- Track record of growth since 2002 IPO and commitment to stable and sustainable distributions over the longer-term (e.g. annual Payout Ratio has averaged 100% of Distributable Cash since IPO)
- Successful franchisee network with a significant portion owning multiple locations which demonstrates strength of unit economics
- Commitment to driving SRS demonstrated by new operating initiatives including menu innovation, off-premise opportunities and restaurant renovations
- Proven management team with extensive industry experience

## HISTORICAL PAYOUT RATIO



## AVERAGE ANNUAL GROSS SALES PER LOCATION



# STABILITY A SUCCESSFUL INCOME FUND

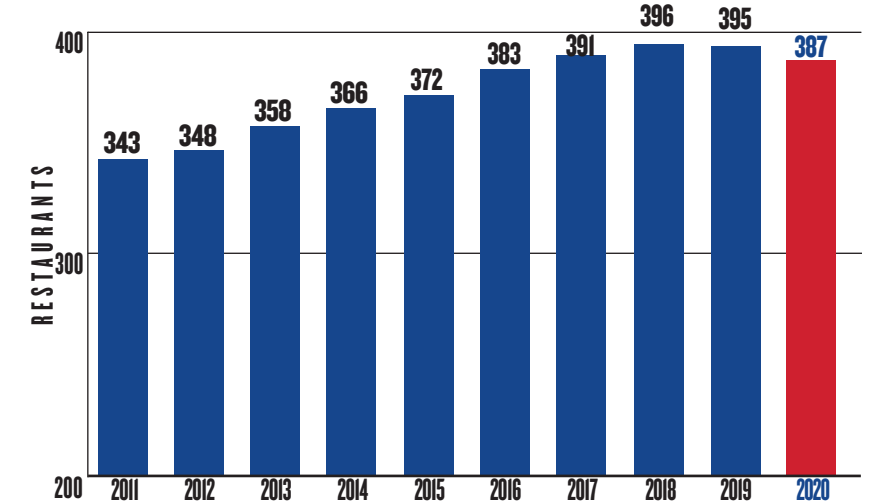
The Fund is a limited purpose open-ended trust established in July 2002, and the Units of the Fund trade on the Toronto Stock Exchange under the symbol BPF.UN. The Fund was originally created to acquire, indirectly through Boston Pizza Royalties Limited Partnership, the Canadian trademarks owned by Boston 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 387 Boston Pizza Restaurants as at January 1, 2021.

**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.

**Distributions** — The Fund has provided cash distributions to Unitholders since the IPO in July 2002 and including the January 2021 distribution paid in February 2021, the Fund had paid out total distributions of \$352.6 million or \$22.75 per Unit which includes 217 monthly distributions and the Special Distribution.

**Demonstrated Growth** — Since the Fund's initial public offering in 2002, there have been 18 increases to the monthly distribution rate. There have also been three decreases to the monthly distribution rate: the first reduction was as a result of the federal SIFT tax in 2011, the second reduction was due to the challenging environment for Boston Pizza and the full-service restaurant industry in Canada in 2019, and the third reduction was in response to the impacts from the COVID-19 pandemic.

## NUMBER OF LOCATIONS OVER THE LAST TEN YEARS



# AN EXPERIENCED FRANCHISOR

The “Four Pillars” strategy is the basis for all decision making that has underpinned the development and success of Boston Pizza. Throughout the COVID-19 pandemic, our focus continues to be on the safety of guests and staff, serving our communities with take-out, delivery and in-restaurant dining where permitted, and supporting our franchisees during these challenging times.

## 1. 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

## 2. CONTINUALLY IMPROVING THE GUEST EXPERIENCE

Boston Pizza has over 56 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.

## 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. ON-GOING ENGAGEMENT IN LOCAL 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

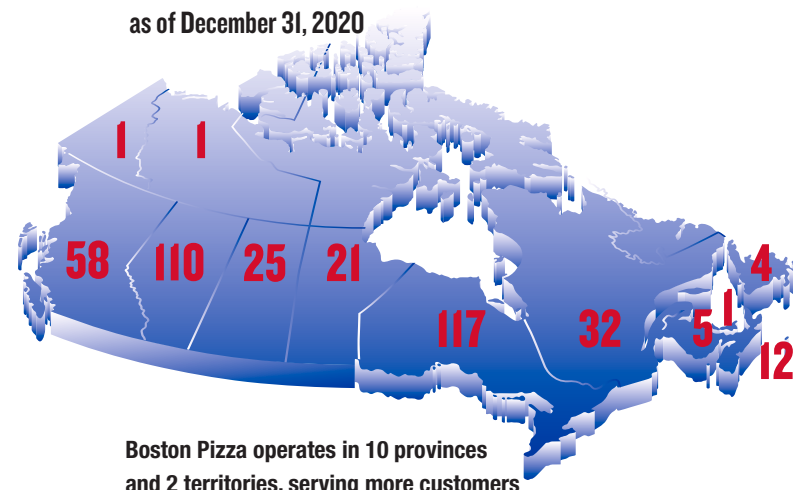
**Broad Customer Appeal** — Full-service restaurant and sports bar under one roof appeals to both families and young adults.

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

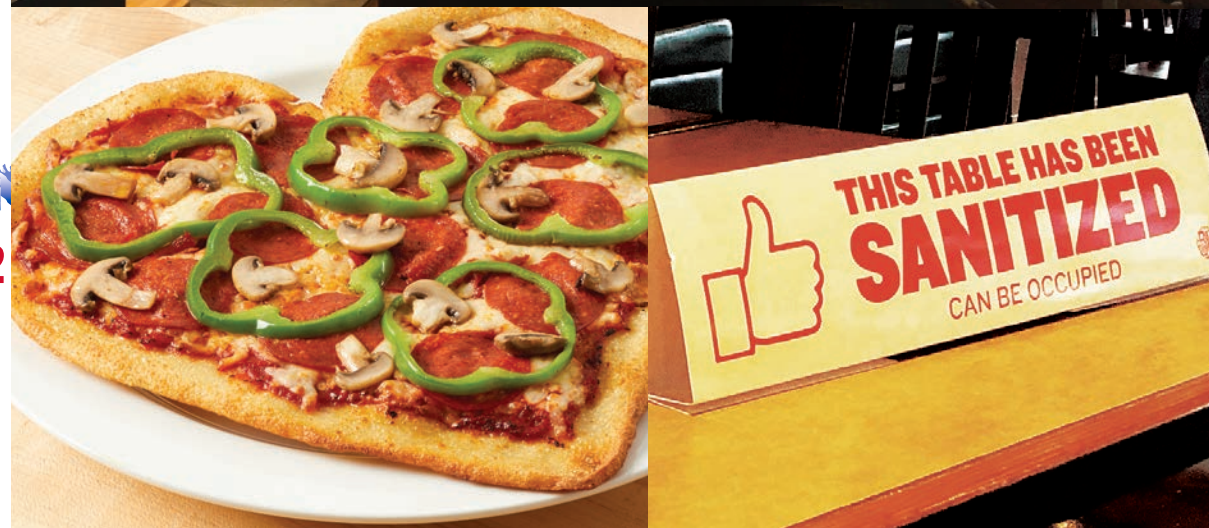
**Attractive Locations** — Real estate selection is critical and restaurant designs are updated regularly.

### 387 LOCATIONS ACROSS CANADA

as of December 31, 2020



Boston Pizza operates in 10 provinces and 2 territories, serving more customers in more locations than any other casual dining restaurant brand in Canada.



# SIGNIFICANT EVENTS

## 1964

First Boston Pizza opens in Edmonton, Alberta.



## 1968

Jim Treiving 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 Treiving 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 become the new owners of the franchisor, Boston Pizza International Inc

## 1986

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



## 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. The Foundation celebrates 30 years in March 2020.

## 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.



## 2001

Boston Pizza has been named as a Platinum Club Member of “Canada's 50 Best Managed Companies” since 2001. The company was first awarded with recognition in 1994.



## 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.

## 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 and celebrates the brand's 50th anniversary on August 12, 2014.

## 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%.

## 2017

As part of an orderly succession plan of ownership, Jim and George reorganized their jointly-owned assets resulting in Jim acquiring 100% of Boston Pizza International Inc. to become the sole owner of the company.

## 2020

BPI took swift action from the outset of the COVID-19 outbreak to adapt business practices and proactively respond to a constantly changing landscape. In the face of these challenges, BPI has worked tirelessly to prioritize the health and safety of our staff and guests.

# COMMUNITY

Since its inception in 1990, Boston Pizza Foundation, with the incredible support of Boston Pizza franchisees, restaurant and corporate staff, loyal guests and Boston Pizza partners, has raised and donated over \$33 million to support charities from coast to coast and around the world.

While the impact from COVID-19 reduced certain opportunities to raise money and our ability to hold in-person events, such as our Boston Pizza Foundation Charity Golf Tournament, through our two in restaurant and online promotions, together we raised over \$1.5 million in 2020.

Tied to our Local Community Program, 100% of funds raised through our Valentine's Day promotion are donated back to community charities across Canada as directed by each locally owned and operated Boston Pizza restaurant. Valentine's Day at Boston Pizza brings a tradition of heart-shaped pizzas that date back to 1980. For over 40 years, Boston Pizza has brought the tradition to you and your family, friends or that special someone. In 2020 Boston Pizza restaurants across Canada raised over \$500,000 for their local charities of choice.

The Boston Pizza Kids Card promotion runs annually in late summer, early fall. For a \$5 donation to the Boston Pizza Foundation, guests receive five free kids meals. All proceeds go toward Boston Pizza Foundation in support of our national charity partners. In 2020 we were proud to partner with four amazing not-for-profit organizations, Big Brothers Big Sisters, Kids Help Phone, Live Different and Rick Hansen Foundation, all of whom were incredibly responsive and agile in working to support youth in communities across Canada by moving to provide their education and mentoring opportunities for children and youth online.

## Big Brother Big Sisters

Big Brothers Big Sisters provides mentors to over 41,000 children in over 1,100 communities. Our support is empowering Big Brothers Big Sisters to further engage youth as they continue to enable life-changing mentoring relationships to ignite the power and potential of young people. Big Brothers Big Sisters is responding and working to keep kids connected as youth across Canada are facing even greater challenges. David (top right), is currently a member of the BBBS National Youth Mentoring Advisory Council (NYMAC) and has been a part of Big Brothers Big Sisters since 2015 as a teen and an in-school mentor, and remains very active in his community.

## Kids Help Phone

Kids Help Phone is Canada's only 24/7 national service offering professional counselling, information, referrals and volunteer-led text-based support for young people. In 2020, Kids Help Phone had over 4.5 million connections with young people, compared to 1.9 million in 2019. As young people turned to them in record numbers amidst COVID-19, Kids Help Phone remained open, providing support wherever, whenever and however young people needed it most.

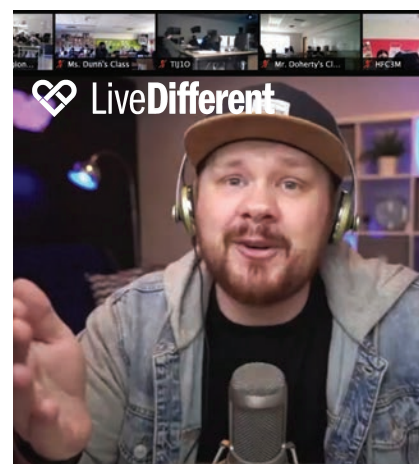
## Live Different

LiveDifferent Circles, a new pandemic-proof program, gives students the opportunity to connect and take action. Through collaborative learning, dynamic video content, and the completion of guided compassion projects, Circles helps youth adopt key lifestyle values and impacts communities in meaningful ways. Thanks to the help of the Boston Pizza Foundation, this much-needed work continues to be there for youth all across Canada.

## Rick Hansen Foundation

The Rick Hansen Foundation School Program (RHFSP) is meeting the changing needs of educators across the country. RHFSP empowers thousands of youth to make a difference in their schools and communities, equips educators with resources to teach about disability and inclusion, and connects with ministries across the country to help shape the future of education.

We thank everyone who generously gave to Boston Pizza Foundation in 2020!



# FINANCIALS

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## MESSAGE FROM THE CHAIRMAN OF BOSTON PIZZA ROYALTIES INCOME FUND

On behalf of the trustees, I am pleased to present the 2020 annual report for Boston Pizza Royalties Income Fund (the "Fund").

Boston Pizza has experienced many different challenges during its 56 years of restaurant operations in Canada but nothing quite compares with navigating the coronavirus disease ("COVID-19") pandemic in 2020. The rapid and unprecedented impact on public health conditions during the first quarter of 2020 led Boston Pizza to proactively close on-premise dining activities on March 17, 2020. The restaurants immediately pivoted to focus on take-out and delivery, providing an essential service at a time when many Canadians stayed at home to help 'flatten the curve' of COVID-19 transmissions. The ability to maintain and grow off-premise sales during that first wave of the pandemic proved highly beneficial not just in maintaining contact with guests and maximizing revenue opportunities, but also helping to maintain staff and equipment required to ramp back up as Boston Pizza's dining rooms and sports bars were permitted to resume operations region by region during the third quarter of 2020. The cabin fever effect following long periods of public health restrictions last spring was evident during the third quarter of 2020 as Boston Pizza restaurants experienced a period of increasing sales recovery, particularly on outdoor patios and via continued higher take-out and delivery orders. This encouraging sales rebound demonstrated both that Canadians were eager to return to full-service restaurant dining occasions and that Boston Pizza franchisees were committed to adapting their operating procedures to ensure public safety while welcoming guests back into their locations. The fourth quarter of 2020 was marked by a significant and sustained second wave of COVID-19, resulting in regional operating restrictions on businesses, including Boston Pizza restaurants, in all parts of Canada. This included group size limits, earlier cessation of alcohol sales and, in some regions, a return to closing of on-premise restaurant operations. It was a difficult ending to a difficult year but, with the right combination of government and public support, Boston Pizza International Inc. ("BPI") and the Fund are optimistic about the prospect for better days ahead in 2021.

The effects of the COVID-19 pandemic on Boston Pizza's restaurant operations in 2020 had a direct impact on the royalty and distribution payments to the Fund. As a result, the Fund temporarily suspended distributions to unitholders commencing with the March 2020 distribution. The trustees worked with BPI and their lender during the second quarter of 2020 to agree upon a financial workout plan, which was announced via press release on June 22, 2020. This plan created a solid foundation for both BPI and the Fund to weather the ongoing adverse effects caused by the pandemic.

In July, operating restrictions eased in most areas of Canada and Boston Pizza restaurants re-opened on-premise services. As a result, BPI resumed the payments of royalty and distribution income to the Fund. Due to the franchise sales recovery experienced at most Boston Pizza restaurants during the third quarter of 2020, the trustees were pleased to announce a resumption of monthly distributions to unitholders beginning with the September 2020 distribution that was paid in October 2020. In deciding to reinstate monthly distributions on units at \$0.065 per unit, the trustees considered, among other factors, the financial performance of the Fund, BPI and Boston Pizza restaurants in the Fund's royalty pool, and internal financial projections for the Fund, BPI and Boston Pizza restaurants in the Fund's royalty pool for the remainder of 2020 and 2021, with the view to ensuring the payment of regular monthly distributions at a sustainable level. In December 2020, the Fund announced both a cash distribution to unitholders of \$0.065 per unit for December 2020 and a special one-time cash distribution to unitholders of \$0.20 per unit. The declaration of a special distribution was a departure from the Fund's historical distribution practice and is not expected to become a regular practice in future years. However, the trustees believe that declaring the special distribution was a prudent approach to deal with the challenges presented in 2020. The trustees will continue to closely monitor the Fund's available cash balances and distribution levels, based on its policy of stable and sustainable distribution flow to unitholders.

On behalf of the trustees, I would like to thank unitholders for their support during these unprecedented times and express appreciation to BPI, Boston Pizza franchisees and their respective employees for their hard work and commitment during the pandemic. The trustees continue to actively work with all internal and external stakeholders of the Boston Pizza system to get through the COVID-19 crisis and on to the business recovery opportunity ahead.



**Marc Guay**  
Chairman, Boston Pizza Royalties Income Fund

## LETTER FROM THE PRESIDENT 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 2020 Annual Report. This report covers the fiscal year-ended December 31, 2020 (the "Year").

### HIGHLIGHTS

- Annual System-Wide Gross Sales of \$773.5 million for the Year, representing a decrease of 30.1%, versus the same period one year ago.
- Opened two new full-service restaurants and closed 11 full-service restaurants in 2020. In addition, one seasonal Boston Pizza restaurant that was believed to have permanently closed in 2019, and accordingly was removed from the royalty pool on January 1, 2020, re-opened during the Year for a net decrease of eight restaurants.
- Raised just over \$1.5 million in 2020 for Boston Pizza Foundation Future Prospects, bringing the aggregate total to over \$33 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, 2020, available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Boston Pizza Royalties Income Fund's website at [www.bpincomefund.com](http://www.bpincomefund.com), for a full description of BPI's financial results.

### OPERATIONAL HIGHLIGHTS

For Boston Pizza, 2020 presented challenges brought on by the new coronavirus disease ("COVID-19") pandemic that had a dramatic impact on the business of Boston Pizza restaurants across Canada for most of the year. Throughout the second half of 2020, the sales of Boston Pizza Restaurants in the royalty pool initially improved, and then subsequently declined as a result of the second wave of the pandemic. COVID-19 case counts in Canada rose during the fourth quarter, causing certain jurisdictions across Canada to further restrict on-premise dining operations and restaurant operating hours. As at December 31, 2020, approximately 370 Boston Pizza Restaurants were providing take-out and delivery services, with approximately 100 of these restaurants also having their dining rooms and sports bars open with reduced seating capacities in accordance with government mandate.

Our focus throughout this pandemic has been on the safety of our guests and our staff in our restaurants, serving our communities with take-out and delivery, or in restaurant where permitted, and supporting our franchisees during these challenging times. Early in the pandemic, this involved proactively closing our dining rooms and bars in advance of government mandates in most regions. While our restaurant staff, franchisees and delivery service partners enabled us to grow our takeout and delivery business at most locations, the restrictions to our on-premise business plus the temporary closure of many restaurants resulted in material declines to our franchise sales and same restaurant sales.

On the restaurant development front, in 2020, Boston Pizza opened a total of two new full-service restaurants. Boston Pizza closed one restaurant in the fourth quarter, bringing our total to 11 permanently closed restaurants for all of 2020. BPI continues to work diligently to build a consortium of financial support to help offset the otherwise unprecedented financial impact facing our franchisees.

In the second quarter, Boston Pizza restaurants began to gradually reopen dining rooms, sports bars and patio as permitted by provincial health authorities. The reopening of our restaurants placed us on a gradual path to recovery. However, our total guest traffic in the second quarter remained negatively impacted by the limited seating capacity restrictions and changes in guest behavior driven by the pandemic. I was extremely pleased with our team's ability to mitigate declines in total franchise sales and same restaurant sales through an aggressive focus on takeout and delivery. We saw positive momentum and strong year-over-year increases in both our takeout and our delivery businesses.

In the third quarter, COVID-19 continued to have an adverse impact on all restaurants in our network. However, we were able to host several successful promotions, including our Summer Playoffs promotion, which included pizza

**LETTER FROM THE PRESIDENT OF  
BOSTON PIZZA INTERNATIONAL INC.**

flights consisting of any three 6-inch gourmet pizzas. The promotion was well received by our guests and contributed to positive sales momentum in the quarter. Toward the end of the quarter, we also launched our annual BP Kids Cards promotion, which offered guests five free kids meals for a \$5 donation to the Boston Pizza Foundation Future Prospects. The promotion exceeded our expectations by raising over \$745,000 in donations for the BP Foundation.

In the fourth quarter, we launched our Boston Pizza Classics promotion, which brought back some classic menu items such as the Pizzaburger and Smoky Mountain Spaghetti and Meatballs. Also during the fourth quarter, Boston Pizza's Holiday 2020 promotion included a selection of new and popular menu items, along with a promotional bonus card offer. These fourth quarter promotions helped increase our take-out and delivery sales, which offset some of the negative same restaurant sales on-premise due to the COVID-19 pandemic.

We continue to be encouraged by the efforts of our local franchisees and their restaurant teams working in local Boston Pizza Restaurants across the country during these difficult times. In terms of our outlook, Boston Pizza began its first quarter of 2021 with a Meal Deal promotion, supported by significant TV, digital, and social media ads. The promotion provides our guests with extra value when ordering special pizza, wings, salad, and pasta combinations.

With respect to our outlook on COVID-19, the pandemic has had a continued impact on the general economy in Canada and on the restaurant industry in particular. For the foreseeable future, COVID-19 will continue to cause significant disruption to the business of Boston Pizza Royalties Income Fund and to BPI. BPI's management will continue to closely monitor the evolving COVID-19 situation and modify the operating procedures of Boston Pizza Restaurants to ensure the safety of our staff and guests.

We will also maximize the opportunity to grow our take-out and delivery business, and adapt other areas of our business such as expanded patios and enhanced digital options to responsibly address additional challenges and opportunities presented by COVID-19. Management of BPI anticipates that franchise sales levels for the first half of 2021 will continue to be challenged as a result of COVID-19.

I want to close by sharing my deep appreciation for our employees, franchisees, and partners for your hard work and support during these unprecedented times. I am extremely proud of the accomplishments we've achieved under these circumstances and I look forward to what we can achieve together in the future.

On behalf of Boston Pizza International Inc.,



**Jordan Holm,**  
President, 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 Canada Holdings Inc. and Boston Pizza Holdings Partnership 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 the potential for COVID-19 to continue to materially affect the Fund's Payout Ratio in the future, COVID-19 continuing to result in material declines to Franchise Sales and SRS, decline in Franchise Sales and SRS resulting in significant declines to Royalty and Distribution Income payable to the Fund and significant declines in the amount of Distributable Cash available for distribution to unitholders, implementation of the pandemic recovery plan, future distributions and dates distributions are to be paid or payable, the significant uncertainties related to COVID-19 and its impact on BPI and the Fund, the focus of BPI's management on guest safety, maximizing the take-out and delivery business and helping franchisees succeed during these challenging times, the trustees of the Fund continuing to closely monitor the Fund's available cash balances, future changes to calculations of financial measures, management's anticipation that sales levels for the first half of 2021 will continue to be challenged as a result of COVID-19, the trustees of the Fund continuing to closely monitor BPI's and BP Canada LP's business as the COVID-19 situation continues to develop, how the Special Distribution is not expected to become a regular practice in future years, and 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, Boston Pizza Canada Limited Partnership and the Fund, pandemics and national health crises, in particular COVID-19, 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, 2020 available at [www.sedar.com](http://www.sedar.com) and [www.bpincomefund.com](http://www.bpincomefund.com).



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**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**BOSTON PIZZA ROYALTIES INCOME FUND**  
For the Period and Year ended December 31, 2020

**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, 2020 and December 31, 2019. The financial information in the tables included in this Management's Discussion and Analysis ("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>	2020	2019	2018
(in thousands of dollars – except restaurants, SRS, Payout Ratio and per Unit items)			
System-Wide Gross Sales	773,533	1,106,687	1,115,200
Number of restaurants in Royalty Pool	395	396	391
Franchise Sales reported by restaurants in the Royalty Pool	613,199	853,728	855,108
Royalty income	24,528	34,149	34,204
Distribution Income	8,114	11,246	11,407
Interest income	144	40	33
Total revenue	32,786	45,435	45,644
Administrative expenses	(1,439)	(1,248)	(1,255)
Interest expense on debt and financing fees	(3,360)	(2,830)	(2,676)
Interest expense on Class B Unit liability	(2,085)	(4,133)	(3,722)
Profit before fair value (loss) gain and income taxes	25,902	37,224	37,991
Fair value loss on investment in BP Canada LP	(14,349)	(9,002)	(37,099)
Fair value gain on Class B Unit liability	6,382	4,120	14,814
Fair value loss on Swaps	(2,064)	(824)	(412)
Current and deferred income tax expense	(6,301)	(9,015)	(6,625)
Net and comprehensive income	9,570	22,503	8,669
Basic earnings per Unit	0.44	1.03	0.40
Diluted earnings per Unit	0.17	0.88	(0.12)
<u>Distributable Cash / Distributions / Payout Ratio</u>			
Cash flows generated from operating activities	22,866	35,621	35,678
BPI Class B Unit entitlement	(2,450)	(4,133)	(3,722)
Interest paid on long-term debt	(3,157)	(2,821)	(2,710)
Principal repayments on long-term debt	(690)	-	-
SIFT Tax on Units	(270)	33	(6)
Distributable Cash	16,299	28,700	29,240
Distributions paid	11,120	30,067	30,191
Payout Ratio	68.2%	104.8%	103.3%
Distributable Cash per Unit	0.756	1.317	1.336
Distributions paid per Unit	0.516	1.380	1.380
<u>Other</u>			
Same Restaurant Sales	(29.4%)	(2.2%)	0.1%
Number of restaurants opened	2	5	10
Number of restaurants closed	11	6	5
<i>As at December 31</i>	2020	2019	2018
Total assets	390,804	396,426	403,686
Total liabilities	133,904	131,323	131,019

Notes:

- Capitalized terms used in the "Financial Highlights" and "Summary of Quarterly Results" tables are defined elsewhere in this MD&A.
- Distribution Income is income received by the Fund from the Fund's indirect investment in Boston Pizza Canada Limited Partnership completed in May 2015. See the "Overview – Purpose of the Fund / Sources of Revenue" section of this MD&A for more details.

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- Profit before fair value (loss) gain 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.
- Same Restaurant Sales (see the "Overview – Top-Line Fund / Increases in Franchise Sales" section of this MD&A for more details), 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.
- As discussed below, Payout Ratio is calculated by dividing the amount of distributions paid during the applicable period by the by the Distributable Cash for that period. Accordingly, the Payout Ratio for the Year does not factor in the Special Distribution (defined below) that was paid on January 29, 2021 even though the cash generated to fund the Special Distribution was generated during the Year as a result of monthly distributions on Units being temporarily suspended in respect of March through August of 2020. If the Special Distribution was included in the calculation of Payout Ratio for the Year, it would be 94.6%.

**SUMMARY OF QUARTERLY RESULTS**

	Q4 2020	Q3 2020	Q2 2020	Q1 2020
(in thousands of dollars – except restaurants, SRS, Payout Ratio and per Unit items)				
System-Wide Gross Sales	181,723	237,208	129,845	224,757
Number of restaurants in Royalty Pool	395	395	395	395
Franchise Sales reported by restaurants in the Royalty Pool	146,561	185,420	107,149	174,069
Royalty income	5,862	7,417	4,286	6,963
Distribution Income	1,946	2,452	1,423	2,293
Interest income	54	61	24	5
Total revenue	7,862	9,930	5,733	9,261
Administrative expenses	(301)	(392)	(352)	(394)
Interest expense on debt and financing fees	(963)	(964)	(730)	(703)
Interest expense on Class B Unit liability	(1,437)	-	-	(648)
Profit before fair value gain (loss) and income taxes	5,161	8,574	4,651	7,516
Fair value gain (loss) on investment in BP Canada LP	28,861	(12,821)	7,202	(37,591)
Fair value (loss) gain on Class B Unit liability	(12,857)	5,712	(3,208)	16,735
Fair value gain (loss) on Swaps	230	(296)	(158)	(1,840)
Current and deferred income tax expense	(1,798)	(1,857)	(908)	(1,738)
Net and comprehensive income (loss)	19,597	(688)	7,579	(16,918)
Basic earnings (loss) per Unit	0.91	(0.03)	0.35	(0.78)
Diluted earnings (loss) per Unit	0.91	(0.30)	0.35	(1.36)
<u>Distributable Cash / Distributions / Payout Ratio</u>				
Cash flows generated from (used in) operating activities	7,889	6,185	(709)	9,501
BPI Class B Unit entitlement	(787)	(1,015)	-	(648)
Interest paid on long-term debt	(915)	(873)	(668)	(701)
Principal repayments on long-term debt	(690)	-	-	-
SIFT Tax on Units	(108)	1,154	(858)	(458)
Distributable Cash	5,389	5,451	(2,235)	7,694
Distributions paid	4,197	-	-	6,923
Payout Ratio	77.9%	0.0%	0.0%	90.0%
Distributable Cash per Unit	0.250	0.253	(0.104)	0.355
Distributions paid per Unit	0.195	-	-	0.319
<u>Other</u>				
Same Restaurant Sales	(32.9%)	(15.2%)	(53.5%)	(15.8%)
Number of restaurants opened	0	1	0	1
Number of restaurants closed	1	4	4	2



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**SUMMARY OF QUARTERLY RESULTS (continued)**

	Q4 2019	Q3 2019	Q2 2019	Q1 2019
<i>(in thousands of dollars – except restaurants, SRS, Payout Ratio and per Unit items)</i>				
System-Wide Gross Sales	276,509	283,570	281,310	265,298
Number of restaurants in Royalty Pool	396	396	396	396
Franchise Sales reported by restaurants in the Royalty Pool	211,173	219,226	216,882	206,447
Royalty income	8,447	8,769	8,675	8,258
Distribution Income	2,785	2,886	2,856	2,719
Interest income	9	9	10	12
Total revenue	11,241	11,664	11,541	10,989
Administrative expenses	(280)	(345)	(307)	(316)
Interest expense on debt and financing fees	(713)	(712)	(709)	(696)
Interest expense on Class B Unit liability	(1,383)	(1,010)	(1,030)	(710)
Profit before fair value (loss) gain and income taxes	8,865	9,597	9,495	9,267
Fair value (loss) gain on investment in BP Canada LP	(20,677)	(873)	4,201	8,347
Fair value gain (loss) on Class B Unit liability	9,107	385	(1,851)	(3,521)
Fair value gain (loss) on Swaps	324	97	(363)	(882)
Current and deferred income tax expense	(2,247)	(2,343)	(2,313)	(2,112)
Net and comprehensive (loss) income	(4,628)	6,863	9,169	11,099
Basic (loss) earnings per Unit	(0.21)	0.31	0.42	0.51
Diluted (loss) earnings per Unit	(0.53)	0.27	0.42	0.51
<u>Distributable Cash / Distributions / Payout Ratio</u>				
Cash flows generated from operating activities	8,721	9,497	9,039	8,364
BPI Class B Unit entitlement	(1,031)	(1,025)	(1,029)	(1,048)
Interest paid on long-term debt	(702)	(710)	(723)	(686)
SIFT Tax on Units	(27)	52	37	(29)
Distributable Cash	6,961	7,814	7,324	6,601
Distributions paid	7,517	7,516	7,517	7,517
Payout Ratio	108.0%	96.2%	102.6%	113.9%
Distributable Cash per Unit	0.319	0.359	0.336	0.303
Distributions paid per Unit	0.345	0.345	0.345	0.345
<u>Other</u>				
Same Restaurant Sales	(2.1%)	(4.2%)	(1.2%)	(1.3%)
Number of restaurants opened	0	2	3	0
Number of restaurants closed	2	0	3	1

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**OVERVIEW**

This MD&A covers the three-month period from October 1, 2020 to December 31, 2020 (the “**Period**”) and the twelve-month period from January 1, 2020 to December 31, 2020 (the “**Year**”) and is dated February 9, 2021. 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 except as otherwise noted.

**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 (the “**TSX**”) under the symbol BPF.UN. The Fund was originally created to acquire, indirectly through Royalties LP, the Canadian trademarks owned by Boston Pizza International Inc. (“**BPI**”, and where applicable also includes its wholly-owned subsidiaries) (collectively the “**BP Rights**”) 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**”). In May 2015, the Fund, indirectly through Holdings LP, completed an investment in Boston Pizza Canada Limited Partnership (“**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 “**2015 Transaction**”). BP Canada LP is a limited partnership controlled and operated by BPI and is the exclusive franchisor of Boston Pizza Restaurants.

The Fund has the following 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 4.0% (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, 2020, there were 395 Boston Pizza Restaurants in the Royalty Pool.

“**Franchise Sales**” means the gross revenue: (i) of the corporate Boston Pizza Restaurants owned by BPI that are in the Royalty Pool; and (ii) reported to BP Canada LP by franchised Boston Pizza Restaurants 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 BP Canada LP 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 owned by BPI; and (ii) reported to BP Canada LP by franchised Boston Pizza Restaurants, 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 BP Canada LP approved national promotions and discounts but excluding applicable sales and similar taxes.

Distribution Income

Holdings LP holds 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 holds, indirectly through Boston Pizza Canada Holdings Partnership (“**BPCHP**”), a general partnership owned and controlled by BPI, 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

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

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LP Units entitle Holdings LP 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 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.

**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 (4.0% 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 cash expenses are administrative expenses, interest expenses on debt, amounts paid by Royalties LP to BPI on the Class B general partner units (“**Class B 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 restaurant sales (“**SRS**”). SRS, 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 SRS are changes in guest 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 restaurants is that the standard franchise agreement for Boston Pizza Restaurants requires that each Boston Pizza Restaurant undergoes a complete restaurant renovation every seven years and completes equipment upgrades as required by BP Canada LP. 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.

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 (each, an “**Adjustment Date**”), an adjustment is made to add to the Royalty Pool new Boston Pizza Restaurants that opened (“**New Restaurants**”) and to remove any Boston Pizza Restaurants that permanently closed since January 1 of the previous year (“**Closed Restaurants**”). In return for adding new Royalty and Distribution Income from the New Restaurants after subtracting the Royalty and Distribution Income that is lost from the Closed Restaurants<sup>2</sup> (such difference, “**Net Royalty and Distribution Income**”), 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 Franchise Sales from the New Restaurants added to the Royalty Pool less the decrease in Franchise Sales from the Closed Restaurants 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 generated by the New Restaurants less the actual Royalty and Distribution Income lost from the Closed Restaurants, multiplied by one

2) The Royalty and Distribution Income that is lost from the Closed Restaurants is calculated based upon the actual Franchise Sales received from the Closed Restaurants during the 12-month period immediately following their addition to the Royalty Pool.

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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 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. After the 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.

It is possible that on an Adjustment Date the Net Royalty and Distribution Income is negative as a result of the estimated Royalty and Distribution Income expected to be generated by the New Restaurants being less than the actual Royalty and Distribution Income that is lost from the Closed Restaurants (the amount by which it is less is the “**Deficiency**”). In such case, BPI would not receive any Additional Entitlements, however, nor would BPI lose any of the Additional Entitlements previously received by BPI. Rather, on future Adjustment Dates, BPI would be required to make-up the Deficiency by first adding Net Royalty and Distribution Income in an amount equal to the Deficiency before receiving any further Additional Entitlements (i.e. BPI only receives Additional Entitlements in respect of the cumulative amount by which Royalty and Distribution Income from New Restaurants exceeds actual Royalty and Distribution Income lost from Closed Restaurants).

**Early Effects of COVID-19 Pandemic on the Fund, BPI and BP Canada LP**

On March 11, 2020, the World Health Organization declared the new coronavirus disease (“**COVID-19**”) outbreak a pandemic. The COVID-19 pandemic had sudden, unexpected and unprecedented impacts on the general economy, the restaurant industry and has specifically caused significant disruption to the business and revenues of the Fund, BPI and BP Canada LP. The following are the material impacts that the COVID-19 pandemic initially had on the business and revenues of the Fund, BPI and BP Canada LP:

1. On March 17, 2020, BPI, BP Canada LP and its franchisees (herein referred to as “**Boston Pizza**”) temporarily closed all of their dining rooms and sports bars across Canada;
2. Between March 18, 2020 and May 4, 2020, approximately three-quarters of the 394 Boston Pizza Restaurants in Canada remained in partial operation providing only take-out and delivery services while approximately one-quarter of Boston Pizza Restaurants were temporarily closed completely, and System-Wide Gross Sales and Franchise Sales were approximately 25% of what they were prior to March 18, 2020;
3. After May 4, 2020, certain Boston Pizza Restaurants began re-opening their dining rooms and sports bars with 50% seating capacity and appropriate physical distancing measures as permitted by provincial and local health authorities;
4. BPI and BP Canada LP deferred the collection of royalties and advertising fees from its franchisees commencing with the amounts that were payable in April 2020 in respect of Franchise Sales generated in March 2020. BP Canada LP recommenced collecting royalty and advertising fees from its franchisees in respect of Franchise Sales occurring from and after June 1, 2020 and is collecting the royalty and advertising fees that were deferred in respect of Franchise Sales occurring between March 1, 2020 and May 31, 2020 over 15 months without interest commencing in September 2020;
5. BPI and BP Canada LP had delayed the payment of Royalty and Distribution Income to the Fund in respect of March, April and May 2020, and in September 2020 commenced repaying such delayed amounts over 15 months with interest at the annual rate equal to the prime rate for commercial loans offered by the Bank (defined below) plus 2%; and

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6. On March 23, 2020, the trustees of the Fund temporarily suspended monthly distributions on Units, commencing with the March 2020 distribution that ordinarily would have been payable on April 30, 2020 to Unitholders of record on April 21, 2020.

**Comprehensive COVID-19 Recovery Plan and Refinancing of the Fund's and BPI's Credit Facilities**

The foregoing effects of COVID-19 resulted in BPI and BP Canada LP not paying the Fund Royalty and Distribution Income during the second quarter of 2020 as required by the various agreements governing the same, BPI and BP Canada LP not being in compliance with certain financial covenants under the general security agreements granted to Royalties LP during the second quarter of 2020, and BPI not being in compliance with certain financial covenants under the credit agreement with its and the Fund's bank (the "**Bank**") during the second quarter of 2020. On June 22, 2020, the Fund and BPI announced that they reached agreements to holistically address their financial challenges caused by the COVID-19 pandemic including entry into a pandemic recovery plan among BPI and certain of its and the Fund's subsidiaries dated June 22, 2020 (the "**Pandemic Recovery Plan**"). The comprehensive COVID-19 recovery plan contained the following elements:

1. BPI's sole shareholder invested \$5.0 million of additional capital in BPI on June 22, 2020 and invested an additional \$5.0 million of capital in BPI on September 24, 2020 to reduce indebtedness and enhance liquidity and cashflow;
2. In June 2020, BPI's liquidity and cashflow was further strengthened by the Bank providing BPI \$6.25 million of additional credit facilities under the Export Development Canada's ("**EDC**") business credit availability program. The Fund and the Bank consented to such additional credit facilities. These credit facilities were drawn down in June 2020;
3. In July 2020, BPI's liquidity and cashflow were further strengthened as a result of the Business Development Bank of Canada ("**BDC**") providing BPI \$2.0 million of additional subordinated credit facilities (the "**BDC Facilities**") under the federal government's COVID-19 relief programs. The Fund and the Bank consented to such additional credit facilities. The BDC Facilities were drawn down in July 2020;
4. BPI and the Bank restructured BPI's credit facilities to enhance short-term liquidity and address the challenges faced by BPI. Specifically, the term of these credit facilities has a new maturity date of December 31, 2022, interest rates increased by between 0.50% and 1.75% depending upon the type of loan and BPI's total funded net debt to EBITDA ratio, and are now, in the case of Canadian prime rate loans equal to the Bank's prime rate plus between 1.50% and 2.50% (depending on the total funded net debt to EBITDA ratio), and in the case of bankers' acceptances and Canadian dollar offered rate loans equal to a variable interest rate based on the Bank's bankers' acceptance rates or Canadian dollar offered rates plus between 2.75% and 3.75% (depending on the total funded net debt to EBITDA ratio), and principal repayments were waived for the second and third quarters of 2020. In addition, the financial covenants were modified to be appropriate to the challenges facing BPI and the Bank waived all historical non-compliance with financial covenants;
5. The Fund and the Bank restructured the Fund's Credit Facilities (defined below) in a manner to address the challenges faced by the Fund. Specifically, the term of the Credit Facilities has a new maturity date of December 31, 2022, interest rates increased by between 0.75% and 1.60% depending upon the type of loan and the Fund's total funded net debt to EBITDA ratio, and are now, in the case of Canadian prime rate loans equal to the Bank's prime rate plus between 0.75% and 1.75% (depending on the total funded net debt to EBITDA ratio) and in the case of bankers' acceptances and Canadian dollar offered rate loans equal to a variable interest rate based on the Bank's bankers' acceptance rates or Canadian dollar offered rates plus between 2.00% and 3.00% (depending on the total funded net debt to EBITDA ratio), Facility B and Facility D (defined below) were converted from being committed revolving credit facilities to non-revolving term loans and, as a condition to agreeing to the comprehensive COVID-19 recovery plan, the Bank required: (i) that certain quarterly principal repayments be made commencing on December 31, 2020 to reduce the leverage level of the Fund; and (ii) that the Fund not pay distributions to

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Unitholders before October 1, 2020. In addition, the financial covenants were modified to be appropriate to the challenges facing the Fund and the Bank waived all historical non-compliance of financial covenants. See the "Liquidity & Capital Resources – Indebtedness" section of this MD&A for more details;

6. BPI recommenced paying Royalty and Distribution Income to the Fund in July 2020, in respect of June 2020, and in September 2020 commenced repaying historical Royalty and Distribution Income that it did not pay the Fund in respect of March 2020 through May 2020 in equal monthly instalments (of blended principal and interest) over 15 months with interest at the annual rate equal to the prime rate for commercial loans offered by the Bank plus 2.00%. The Fund waived historical non-compliance with BPI's obligation to pay Royalty and Distribution Income in respect of such non-payment;
7. During the second quarter of 2020, BPI and BP Canada LP were not in compliance with certain financial covenants under the general security agreements granted to Royalties LP to secure BPI's and BP Canada LP's obligation to pay Royalty and Distribution Income. Specifically, the general security agreements required BPI and BP Canada LP to not exceed a specified debt-to-EBITDA ratio. BPI, BP Canada LP and the Fund replaced that covenant to provide: (i) that BPI's trailing 12-month EBITDA must not be less than certain specified values until expiry of BPI's Credit Facilities and will be tested quarterly; and (ii) upon BPI's credit facilities being renewed or refinanced, BPI's financial covenants to the Fund will mirror those contained in the renewed or refinanced credit agreement, and upon expiry of those renewed credit facilities or if no such renewal or refinancing occurs, BPI's total funded debt to EBITDA ratio must not exceed 2.5:1. In addition, the Fund and BPI created a new financial covenant that requires BPI and BP Canada LP to pay the Fund each quarter until December 31, 2022 a minimum amount of Royalty and Distribution Income. This new covenant is intended to ensure that the Fund will have sufficient cash flow to comply with the financial covenants under the Fund's Credit Facilities. This will be calculated on a trailing 12-month basis and tested quarterly. The Fund waived historical non-compliance with the covenants under such general security agreements;
8. To further enhance BPI's liquidity and cashflow, Royalties LP drew down the Credit Facilities in the second quarter of 2020 by \$0.8 million and used such funds to repay BPI \$0.8 million of reimbursable charges that BPI previously agreed to defer until the Fund achieved certain financial ratios in exchange for BPI having agreed to limit the amount of out-of-pocket expenses for which BPI is entitled to be reimbursed. See the "Liquidity & Capital Resources – Related Party Transactions" section of this MD&A for more details; and
9. As noted above, as a condition to agreeing to the comprehensive COVID-19 recovery plan, the Bank required that the Fund not pay distributions to Unitholders before October 1, 2020.

Full particulars of the comprehensive COVID-19 recovery plan are contained in the Pandemic Recovery Plan and other documents referenced in this MD&A, copies of which are available on [www.sedar.com](http://www.sedar.com).

**Effects of COVID-19 Pandemic on the Fund, BPI and BP Canada LP during the Second Half of the Year**

Throughout the second half of the Year, the business of the Boston Pizza Restaurants in the Royalty Pool initially improved and subsequently declined as a result of the "second wave" of the COVID-19 pandemic. The following is a summary of some key developments:

1. During the third quarter of 2020, most Boston Pizza Restaurants had re-opened their dining rooms and sports bars with reduced seating capacity and appropriate physical distancing measures as permitted by provincial and local health authorities. As at September 30, 2020, approximately 380 Boston Pizza Restaurants had their dining rooms and sports bars or patios open with reduced seating capacity and were providing take-out and delivery services;
2. Franchise Sales, and the resulting Royalty and Distribution Income, for July, August and September 2020 were 81.0%, 84.2% and 88.9% of the levels they were in the respective month of 2019. SRS for July,

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August and September 2020 were negative 18.3%, negative 15.9% and negative 10.9%, respectively, when compared to the same periods in 2019;

3. As the number of persons tested positive for COVID-19 increased during the latter part of the third quarter of 2020, certain jurisdictions restricted in-premises operating hours for Boston Pizza Restaurants in an attempt to help "flatten the curve";
4. On October 1, 2020, the trustees of the Fund recommenced monthly distributions of \$0.065 per Unit compared to the monthly distributions of \$0.102 per Unit that existed prior to the Fund temporarily suspending distributions on March 23, 2020. Monthly distributions recommenced with the September 2020 distribution that was paid to Unitholders on October 30, 2020;
5. Since September 2020, between 25 and 275 Boston Pizza Restaurants (depending upon the specific date) temporarily closed their dining rooms, sports bars and patios as a result of governments imposing various restrictions designed to slow the spread of COVID-19. Franchise Sales, and the resulting Royalty and Distribution Income, for October, November and December 2020 were 80.7%, 68.0% and 59.9% of the levels they were in the respective month of 2019. SRS for October, November and December 2020 were negative 21.2%, negative 34.2% and negative 43.2%, respectively, when compared to the same periods in 2019. As at December 31, 2020, approximately 370 Boston Pizza Restaurants were providing take-out and delivery services, with approximately 100 of these restaurants also having their dining rooms and sports bars open with reduced seating capacity;
6. On December 16, 2020, the trustees of the Fund declared a special one-time cash distribution of \$0.20 per Unit which was paid on January 29, 2021 to Unitholders of record at the close of business on December 31, 2020; and
7. Franchise Sales, and the resulting Royalty and Distribution Income, for January 2021 were 55.1% of the levels they were in January 2020. SRS for January 2021 was negative 49.5% when compared to the same period in 2020. As at January 31, 2021, approximately 375 Boston Pizza Restaurants were providing take-out and delivery services, with approximately 105 of these restaurants also having their dining rooms and sports bars open with reduced seating capacity.

**Seasonality**

Boston Pizza Restaurants typically 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 generally 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. Seasonality's general effect on Franchise Sales impacts the Fund's Distributable Cash and Payout Ratio (as defined below). It is unknown how and to what extent seasonality will affect Franchise Sales, Distributable Cash or Payout Ratio given the effects of COVID-19 on Boston Pizza Restaurants.

**New Restaurant Openings, Permanent Closures and Renovations**

During the Period, there were no New Restaurants and one Closed Restaurant. During the Year, there were two New Restaurants and 11 Closed Restaurants. As well, during the Period, one Boston Pizza Restaurant was renovated, and six Boston Pizza Restaurants were renovated during the Year. Boston Pizza 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. As noted above, as at December 31, 2020, approximately 370 Boston Pizza Restaurants were providing take-out and delivery services, with approximately 100 of these restaurants also having their dining rooms and sports bars open with reduced seating capacity.

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**OPERATING RESULTS**

**Same Restaurant Sales and Franchise Sales**

SRS, 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. SRS 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 SRS are changes in guest traffic and changes in average guest cheque.

Period

SRS was negative 32.9% for the Period compared to negative 2.1% reported in the fourth quarter of 2019. Franchise Sales, the basis upon which 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, SRS was negative 29.7% for the Period compared to negative 1.8% for the fourth quarter of 2019. The decline in SRS for the Period was principally due to declines in restaurant guest traffic and the temporary closure of dining rooms and sports bars, partially offset by increased take-out and delivery sales as a result of the COVID-19 pandemic.

Franchise Sales of Boston Pizza Restaurants in the Royalty Pool were \$146.6 million for the Period compared to \$211.2 million for the fourth quarter of 2019. The \$64.6 million decrease in Franchise Sales for the Period was primarily due to negative SRS on a Franchise Sales basis.

Year

SRS was negative 29.4% for the Year compared to negative 2.2% reported in 2019. On a Franchise Sales basis, SRS was negative 27.6% for the Year compared to negative 1.5% in 2019. The decline in SRS for the Year was principally due to declines in restaurant guest traffic and the temporary closure of dining rooms and sports bars, partially offset by increased take-out and delivery sales as a result of the COVID-19 pandemic.

Franchise Sales of Boston Pizza Restaurants in the Royalty Pool were \$613.2 million for the Year compared to \$853.7 million in 2019. The \$240.5 million decrease in Franchise Sales for the Year was primarily due to negative SRS on a Franchise Sales basis.

**Royalty Income and Distribution Income**

Period

Royalty income and Distribution Income earned by the Fund was \$5.9 million and \$1.9 million for the Period, respectively, compared to \$8.4 million and \$2.8 million, respectively, for the fourth quarter of 2019. Royalty income and Distribution Income in respect of the Period was based on the Royalty Pool of 395 Boston Pizza Restaurants reporting Franchise Sales of \$146.6 million for the Period. In the fourth quarter of 2019, Royalty income and Distribution Income was based on the Royalty Pool of 396 Boston Pizza Restaurants reporting Franchise Sales of \$211.2 million. The \$2.5 million decrease in Royalty income and the \$0.9 million decrease in Distribution Income for the Period was primarily due to negative SRS on a Franchise Sales basis.

Year

Royalty income and Distribution Income earned by the Fund was \$24.5 million and \$8.1 million for the Year, respectively, compared to \$34.1 million and \$11.2 million, respectively, in 2019. Royalty income and Distribution Income for the Year was based on the Royalty Pool of 395 Boston Pizza Restaurants reporting Franchise Sales of \$613.2 million. In 2019, Royalty income and Distribution Income was based on the Royalty Pool of 396 Boston Pizza Restaurants reporting Franchise Sales of \$853.7 million. The \$9.6 million decrease in Royalty income and

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the \$3.1 million decrease in Distribution Income for the Year was primarily due to negative SRS on a Franchise Sales basis.

**Administrative Expenses**

Period

Administrative expenses incurred by the Fund were \$0.3 million for the Period, which is consistent with the fourth quarter of 2019. Administrative expenses are comprised of professional fees, trustee fees and expenses, the reimbursement charge payable to BPI and other general and administrative expenses.

Year

Administrative expenses incurred by the Fund were \$1.4 million for the Year compared to \$1.2 million in 2019. The increase in administrative expenses for the Year was primarily due to increased advisory costs incurred with respect to the COVID-19 pandemic.

**Interest Expense on Debt and Financing Fees**

Period

Interest expense on debt and financing fees incurred by the Fund totaled \$2.4 million for the Period, comprised of interest on long-term debt of \$1.0 million and interest on Class B Units of \$1.4 million. Interest expense on debt and financing fees incurred by the Fund totaled \$2.1 million for the fourth quarter of 2019, comprised of interest on long-term debt of \$0.7 million and interest on Class B Units of \$1.4 million. The Class B Units are classified as financial liabilities and therefore, amounts paid by Royalties LP to BPI in respect of the Class B Units are classified as interest expense and not distributions. The increase in interest expense on debt and financing fees for the Period was primarily due to the increase in interest on long-term debt of \$0.3 million due to higher interest rates and higher debt levels related to the NCIB (defined below). The change in interest expense on Class B Units for the Period was nominal as the Special Distribution (defined below) offset the monthly distribution rate reduction.

Year

Interest expense on debt and financing fees incurred by the Fund totaled \$5.5 million for the Year, comprised of interest on long-term debt of \$3.4 million and interest on Class B Units of \$2.1 million. Interest expense on debt and financing fees incurred by the Fund totaled \$7.0 million in 2019, comprised of interest on long-term debt of \$2.8 million and interest on Class B Units of \$4.1 million. The decrease in interest expense on debt and financing fees for the Year was primarily due to a decrease in interest expense on Class B Units of \$2.0 million attributable to the suspension of monthly distributions and the distribution rate reduction, partially offset by the Special Distribution and an increase in the number of Units into which the Class B Units held by BPI for the Year were exchangeable compared to the same period in 2019. The number of Units into which the Class B Units were exchangeable increased as a result of the five New Restaurants that were added to the Royalty Pool on January 1, 2020 less the six Closed Restaurants that were removed from the Royalty Pool on January 1, 2020 and the adjustment of the Holdback that occurred in the first quarter of 2020 in respect of the 10 New Restaurants that were added to the Royalty Pool on January 1, 2019 less the five Closed Restaurants that were removed from the Royalty Pool on January 1, 2019. This was offset by an increase in interest on long-term debt of \$0.6 million for the Year due to higher interest rates and higher debt levels related to the NCIB.

**Profit before Fair Value (Loss) Gain and Income Taxes**

Period

The Fund's profit before fair value (loss) gain and income taxes was \$5.2 million for the Period compared to \$8.9 million for the fourth quarter of 2019. The \$3.7 million decrease in profit before fair value (loss) gain and

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income taxes for the Period was primarily due to lower Royalty and Distribution Income of \$3.4 million and higher interest on long-term debt of \$0.3 million.

Year

The Fund's profit before fair value (loss) gain and income taxes was \$25.9 million for the Year compared to \$37.2 million in 2019. The \$11.3 million decrease in profit before fair value (loss) gain and income taxes for the Year was primarily due to lower Royalty and Distribution Income of \$12.7 million and higher interest on long-term debt of \$0.6 million, partially offset by lower interest on Class B Units of \$2.0 million.

**Fair Value (Loss) Gain**

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 through profit or loss, and Swaps (as defined below) as derivative instruments. As such, fair value adjustments are recognized in the Fund's statements of comprehensive income in accordance with IFRS. For additional information regarding 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 (as defined below). 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, 2020 to be \$33.3 million (September 30, 2020 – \$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 on the last business day of the Period. Based on the Fund's closing price of \$10.83 per Unit at December 31, 2020 (September 30, 2020 – \$5.54 per Unit) and the 5,455,762 Class 2 LP Units held by the Fund (September 30, 2020 – 5,455,762), the fair value of the Class 2 LP Units was estimated to be \$59.1 million (September 30, 2020 – \$30.2 million), resulting in fair value gain of \$28.9 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 on the last business day of the Period. Based on the Fund's closing price of \$10.83 per Unit at December 31, 2020 (September 30, 2020 – \$5.54 per Unit) and the 2,430,381 Units BPI would be entitled to receive if it exchanged all of the Class B Units (including the Class B Holdback) held by BPI (September 30, 2020 – 2,430,381), the Class B Unit liability (on a fully-diluted basis) was valued at \$26.3 million (September 30, 2020 – \$13.5 million). The difference between the Class B Unit liability at the end of the Period and September 30, 2020 was a fair value loss of \$12.8 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 recognized fair value gain of \$0.2 million in the Period as a result of the decrease in the fair value of the Swaps liability from September 30, 2020 to December 31, 2020 due to changes in interest rates during the Period. For the same period in 2019, the Fund recognized fair value gain of \$0.3 million as a result of the decrease in the fair value of the Swaps liability from September 30, 2019 to December 31, 2019 due to changes in interest rates.

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As discussed above, the carrying amount for Class 1 LP is \$33.3 million. The Fund estimated the fair value of Class 1 LP Units as at December 31, 2020 to be the same (December 31, 2019 – \$33.3 million), resulting in no fair value adjustment for the Year.

As at December 31, 2019, the Fund indirectly held 5,455,762 Class 2 LP Units and the Fund's closing price was \$13.46 per Unit. Consequently, the Fund estimated the fair value of the Class 2 LP Units as at December 31, 2019 to be \$73.4 million. As discussed above, the Fund estimated the fair value of the Class 2 LP Units as at December 31, 2020 to be \$59.1 million, resulting in a fair value loss of \$14.3 million for the Year. In general, the fair value of the Class 2 LP Units will increase as the market price of Units increases and vice versa.

As at December 31, 2019, the number of Units BPI would be entitled to receive if it exchanged all of the Class B Units (including the Class B Holdback) held by BPI was 2,402,966 and the Fund's closing price was \$13.46 per Unit. The Class B Unit liability (on a fully-diluted basis) as at December 31, 2019 was valued at \$32.3 million. As discussed above, the Class B Unit liability at the end of the Period was valued at \$26.3 million. The difference between the Class B Unit liability at the end of the Period and December 31, 2019 was a decrease of \$6.0 million, comprised of a fair value gain of \$6.4 million, partially offset by \$0.4 million of Class B Additional Entitlements received by BPI on January 1, 2020.

The Fund recognized a \$2.1 million fair value loss for the Year as a result of the increase in the fair value of the Swaps liability from December 31, 2019 to December 31, 2020 due to changes in interest rates for the Year. In 2019, the Fund recognized a \$0.8 million fair value loss as a result of the decrease in the fair value of the Swaps asset from December 31, 2018 to December 31, 2019 due to changes in interest rates.

**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 \$1.8 million, comprised primarily of current income tax expense. The Fund's income tax expense for the fourth quarter of 2019 was \$2.2 million, comprised primarily of current income tax expense. The \$0.4 million decrease in current income tax expense is attributable to lower profit before fair value (loss) gain and income taxes, partially offset by an increase in the effective tax rate due to non-SIFT Tax resulting in \$0.4 million in current income tax expense.

Year

The Fund's income tax expense for the Year was \$6.3 million, comprised of \$6.1 million in current income tax expense and \$0.2 million in non-cash deferred income tax expense. The Fund's income tax expense in 2019 was \$9.0 million, comprised of \$8.6 million in current income tax expense and \$0.4 million in non-cash deferred income taxes. The \$2.5 million decrease in current income tax expense is attributable to lower profit before fair value (loss) gain and income taxes, partially offset by an increase in the effective tax rate due to non-SIFT Tax resulting in \$0.4 million in current income tax expense. The decrease in non-cash deferred income tax expense was \$0.2 million and is due to a change in the temporary difference between the accounting and tax base of the BP Rights owned by Royalties LP generated since the inception of the Fund.

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

Period

The Fund's net and comprehensive income was \$19.6 million for the Period compared to net and comprehensive loss of \$4.6 million for the fourth quarter of 2019. The Fund's basic earnings per Unit was \$0.91 for the Period

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compared to basic loss per Unit of \$0.21 for the fourth quarter of 2019. The Fund's diluted earnings per Unit was \$0.91 for the Period compared to diluted loss per Unit of \$0.53 for the fourth quarter of 2019. The \$24.2 million increase in the Fund's net and comprehensive income for the Period compared to the fourth quarter of 2019 was primarily due to a \$27.5 million increase in fair value gain and lower income tax expense of \$0.4 million, partially offset by lower profit before fair value (loss) gain and income taxes of \$3.7 million.

Year

The Fund's net and comprehensive income was \$9.6 million for the Year compared to net and comprehensive income of \$22.5 million in 2019. The Fund's basic earnings per Unit was \$0.44 for the Year compared to basic earnings per Unit of \$1.03 in 2019. The Fund's diluted earnings per Unit was \$0.17 for the Year compared to diluted earnings per Unit of \$0.88 in 2019. The \$12.9 million decrease in the Fund's net and comprehensive income for the Year compared to 2019 was primarily due to lower profit before fair value (loss) gain and income taxes of \$11.3 million and a \$4.3 million increase in fair value loss, partially offset by lower income tax expense of \$2.7 million.

**Distributions**

Period

During the Period, the Fund declared distributions on the Units in the aggregate amount of \$9.9 million or \$0.460 per Unit compared to \$10.0 million or \$0.460 per Unit in the fourth quarter of 2019. The distributions declared on the Units during the Period include a special one-time cash distribution to Unitholders of \$0.20 per unit (the "**Special Distribution**") that the Fund announced on December 16, 2020. The Special Distribution was paid on January 29, 2021 to Unitholders of record at the close of business on December 31, 2020. During the Period, the Fund paid distributions on the Units in the aggregate amount of \$4.2 million or \$0.195 per Unit, compared to \$7.5 million or \$0.345 per Unit in the same period in 2019. The aggregate amount of distributions declared and paid during the Period decreased due to a combination of the recommencement of distributions on October 1, 2020 at a reduced rate of \$0.065 per Unit and the Special Distribution of \$0.20 per Unit declared on December 16, 2020 and paid on January 29, 2021.

Year

During the Year, the Fund declared total distributions on the Units of \$14.3 million or \$0.664 per Unit compared to \$30.1 million or \$1.380 per Unit year-to-date in 2019. During the Year, the Fund paid total distributions on the Units of \$11.1 million or \$0.516 per Unit, compared to \$30.1 million or \$1.380 per Unit in the same period in 2019. The decrease in total distributions declared and paid for the Year was due to a combination of the distribution rate reduction on February 12, 2020 from \$0.115 per Unit to \$0.102 per Unit, the trustees temporarily suspending distributions on March 23, 2020 in response to the COVID-19 pandemic, the recommencement of distributions with a further distribution rate reduction on October 1, 2020 from \$0.102 per Unit to \$0.065 per Unit and the Special Distribution of \$0.20 per Unit declared on December 16, 2020 and paid on January 29, 2021.

Effect of COVID-19 on Distributions

The COVID-19 pandemic has resulted in material declines to Franchise Sales and SRS when compared to the same period in the previous year. The declines in Franchise Sales and SRS will result in significant declines to Royalty and Distribution Income payable by BPI and BP Canada LP to the Fund when compared to the same period in the previous year, and significant declines in the amount of Distributable Cash available for distribution to Unitholders when compared to the same period in the previous year. As noted above, on March 23, 2020, the trustees of the Fund temporarily suspended monthly distributions on Units, commencing with the March 2020 distribution that ordinarily would have been payable on April 30, 2020 to Unitholders of record on April 21, 2020, as a result of the COVID-19 pandemic. As further noted above, as a condition to agreeing to the comprehensive COVID-19 recovery plan, the Bank required that the Fund not pay distributions to Unitholders before October 1, 2020. On October 1, 2020, the trustees of the Fund reinstated monthly distributions on Units at \$0.065 per Unit. In deciding to reinstate monthly distributions on Units and to declare the Special Distribution on December 16,

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2020, the trustees of the Fund considered, among other factors, the recent financial performance of the Fund, BPI and Boston Pizza Restaurants in the Royalty Pool, the Fund's cash position and debt repayment obligations, internal financial projections for the Fund, BPI and Boston Pizza Restaurants in the Royalty Pool, and the increase in the effective tax rate that would be paid by the Fund if the Fund did not distribute sufficient cash in respect of 2020.

The declaration of the Special Distribution was a departure from the Fund's historical distribution practices and is not expected to become a regular practice in future years. However, the trustees believe that declaring the Special Distribution on December 16, 2020 was a prudent approach to deal with the challenges presented in 2020 by the COVID-19 pandemic. While the COVID-19 pandemic persists, the trustees of the Fund continue to expect that Franchise Sales and SRS at Boston Pizza Restaurants, and resulting Royalty, Distribution Income and Distributable Cash available for distribution to Unitholders, will be adversely affected. The trustees of the Fund will continue to closely monitor the Fund's available cash balances and distribution levels, based on its policy of stable and sustainable distribution flow to Unitholders.

Normal Sequence of Monthly Distributions

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, monthly distributions payable by the Fund on the Units in respect of the Period were the September 2020 distribution (which was paid on October 30, 2020), the October 2020 distribution (which was paid on November 30, 2020), the November 2020 distribution (which was paid on December 31, 2020), and the December 2020 distribution (which was paid on January 29, 2021). Similarly, the distributions payable by the Fund on the Units in respect of any other period are paid in the immediately subsequent month of such period.

On February 9, 2021, the trustees of the Fund declared a distribution for the period of January 1, 2021 to January 31, 2021 of \$0.065 per Unit, which will be payable on February 26, 2021 to Unitholders of record on February 21, 2021. Including the January 2021 distribution, which will be paid on February 26, 2021, the Fund will have paid out total distributions of \$352.6 million or \$22.75 per Unit which includes 217 monthly distributions and the Special Distribution.

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Distributions related to the Year were as follows:

PERIOD	PAYMENT DATE	AMOUNT/UNIT
December 1 – 31, 2019	January 31, 2020	11.5¢
January 1 – 31, 2020	February 28, 2020	10.2¢
February 1 – 29, 2020	March 31, 2020	10.2¢
March 1 – 31, 2020	Suspended	-
April 1 – 30, 2020	Suspended	-
May 1 – 31, 2020	Suspended	-
June 1 – 30, 2020	Suspended	-
July 1 – 31, 2020	Suspended	-
August 1 – 31, 2020	Suspended	-
September 1 – 30, 2020	October 30, 2020	6.5¢
October 1 – 31, 2020	November 30, 2020	6.5¢
November 1 – 30, 2020	December 31, 2020	6.5¢
December 1 – 31, 2020	January 29, 2021*	6.5¢
Special Distribution	January 29, 2021*	20.0¢

\* 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 or the Year to fund distributions.

**Distributable Cash / Payout Ratio**

Distributable Cash

Period

The Fund generated Distributable Cash of \$5.4 million for the Period compared to \$7.0 million for the fourth quarter of 2019. The decrease in Distributable Cash of \$1.6 million or 22.6% was primarily due to a decrease in cash flow generated from operating activities of \$0.8 million, a contractually required debt repayment of \$0.7 million for which there is no comparable repayment in the fourth quarter of 2019, an increase of interest paid on long-term debt of \$0.2 million, and higher SIFT Tax on Units of \$0.1 million, partially offset by decreased entitlement for BPI's Class B Units of \$0.2 million.

The Fund generated Distributable Cash per Unit of \$0.250 for the Period compared to \$0.319 per Unit for the fourth quarter of 2019. The decrease in Distributable Cash per Unit of \$0.069 or 21.6% was primarily attributable to the decrease in Distributable Cash outlined above, partially offset by fewer Units outstanding compared to the same period in 2019 due to the Fund's NCIB.

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
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Year

The Fund generated Distributable Cash of \$16.3 million for the Year compared to \$28.7 million in 2019. The decrease in Distributable Cash of \$12.4 million or 43.2% was primarily due to a decrease in cash flow generated from operating activities of \$12.8 million, a contractually required debt repayment of \$0.7 million for which there is no comparable repayment in 2019, an increase of interest paid on long-term debt of \$0.3 million, and higher SIFT Tax on Units of \$0.3 million, partially offset by decreased entitlement for BPI's Class B Units of \$1.7 million.

The Fund generated Distributable Cash per Unit of \$0.756 for the Year compared to \$1.317 per Unit in 2019. The decrease in Distributable Cash per Unit of \$0.561 or 42.6% was primarily attributable to the decrease in Distributable Cash outlined above, partially offset by fewer Units outstanding compared to the same period in 2019 due to the Fund's NCIB.

The Fund's Distributable Cash and Distributable Cash per Unit since January 1, 2018, generated in each financial quarter, are as follows:

**Distributable Cash**

<i>(in millions of dollars)</i>	Q1	Q2	Q3	Q4	Annual
2020	\$ 7.7	\$ (2.2)	\$ 5.5	\$ 5.4	\$ 16.3
2019	\$ 6.6	\$ 7.3	\$ 7.8	\$ 7.0	\$ 28.7
2018	\$ 6.7	\$ 7.3	\$ 8.0	\$ 7.3	\$ 29.2

**Distributable Cash per Unit**

	Q1	Q2	Q3	Q4	Annual
2020	\$ 0.355	\$ (0.104)	\$ 0.253	\$ 0.250	\$ 0.756
2019	\$ 0.303	\$ 0.336	\$ 0.359	\$ 0.319	\$ 1.317
2018	\$ 0.305	\$ 0.335	\$ 0.364	\$ 0.332	\$ 1.336

The COVID-19 pandemic has resulted in material declines to Franchise Sales and SRS when compared to the same period in the previous year. The declines in Franchise Sales and SRS will result in significant declines to Royalty and Distribution Income payable by BPI and BP Canada LP to the Fund when compared to the same period in the previous year, and significant declines in the amount of Distributable Cash available for distribution to Unitholders when compared to the same period in the previous year.

During the Period, the Fund changed how it calculates Distributable Cash and Distributable Cash per Unit to factor in principal repayments that the Fund is contractually required to make on the Credit Facilities from and after the Period as part of the Pandemic Recovery Plan. The Fund did not have a requirement to repay any principal amounts under the Credit Facilities prior to the Period. Accordingly, the change to how Distributable Cash is calculated does not impact the calculation of Distributable Cash for periods prior to the Period. The change to how Distributable Cash is calculated also affects Payout Ratio since Payout Ratio is calculated using Distributable Cash. See the "Description of Non-IFRS and Additional IFRS Measures" section of this MD&A for details.

Payout Ratio

Period

The Fund's Payout Ratio for the Period was 77.9% compared to 108.0% in the fourth quarter of 2019. The decrease in the Fund's Payout Ratio for the Period was due to the combined effects of distributions paid decreasing by \$3.3 million or 44.2%, offset by Distributable Cash decreasing by \$1.6 million or 22.6%.

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Year

The Fund's Payout Ratio for the Year was 68.2% compared to 104.8% in 2019. The decrease in the Fund's Payout Ratio for the Year compared to the same period in 2019 was due to distributions paid decreasing by \$18.9 million or 63.0%, offset by Distributable Cash decreasing by \$12.4 million or 43.2%.

As discussed below, Payout Ratio is calculated by dividing the amount of distributions paid during the applicable period by the Distributable Cash for that period. Accordingly, the Payout Ratio for the Year does not factor in the Special Distribution that was paid on January 29, 2021 even though the cash generated to fund the Special Distribution was generated during the Year as a result of monthly distributions on Units being temporarily suspended in respect of March through August of 2020. If the Special Distribution was included in the calculation of Payout Ratio for the Year, it would be 94.6%.

The Fund's quarterly and annual Payout Ratios with respect to each financial quarter since January 1, 2018 are as follows:

	Q1	Q2	Q3	Q4	Annual
2020	90.0%	0.0%	0.0%	77.9%	68.2%
2019	113.9%	102.6%	96.2%	108.0%	104.8%
2018	113.1%	103.0%	94.7%	103.8%	103.3%

The Fund's Payout Ratio is typically 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. However, the effects of COVID-19 have materially affected the Fund's Payout Ratio in the Period and for the Year, and may continue to materially affect the Fund's Payout Ratio in the future.

Distributable Cash and Payout Ratio are non-IFRS financial measures. For additional information regarding these financial metrics, see the "Description of Non-IFRS and Additional IFRS Measures" section of this MD&A.

**Normal Course Issuer Bids**

On February 13, 2020, 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 February 19, 2020 to no later than February 18, 2021 (the "NCIB"), and that the Fund had established an automatic securities purchase plan with its broker that allows for the repurchase of Units under the NCIB 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"). The NCIB permits the Fund to repurchase for cancellation up to 550,000 Units, being approximately 2.52% of the Fund's issued and outstanding Units (as at February 13, 2020). The ASPP was automatically suspended by its terms on March 12, 2020 due to volatility in the trading price of Units, and remains suspended until the Fund reinstates the ASPP in accordance with its terms.

During the Year, the Fund acquired 266,300 Units under the NCIB at an average price of \$12.98 per Unit. Between December 31, 2020 and February 9, 2021, the Fund did not acquire any additional Units under the NCIB. Unitholders may obtain, without charge, a copy of the Notice of Intention to Make a Normal Course Issuer Bid that the Fund filed with the TSX by contacting the Chief Financial Officer of Royalties GP. The Fund financed all purchases under the NCIB by drawing on Facility B. See the "Liquidity & Capital Resources – Indebtedness" section of this MD&A for more details.



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**New Restaurants Added to the Royalty Pool**

*Boston Pizza Restaurants Added to Royalty Pool on January 1, 2020*

On January 1, 2020, the Royalty Pool was adjusted to include five New Restaurants that opened across Canada between January 1, 2019 and December 31, 2019, and to remove six Closed Restaurants for 2019. The estimated annual Franchise Sales in 2020 for the five New Restaurants less the six Closed Restaurants was \$1.6 million. The estimated Net Royalty and Distribution Income expected to be generated was 5.5% of this amount, or \$0.09 million. The pre-tax amount for the purposes of calculating the Additional Entitlements was approximately \$0.08 million or 92.5% of \$0.09 million. The estimated effective tax rate that the Fund would pay in the calendar year 2020 was 24.0%. Accordingly, the after-tax additional Royalty and Distribution Income for the purposes of calculating the Additional Entitlements was approximately \$0.06 million (i.e. 76.0% of \$0.08 million). In return for adding the additional Net Royalty and Distribution Income from the five New Restaurants and six Closed Restaurants, BPI indirectly received 35,720 Additional Entitlements (representing 80% of the total Additional Entitlements), comprised of 25,978 Class B Additional Entitlements and 9,742 Class 2 Additional Entitlements, and the Holdback was 8,930 Additional Entitlements (representing 20% of the total Additional Entitlements), comprised of 6,495 Class B Holdback and 2,435 Class 2 Holdback. The 35,720 Additional Entitlements represented 0.1% of Units on a fully-diluted basis as of January 1, 2020. 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 after the actual performance of the five New Restaurants added to the Royalty Pool on January 1, 2020 and the actual effective tax rate paid by the Fund for 2020 were known. After both the actual performance of the five New Restaurants added to the Royalty Pool on January 1, 2020 and the actual effective tax rate paid by the Fund for 2020 were known, the number of Additional Entitlements was adjusted in February of 2021 to reflect the actual Franchise Sales generated by those Boston Pizza Restaurants in 2020 and the actual effective tax rate paid by the Fund in 2020. See the "Operating Results – Subsequent Events" section of this MD&A for details of these adjustments.

*Audit of Boston Pizza Restaurants Added to Royalty Pool on January 1, 2019*

In February 2020, an audit of the Franchise Sales of the 10 New Restaurants that were added to the Royalty Pool on January 1, 2019 was performed and the actual effective tax rate paid by the Fund for the 2019 calendar year was determined. The purpose of this was to compare the actual Franchise Sales from these 10 New Restaurants to the estimated amount of Franchise Sales expected to be generated by these 10 New Restaurants during 2019 and to compare the actual effective tax rate paid by the Fund for 2019 to the estimated effective tax rate the Fund expected to pay for 2019. The original Franchise Sales expected to be generated from these 10 New Restaurants less the Franchise Sales from the five Boston Pizza Restaurants that closed during 2018 was \$11.8 million, and the actual Franchise Sales generated from these five net new restaurants was \$1.0 million less. The original effective tax rate the Fund expected to pay for 2019 was 27.0% and the actual effective tax rate paid by the Fund for 2019 was 22.3%. As a result, Royalties LP decreased interest payable to BPI by a nominal amount in early 2020 to reconcile the difference paid on the full number of Class B Additional Entitlements and the effective tax rate. In addition, BP Canada LP increased a subsequent distribution payable to Holdings LP on its Class 2 LP Units by a nominal amount, and correspondingly decreased a subsequent 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 Additional Entitlements at the Adjustment Date in 2019. Following the audit, BPI received 56,800 Additional Entitlements, comprised of 41,309 Class B Additional Entitlements and 15,491 Class 2 Additional Entitlements.

**Subsequent Events**

*Boston Pizza Restaurants Added to Royalty Pool on January 1, 2021*

On January 1, 2021, the Royalty Pool was adjusted to include the two New Restaurants that opened across Canada during the Year and to remove 11 Closed Restaurants for the Year. In addition, one seasonal Boston Pizza Restaurant that was believed to have permanently closed in 2019, and accordingly was removed from the Royalty Pool on January 1, 2020, re-opened during the Year. The Fund and BPI agreed to make adjustments to

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place the parties in the position they would have been had that seasonal Boston Pizza Restaurant not been removed from the Royalty Pool on January 1, 2020. With the adjustment for these openings and closures during 2020, the Royalty Pool now includes 387 Boston Pizza Restaurants. The estimated annual Franchise Sales in 2021 for the two New Restaurants that opened in 2020 is \$3.3 million. As described above, BPI is required to deduct from this amount the actual Franchise Sales received from the 11 Closed Restaurants during the first 12-month period immediately following their addition to the Royalty Pool, which is \$18.5 million. Accordingly, the resulting estimated annual net Franchise Sales for the two New Restaurants and the 11 Closed Restaurants that opened and closed in 2020 is negative \$15.2 million. Consequently, this resulted in the Net Royalty and Distribution Income having a Deficiency of \$0.8 million (being 5.5% of negative \$15.2 million Franchise Sales) as a result of the estimated Royalty and Distribution Income expected to be generated by the New Restaurants (\$0.2 million) being less than the actual Royalty and Distribution Income that is lost from the Closed Restaurants (\$1.0 million). Since there is a Deficiency of \$0.8 million, BPI did not receive any Additional Entitlements on January 1, 2021. However, BPI did not lose any of the Additional Entitlements it received in respect of previous years. Instead, BPI will be required to make-up the Deficiency on future Adjustment Dates by first adding Net Royalty and Distribution Income in an amount equal to the Deficiency before receiving any further Additional Entitlements.

As noted above, one seasonal Boston Pizza Restaurant that was believed to have permanently closed in 2019 was removed from the Royalty Pool on January 1, 2020. During 2020, management of BPI became aware of new information, which resulted in that seasonal Boston Pizza Restaurant being re-opened for business. Since that location is seasonal and it re-opened in 2020, the Fund and BPI determined that this location should never have been removed from the Royalty Pool on January 1, 2020. Consequently, the number of Boston Pizza Restaurants in the Royalty Pool has been adjusted to 387, being the 395 Boston Pizza Restaurants that were part of the Royalty Pool on January 1, 2020, plus the two New Restaurants that opened in 2020, plus the one seasonal Boston Pizza Restaurant that was removed from the Royalty Pool on January 1, 2020, less the 11 Closed Restaurants for 2020. As part of the adjustment that occurred in early 2021 to reconcile distributions paid to BPI and Additional Entitlements received by BPI in respect of the New Restaurants that were added to the Royalty Pool on January 1, 2020, the parties also adjusted distributions paid to BPI and the number of Additional Entitlements held by BPI to put BPI and the Fund into the position they would have been had that seasonal Boston Pizza Restaurant not been removed from the Royalty Pool on January 1, 2020. Franchise Sales reported by the Fund and BPI in 2020 included Franchise Sales generated by this seasonal Boston Pizza Restaurant, so no adjustments were required in that regard.

*Audit of Boston Pizza Restaurants Added to Royalty Pool on January 1, 2020*

In February 2021, an audit of the Franchise Sales of the five New Restaurants that were added to the Royalty Pool on January 1, 2020 was performed and the actual effective tax rate paid by the Fund for the 2020 calendar year was determined. The purpose of this was to compare the actual Franchise Sales from these five New Restaurants to the estimated amount of Franchise Sales expected to be generated by these five New Restaurants during 2020 and to compare the actual effective tax rate paid by the Fund for 2020 to the estimated effective tax rate the Fund expected to pay for 2020. The original Franchise Sales expected to be generated from these five New Restaurants less the Franchise Sales from the six Boston Pizza Restaurants that closed in 2020 was \$1.6 million. The actual Franchise Sales generated from these five New Restaurants after subtracting the Franchise Sales from the five Boston Pizza Restaurants that closed in 2020 (i.e. excluding the seasonal Boston Pizza Restaurant that re-opened in 2020) was \$0.1 million less. The original effective tax rate the Fund expected to pay for 2020 was 24.0% and the actual effective tax rate paid by the Fund for 2020 was 29.3%. As a result, Royalties LP increased interest payable to BPI by a nominal amount in early 2021 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 decrease a future distribution payable to Holdings LP on its Class 2 LP Units by a nominal amount, and will correspondingly increase a future 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 Additional Entitlements at the Adjustment Date in 2020. Following the audit, BPI received 9,538 Additional Entitlements, comprised of 6,937 Class B Additional Entitlements and 2,601 Class 2 Additional Entitlements.

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**Units Outstanding**

The following table sets forth a summary of the outstanding Units. BPI owns 100% of the Class B 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.

**Summary of Boston Pizza Royalties Income Fund Units**

	Dec. 31, 2020 Excluding Holdback	Dec. 31, 2020 Including Holdback	Feb. 9, 2021 Excluding Holdback	Feb. 9, 2021 Including Holdback
<i>Units Outstanding</i>				
Total Issued and Outstanding Fund Units	21,521,463	21,521,463	21,521,463	21,521,463
<i>Class B Additional Entitlements Outstanding</i>				
Class B Additional Entitlements (Excluding Jan. 1, 2021 Adjustment Date)	2,423,886	2,423,886	2,423,886	2,423,886
Class B Holdback (Excluding Jan. 1, 2021 Adjustment Date)	N/A	6,495	N/A	N/A <sup>(1)</sup>
Class B Additional Entitlements – Issued Jan. 1, 2021	N/A	N/A	--	--
Class B Holdback – Created Jan. 1, 2021	N/A	N/A	N/A	-- <sup>(2)</sup>
Class B Holdback – Issued in respect of 2020 after audit	N/A	N/A	6,937	6,937 <sup>(3)</sup>
Total Class B Additional Entitlements	2,423,886	2,430,381	2,430,823	2,430,823
<i>Class 2 Additional Entitlements Outstanding</i>				
Class 2 Additional Entitlements (Excluding Jan. 1, 2021 Adjustment Date)	828,753	828,753	828,753	828,753
Class 2 Holdback (Excluding Jan. 1, 2021 Adjustment Date)	N/A	2,435	N/A	N/A <sup>(1)</sup>
Class 2 Additional Entitlements – Issued Jan. 1, 2021	N/A	N/A	--	--
Class 2 Holdback – Created Jan. 1, 2021	N/A	N/A	N/A	-- <sup>(2)</sup>
Class 2 Holdback – Issued in respect of 2020 after audit	N/A	N/A	2,601	2,601 <sup>(3)</sup>
Total Class 2 Additional Entitlements	828,753	831,188	831,354	831,354
<i>Summary</i>				
Total Issued and Outstanding Fund Units	21,521,463	21,521,463	21,521,463	21,521,463
Total Additional Entitlements	3,252,639	3,261,569	3,262,177	3,262,177
Total Diluted Units	24,774,102	24,783,032	24,783,640	24,783,640
BPI's Total Percentage Ownership	13.1%	13.2%	13.2%	13.2%

- 1) Additional Entitlements from the five New Restaurants and six Closed Restaurants added to and removed from the Royalty Pool on January 1, 2020 prior to the audit of the Franchise Sales of the five New Restaurants, the determination of the actual effective tax rate paid by the Fund and the adjustment for the seasonal Boston Pizza Restaurant that re-opened in 2020.
- 2) There is no Holdback for the adjustment to the Royalty Pool that occurred on January 1, 2021 since BPI did not receive any Additional Entitlements in respect thereof due to a Deficiency existing.
- 3) Additional Entitlements from the five New Restaurants and six Closed Restaurants added to and removed from the Royalty Pool on January 1, 2020 after the audit of the Franchise Sales of the five New Restaurants, the determination of the actual effective tax rate paid by the Fund and the adjustment for the seasonal Boston Pizza Restaurant that re-opened in 2020.

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BPI directly and indirectly 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 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 9, 2021, BPI was entitled to 3,262,177 votes, representing 13.2% 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 periodically to reflect any additional Boston Pizza Restaurants that were added to the Royalty Pool.

**TAX TREATMENT OF DISTRIBUTIONS**

Of the \$0.664 in distributions declared per Unit during the Year, 100.0% or \$0.664 per Unit are taxable eligible dividends and 0.0% or \$nil per Unit represents a tax-deferred return of capital.

**LIQUIDITY & CAPITAL RESOURCES**

The Fund's long-term distribution policy is to distribute the total amount of cash received by the Fund from the Trust on the units of the Trust and notes of the Trust 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; (d) any contractually required repayments of principal of the Fund's indebtedness; and (e) 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.

As noted above, the effects of the COVID-19 pandemic on the Fund's business resulted in the trustees of the Fund temporarily suspending distributions to Unitholders commencing with the distribution that ordinarily would have been paid on April 30, 2020 to Unitholders of record on April 21, 2020. As further noted above, as a condition to agreeing to the comprehensive COVID-19 recovery plan, the Bank required that the Fund not pay distributions to Unitholders before October 1, 2020.

On October 1, 2020, the trustees of the Fund recommenced monthly distributions of \$0.065 per Unit compared to the monthly distributions of \$0.102 per Unit that existed prior to the Fund temporarily suspending distributions on March 23, 2020 due to the effects of COVID-19 on the business of Boston Pizza Restaurants across Canada, and the corresponding decline in Royalty and Distribution Income payable to the Fund. Monthly distributions recommenced with September 2020 distributions payable to Unitholders on October 30, 2020. On December 16, 2020, the trustees of the Fund declared the Special Distribution which was paid on January 29, 2021 to Unitholders of record at the close of business on December 31, 2020. In deciding to reinstate monthly distributions on Units at \$0.065 per Unit and declare the Special Distribution, the trustees of the Fund considered, among other factors, the recent financial performance of the Fund, BPI and Boston Pizza Restaurants in the Royalty Pool, the Fund's cash position and debt repayment obligations, internal financial projections for the Fund, BPI and Boston Pizza Restaurants in the Royalty Pool, and the increase in the effective tax rate that would be paid by the Fund if the Fund did not distribute sufficient cash in respect of 2020.

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**

As at December 31, 2019, Holdings LP and Royalties LP had credit facilities with the Bank in the amount of up to \$90.3 million with a maturity date of May 5, 2020 (the "Original Credit Facilities"). The Original Credit Facilities were 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

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credit facilities 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 Original Credit Facilities bore 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 funded debt to EBITDA ratios.

On January 24, 2020, Holdings LP and Royalties LP entered into an amended and restated credit agreement (the "Credit Agreement") with the Bank pursuant to which the Original Credit Facilities were amended and extended (the Original Credit Facilities, as amended and extended, the "Credit Facilities") as follows:

1. The maturity date was extended from May 5, 2020 to January 24, 2025;
2. The total amount of credit available was increased by approximately \$6.7 million, from \$90.3 million to approximately \$97.0 million, by increasing the size of Facility B from \$55.0 million to approximately \$61.7 million;
3. The permitted uses of Facility B were expanded to include the repayment of the Deferred Amount (as defined below) to BPI;
4. The availment options for Facility B and Facility D were changed to include, among others, availment by way of (i) Canadian dollar prime rate loans, (ii) bankers' acceptances for one (1) month or three (3) months, and (iii) Canadian dollar offered rate loans with terms of one (1) month or three (3) months, with fixed rate operating loans being eliminated as an availment option;
5. The interest rates (or margins, as applicable) applicable to Canadian dollar prime rate loans, bankers' acceptances and Canadian dollar offered rate loans were reduced. In the case of Canadian prime rate loans, the interest rate is now equal to the Bank's prime rate plus between 0.00% and 0.40% (depending on the total funded net debt to EBITDA ratio) and, in the case of bankers' acceptances and Canadian dollar offered rate loans, the interest rate is equal to a variable interest rate based on the Bank's bankers' acceptance rates or Canadian dollar offered rates plus between 0.90% and 1.40% (depending on the total funded net debt to EBITDA ratio); and
6. The total funded net debt to EBITDA ratio covenant was modified.

The Credit Facilities are secured by a first charge on the assets of Holdings LP and Royalties LP. The Credit Facilities are guaranteed by the Fund and all of its subsidiaries, each of whom granted security over all its assets in favour of the Bank in support of such guarantees. The guarantees and security supporting the Credit Facilities are unchanged from those provided in respect of the Original Credit Facilities.

As noted above, on June 22, 2020, the Fund and the Bank further amended the Credit Facilities as part of the comprehensive COVID-19 recovery plan. The principal amendments were as follows:

1. The term of the Credit Facilities was shortened to expire on December 31, 2022 instead of January 24, 2025;
2. The interest rates (or margins, as applicable) applicable to the Credit Facilities increased by between 0.75% and 1.60% per annum. In the case of Canadian prime rate loans, the interest rate is now equal to the Bank's prime rate plus between 0.75% and 1.75% (depending on the total funded net debt to EBITDA ratio) and, in the case of bankers' acceptances and Canadian dollar offered rate loans, the interest rate is equal to a variable interest rate based on the Bank's bankers' acceptance rates or

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Canadian dollar offered rates plus between 2.00% and 3.00% (depending on the total funded net debt to EBITDA ratio);

3. Facility B and Facility D were converted from being committed revolving credit facilities to non-revolving term loans. Quarterly principal repayments on Facility B commenced on December 31, 2020 to reduce the leverage level of the Fund over time as follows: \$0.7 million was paid during the fourth quarter of 2020; \$1.0 million in each of the first three quarters of 2021; \$0.7 million in the fourth quarter of 2021; and \$0.5 million in each subsequent quarter for the balance of the term. Facility D continues to require interest-only payments;
4. Various financial covenants were deleted, including the requirement that: (a) the Fund's total funded net debt to EBITDA ratio be less than specified ratios; and (b) the actual cash distributed to holders of units of the Fund not exceed certain amounts;
5. A new financial covenant was created that requires the Fund's total funded net debt to EBITDA ratio to not exceed 3.25:1 on closing, increasing immediately to not exceed 3.75:1 after closing, further increasing to not exceed 4.25:1 on October 1, 2020, reducing to not exceed 3.50:1 on April 1, 2021 and reducing further to not exceed 3.00:1 on and after July 1, 2021; and
6. A new covenant that the Fund not pay distributions to Unitholders before October 1, 2020.

The Credit Agreement, as amended by a First Supplemental Credit Agreement dated June 22, 2020 (the "First Supplemental Credit Agreement"), governing the Credit Facilities contains certain covenants and restrictions, including the requirement to meet certain financial ratios described above. A failure of the Fund or its subsidiaries to comply with these covenants and restrictions could have entitled 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 Credit Agreement and the First Supplemental Credit Agreement, copies of which are available on [www.sedar.com](http://www.sedar.com).

As of December 31, 2020, working capital of the Fund totaled \$2.4 million (December 31, 2019 – negative \$85.9 million). The Fund has no requirement to maintain a certain amount of working capital. As of December 31, 2020, no amount was drawn on Facility A, \$58.6 million was drawn on Facility B and \$33.3 million was drawn on Facility D (December 31, 2019 - Facility A: nil, Facility B: \$55.0 million, Facility D: \$33.3 million).

The following table provides a summary of the Fund's contractual obligations and commitments (including expected interest payments) as at December 31, 2020:

<i>(in thousands of dollars)</i>	< 1 year	1 - 5 years	> 5 year	Total	Book Value
Accounts payable and accrued liabilities	522	–	–	522	522
Distributions payable to Fund unitholders	5,703	–	–	5,703	5,703
Interest payable on Class B Units	911	–	–	911	911
Current income tax payable	237	–	–	237	237
Credit Facilities and Swaps <sup>1</sup>	7,357	91,494	–	98,851	93,550
	14,730	91,494	–	106,224	100,923

Note:

1) The Credit Facilities and Swaps include expected interest payments based on the Fund's blended rate of 3.91% to the scheduled maturity date of the Credit Facilities of December 31, 2022.

**Interest Rate Swaps**

Royalties LP and Holdings LP, as applicable, previously entered into the following interest rate swaps under their respective International Swap Dealers Association Master Agreements with the Bank (the "Swaps"):

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- (a) Royalties LP entered into a Swap to fix the interest rate at 1.51% plus between 2.00% and 3.00% per annum (depending upon funded debt to EBITDA ratios) for a term ending on February 1, 2022 for \$13.9 million of the \$58.6 million drawn on Facility B;
- (b) Holdings LP entered into a Swap to fix the interest rate at 1.25% plus between 2.00% and 3.00% per annum (depending upon funded debt to EBITDA ratios) for a term that ended on August 1, 2020 for \$17.0 million of the \$33.3 million drawn on Facility D;
- (c) Holdings LP entered into a Swap to fix the interest rate at 0.87% plus between 2.00% and 3.00% per annum (depending upon funded debt to EBITDA ratios) for a term ending on March 1, 2021 for \$16.3 million of the \$33.3 million drawn on Facility D;
- (d) Royalties LP entered into a Swap to fix the interest rate at 2.40% plus between 2.00% and 3.00% per annum (depending upon funded debt to EBITDA ratios) for a term ending on January 1, 2023 for \$15.0 million of the \$58.6 million drawn on Facility B;
- (e) Royalties LP entered into a Swap to fix the interest rate at 2.27% plus between 2.00% and 3.00% per annum (depending upon debt to EBITDA ratios) for a term ending on April 1, 2024 for \$15.0 million of the \$58.6 million drawn on Facility B;
- (f) Holdings LP entered into a Swap that commenced on August 14, 2020 to fix the interest rate at 1.02% plus between 2.00% and 3.00% per annum (depending upon debt to EBITDA ratios) for a term ending on August 14, 2025 for \$17.0 million of the \$33.3 million drawn on Facility D to replace the Swap described in item (b) above that ended on August 1, 2020; and
- (g) On August 13, 2020, Holdings LP entered into a Swap that will commence on March 1, 2021 to fix the interest rate at 1.09% plus between 2.00% and 3.00% per annum (depending upon debt to EBITDA ratios) for a term ending on March 1, 2026 for \$15.0 million of the \$33.3 million drawn on Facility D to partially replace the swap described in item (c) above that will end on March 1, 2021.

\$14.7 million drawn on Facility B currently bears interest at variable interest rates applicable to the Credit Facilities discussed above.

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 is 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 recognized a \$0.2 million fair value gain on the Swaps for the Period in its consolidated statements of comprehensive income compared to a \$0.3 million fair value gain on the Swaps for the fourth quarter of 2019. During the Year, the Fund recognized a \$2.1 million fair value loss on the Swaps (2019 – \$0.8 million) in the consolidated statements of comprehensive (loss) income.

**Cash Flows**

Cash Flow from Operating Activities

Period

Cash generated from operating activities for the Period was \$7.9 million compared to \$8.7 million in the fourth quarter of 2019. The decrease of \$0.8 million was primarily due to a decrease of Royalty and Distribution Income of \$3.4 million, partially offset by increased changes in working capital of \$2.1 million and a reduction in income taxes paid of \$0.5 million.

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Year

Cash generated from operating activities for the Year decreased to \$22.9 million compared to \$35.6 million in 2019. The decrease of \$12.7 million was primarily due to a decrease of Royalty and Distribution Income of \$12.7 million and decreased changes in working capital of \$2.6 million, partially offset by a reduction in income taxes paid of \$2.8 million.

Cash Flow used in Financing Activities

Period

During the Period, the Fund used \$6.3 million in cash for financing activities compared to \$9.2 million in the fourth quarter of 2019. The decrease of \$2.9 million was primarily due to lower distributions paid to Unitholders of \$3.3 million and lower interest paid on Class B Units of \$0.5 million, partially offset by the repayment of long-term debt of \$0.7 million and increased interest paid on long-term debt of \$0.2 million.

Year

During the Year, the Fund used \$16.9 million in cash for financing activities compared to \$36.6 million in 2019. The decrease of \$19.7 million was due to lower distributions paid to Unitholders of \$18.9 million, \$4.3 million drawn on the Fund's Credit Facilities, and lower interest paid on Class B Units of \$2.6 million. This was offset by \$3.5 million used to purchase Units under the NCIB, the repayment rather than deferral to BPI for reimbursable expenses resulting in a net change of \$1.2 million, the repayment of long-term debt of \$0.7 million, \$0.5 million in financing fees pertaining to credit agreements and increased interest paid on long-term debt of \$0.3 million.

**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 ("**Administrative Services**"). 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 the Administrative Services. Royalties LP and BPI agreed that for 2018 and 2019, BPI charged Royalties LP \$0.4 million of annual out-of-pocket expenses for which it is entitled to be reimbursed but that Royalties LP deferred payment of such amount to BPI (the "**Deferred Amount**"). The Deferred Amount was not to bear interest and was to become payable to BPI when the Fund's cash and cash equivalents is greater than 7% of Royalty and Distribution Income. The Deferred Amount was classified as a long-term liability on the Fund's consolidated statements of financial position. As noted above, as part of the comprehensive COVID-19 recovery plan, Royalties LP drew down \$0.8 million from the Credit Facilities, and Royalties LP repaid BPI \$0.8 million of the Deferred Amount. BPI and Royalties LP agreed to limit the annual amount of out-of-pocket expenses for which BPI is entitled to be reimbursed to not more than \$0.4 million for 2020, 2021 and 2022, with such limit increasing by not more than the percentage change in the Canadian Consumer Price Index (as calculated by Statistics Canada) in the calendar year prior thereafter.
- The total amount charged by BPI in respect of the Administrative Services for the Period and Year was \$0.1 million and \$0.4 million, respectively (Q4 2019 – \$0.1 million; 2019 – \$0.4 million). The total amount paid to BPI in respect of these services for the Period and Year was \$0.1 million and \$1.2 million, respectively (Q4 2019 – nil; 2019 – nil).
- As at December 31, 2020, interest payable by the Fund to BPI in respect of the Class B Units was \$0.9 million (December 31, 2019 – \$0.3 million).

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- As at December 31, 2020, the Royalty receivable from BPI was \$4.9 million including nominal interest on deferred payments (Q4 2019 – \$3.0 million), and the Distribution Income receivable from BP Canada LP was \$1.5 million including nominal interest on deferred payments (Q4 2019 – \$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 President ("**President**") 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 regarding the Fund is gathered and reported to senior management, including the President and CFO, on a timely basis, particularly during the period in which the annual and interim 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 President and CFO. Based on that evaluation, the President and CFO have concluded that the design and operation of these disclosure controls and procedures were effective in providing reasonable assurance that: (a) information required to be disclosed by the Fund in its annual filings, interim filings or other reports filed and submitted by it under applicable securities legislation is recorded, processed, summarized and reported within the prescribed time periods specified in securities legislation, and (b) material information regarding the Fund is accumulated and communicated to the Fund's administrator, Royalties LP, as well as the President and CFO in a timely manner, particularly during the period in which the annual and 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 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, Royalties GP.

*Estimates - Intangible Assets – the 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 added to 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

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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 calculation is dependent on a number of different variables including the estimated sales of the new Boston Pizza Restaurants for the calendar year in which they are added to the Royalty Pool and the tax rate. The value assigned to the new Boston Pizza Restaurants, and as a result, the value assigned to the BP Rights, could differ from actual results.

The impairment test requires that the Fund use a valuation technique to determine if impairment exists. The valuation of the intangibles is based on a value in use approach, and depends on certain estimates including projected Franchise Sales for restaurants that are in the Royalty Pool and the discount rate. This valuation technique may not represent the actual recoverable amount that the Fund expects the BP Rights to generate. The Fund concluded that the recoverable amount exceeds the carrying amount of the BP Rights therefore, no impairment was recorded for the year ended during December 31, 2020.

*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.

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, 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 on the last business day of the Period. 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, 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.

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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**

IAS 1, Presentation of Financial Statements and IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors

The International Accounting Standards Board issued amendments to IAS 1 – *Presentation of Financial Statements* and IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors*, Definition of Material and Amendments to References to the Conceptual Framework in IFRS Standards, effective January 1, 2020. These amendments do not have an impact on the Fund's consolidated financial statements.

**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.

The non-IFRS financial measures, such as SRS, Distributable Cash and Payout Ratio, do not have standardized meanings prescribed by IFRS and therefore may not 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.

SRS

As noted above, SRS 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 SRS to an IFRS measure is not possible. The Fund believes that SRS provides investors useful information regarding the change in gross sales of Boston Pizza Restaurants.

Distributable Cash

Prior to the Period, "**Distributable Cash**" was defined to be, in respect of any particular period, the Fund's cash flow from operations for that period minus (a) BPI's entitlement in respect of its Class B Units in respect of the period, minus (b) interest paid on long-term debt during the period, minus (c) the SIFT Tax expense in respect of the period, plus (d) SIFT Tax paid during the period.

Commencing with the Period, "**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 entitlement in respect of its Class B Units in respect of the period, minus (b) interest paid on long-term debt during the period, minus, (c) principal repayments on long-term debt that are contractually required to be made 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**").

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The Fund made this change to ensure that the calculation of Distributable Cash reflects as accurately as possible the actual amount of cash generated by the Fund during a period that is available for distribution to Unitholders. Since principal repayments on long-term debt that are contractually required to be made by the Fund consume cash flow from operations, management believes it is appropriate to subtract these principal repayments from cash flow from operations when calculating Distributable Cash. The Fund has not had a requirement to repay any principal amounts under the Credit Facilities prior to the Period. As previously noted, the Fund is contractually required to make quarterly principal repayments on Facility B from and after the Period as part of the Pandemic Recovery Plan. Accordingly, the change to how Distributable Cash is calculated as described above does not impact the calculation of Distributable Cash for periods prior to the Period.

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 component of 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 Payout Ratio for the Period, the distributions paid by the Fund on the Units during the Period were the September 2020 distribution (which was paid on October 30, 2020), the October 2020 distribution (which was paid on November 30, 2020) and the November 2020 distribution (which was paid on December 31, 2020). Similarly, for the purpose of calculating Payout Ratio for any other period, the distributions paid during that period would be used. Management believes that Payout Ratio provides investors with useful information on the extent to which the Fund distributes cash on Units. As 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. The effects of COVID-19 may affect the Fund's Payout Ratio in the future.

Since Payout Ratio is calculated using Distributable Cash, the change to how Distributable Cash is calculated described above impacts Payout Ratio. Specifically, the change to how Distributable Cash is calculated results in Distributable Cash being less than it would be without that change, and therefore Payout Ratio is higher than it would be without that change, since Distributable Cash is the denominator in the calculation of Payout Ratio. Management believes that the effect this has on Payout Ratio provides investors with more accurate information regarding the extent to which the Fund distributes cash on Units since principal repayments on long-term debt that the Fund is contractually required to make reduces the amount of cash that is available for distribution on Units.

**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

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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.

Profit Before Fair Value Gain (Loss) and Income Taxes

Management believes that it is useful to provide investors with the sub-total of profit before fair value gain (loss) 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.

**SHORT-TERM OUTLOOK**

The information contained in this "Short-Term 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.

The COVID-19 pandemic has had sudden, unexpected and unprecedented impacts on the general economy, the restaurant industry and has specifically caused significant disruption to the business of the Fund and BPI. The focus of BPI's management is to continue to: (i) monitor carefully the continuously evolving COVID-19 situation; (ii) modify the operating procedures of Boston Pizza Restaurants to ensure the safety of guests and staff of BP Canada LP's franchisees; (iii) responsibly and safely operate the dining rooms and sports bars of Boston Pizza Restaurants across Canada when permitted by applicable provincial health authorities; (iv) maximize the opportunity to grow its take-out and delivery business; and (v) review and adapt current and future plans to responsibly address the challenges and opportunities presented by COVID-19. Management of BPI anticipates that sales levels for the first half of 2021 will continue to be challenged as a result of COVID-19.

The trustees of the Fund will continue to closely monitor BPI's and BP Canada LP's business as the COVID-19 situation continues to develop and consider the best interests of the Fund and its stakeholders. While the COVID-19 pandemic persists, the trustees of the Fund expect that Franchise Sales and SRS at Boston Pizza Restaurants, and resulting Royalty, Distribution Income and Distributable Cash available for distribution to Unitholders will continue to be adversely affected.

**RISKS & UNCERTAINTIES**

**Risks Related to the Business of BPI and BP Canada LP**

COVID-19 Risk

On March 11, 2020, World Health Organization declared the COVID-19 outbreak a pandemic. The COVID-19 pandemic has had sudden, unexpected and unprecedented impacts on the general economy, the restaurant industry and has specifically caused significant disruption to the business and revenues of the Fund and BPI. The COVID-19 pandemic has resulted and will continue to result in material declines to Franchise Sales and SRS when compared to the same period in the previous year. The declines in Franchise Sales and SRS will result in significant declines to Royalty and Distribution Income payable by BPI and BP Canada LP to the Fund when compared to the same period in the previous year, and significant declines in the amount of Distributable Cash available for distribution to Unitholders when compared to the same period in the previous year. It is unknown if, when and to what extent the Franchise Sales of Boston Pizza Restaurants will return to the levels they were at prior to the emergence of the COVID-19 pandemic. As well, it is unknown how many and how long additional COVID-19 outbreaks, including outbreaks caused by variants of the COVID-19 virus, will last and the extent to which they necessitate further reduced service levels or temporary closures of Boston Pizza Restaurants. Any reduced service levels or temporary closures of Boston Pizza Restaurants will result in further declines to Franchise Sales, SRS, Royalty, Distribution Income and the amount of Distributable Cash available for distribution to Unitholders. In addition, it is unknown if and to what extent the COVID-19 pandemic will alter consumer behaviour and demand for casual dining restaurant services.

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COVID-19 and the reactions to it, including the possibility that it may result in a prolonged global recession, may also have the effect of exacerbating the potential impact of the other risks disclosed in this Risk & Uncertainties section.

The Restaurant Industry and its Competitive Nature

The performance of the Fund is directly dependent upon the Royalty 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, 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, pandemics and national health crises (including COVID-19), 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, Distribution Income and the ability of BPI to pay the Royalty to Royalties LP, 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

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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 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.

*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 *Trademarks 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 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 restrict 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

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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 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 are 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.

*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.



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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 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, 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.

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

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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 disability savings plan, registered education savings plan, registered retirement savings plan, registered retirement income fund or tax-free savings account where, in general terms, the holder, subscriber 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"). 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; and (ii) Distribution Income payable by BP Canada LP to Holdings LP. 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, or of BP Canada LP to pay Distribution Income to Holdings LP.

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 and Distribution Income to Holdings LP, and each is subject to the risks encountered by BPI and BP Canada LP in the operation of their 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 December 31, 2022, 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,

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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.

BPI has third-party debt service obligations under its credit facilities with the Bank (the "**BPI Credit Facilities**"). The degree to which BPI is leveraged could have important consequences to Unitholders, including: (i) a portion of BPI's cash flow from operations could be dedicated to the payment of the principal of and interest on BPI's indebtedness, thereby reducing funds available for payment of the Royalty; and (ii) certain of BPI's borrowings are at variable rates of interest, which exposes them to the risk of increased interest rates. The BPI Credit Facilities are due on December 31, 2022, at which time BPI will need to refinance such loans. There can be no assurance that refinancing of this indebtedness will be available to BPI, or available to BPI on acceptable terms. If BPI cannot refinance this indebtedness on acceptable terms upon maturity, it will negatively impact the ability of BPI to pay Royalty. Given the Fund's dependence upon BPI, this will negatively impact Distributable Cash and the Fund's ability to make distributions on the Units. BPI's ability to make scheduled payments of principal or interest on, or to refinance, its indebtedness depends on future cash flows, which is dependent on the success of Boston Pizza Restaurants, prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond its control.

The BPI Credit Facilities contain numerous restrictive covenants that limit the discretion of BPI's management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of BPI 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, and to merge or consolidate with another entity.

A failure by BPI to comply with the obligations in the BPI 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 BPI Credit Facilities were to be accelerated, there can be no assurance that BPI's assets would be sufficient to repay that indebtedness. If BPI were unable to repay that indebtedness, it would adversely affect BPI's ability to pay the Royalty, thereby negatively impacting Distributable Cash and the Fund's ability to make distributions on the Units.

*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 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; (d) any contractually required repayments of principal of the Fund's indebtedness; and (e) 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 by BPI.

*Restrictions on Certain Unitholders and Liquidity of Units*

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

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*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, 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.

*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 disability savings plans, registered education savings plans, 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.

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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 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 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.

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 INFORMATION**

Additional information relating to the Fund, Royalties LP, Royalties GP, BPCHP, the Trust, Holdings LP, Holdings GP, BPI and BP Canada LP, including the Fund's Annual Information Form dated February 9, 2021, is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Fund's website at [www.bpincomefund.com](http://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, BPCHP, 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 "estimate", "may", "will", "expect", "believe", "plan", "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;
- the probability that a Deficiency may exist on the January 2021 Adjustment Date as a result of the number of new Boston Pizza Restaurants that have opened during the Year being less than the number of Boston Pizza Restaurant that have permanently closed during the Year;

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- implementation of the Pandemic Recovery Plan;
- management anticipates that sales levels for the first half of 2021 will continue to be challenged as a result of COVID-19;
- COVID-19 will continue to result in material declines to Franchise Sales and SRS at Boston Pizza Restaurants, and the resulting Royalty, Distribution Income and Distributable Cash available for distribution to Unitholders will be adversely affected for as long as COVID-19 persists;
- the effects of COVID-19 may materially affect the Fund's Payout Ratio in the future;
- how the Special Distribution is not expected to become a regular practice in future years;
- the collection of royalty and advertising fees from franchisees that were deferred in respect of Franchise Sales;
- BPI management modifying operations and procedures of Boston Pizza Restaurants to ensure the safety of guests and employees of BP Canada LP's franchisees;
- the trustees of the Fund continuing to closely monitor BPI's and BP Canada LP's business as the COVID-19 situation continues to develop and considering the best interests of the Fund and its stakeholders;
- expectations that cash flow from operation will continue to be sufficient to pay distributions;
- the Fund's current sources of liquidity being sufficient to cover its currently known short and long-term obligations;
- impact of seasonality on Franchise Sales and the Payout Ratio;
- the persistence of industry challenges negatively affecting SRS;
- estimated effective tax rate;
- estimated 2021 annual Franchise Sales, Royalty and Distribution Income to be generated by New Restaurants;
- anticipated impact on financial performance of the adoption of new accounting policies; and
- that Boston Pizza Restaurants will close for two to three weeks to complete a renovation and experience an incremental sales increase in the year following the re-opening.

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;
- management of BPI and BP Canada LP maintaining current strategies to drive higher guest traffic and higher average guest cheques;
- Boston Pizza Restaurants maintaining operational excellence;
- culinary innovation and menu re-pricing;
- continuing operations of key suppliers;
- availability of experienced management and hourly employees;
- ability to obtain qualified franchisees;
- ability to open sufficient New Restaurants to replace Franchise Sales of Closed Restaurants;
- ability to comply with disclosure obligations under franchise laws and regulations;
- ability to obtain adequate insurance coverage;
- ability to enter into arrangements with suppliers and distributors to generate competitive pricing for franchisees and revenue for BP Canada LP;

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- no additional increases in SIFT Tax and sales tax rates;
- COVID-19 will continue to negatively impact the restaurant industry and necessitate the closure and/or reduction of seating capacity of certain Boston Pizza dining rooms and sports bars across Canada;
- the closure of and/or reduction of seating capacity of certain Boston Pizza dining rooms and sports bars across Canada will result in significant declines in Franchise Sales and SRS; and
- COVID-19 and its related restrictions will eventually dissipate.

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

- competition;
- consumer spending habits;
- consumer confidence in the retail sector;
- household debt;
- weather;
- pricing;
- changes in demographic trends;
- changes in consumer preferences and discretionary spending patterns;
- changes in national and local business and economic conditions;
- legislation and government regulation;
- cash distributions are not guaranteed;
- accounting policies and practices;
- the results of operations and financial conditions of BPI and the Fund;
- inflation;
- publicity from any food borne illness;
- increase in food, labour or benefits costs;
- Boston Pizza Restaurant closures;
- successful challenge of the BP Rights;
- inadequacy of insurance coverage;
- increases in the rate of SIFT Tax and sales tax;
- litigation against franchisees;
- inability to attract and retain key personnel;
- data security breaches and technological failures;
- pandemics and national health crises, in particular COVID-19;
- the closure of Boston Pizza dining rooms and sports bars across Canada continuing to result in material declines to Franchise Sales and SRS;
- declines in Franchise Sales and SRS resulting in significant declines to Royalty and Distribution Income payable to the Fund and significant declines in the Distributable Cash available to Unitholders; and
- the trustees of the Fund continuing to monitor the effects of COVID-19 on the Fund and adjusting distribution policy in a prudent manner as circumstances warrant with a view to preserving Unitholder value.

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, the Fund assumes no obligation to update or revise forward-looking information to reflect new events or circumstances.

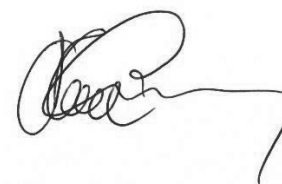
**MANAGEMENT'S STATEMENT OF RESPONSIBILITIES**

The accompanying consolidated financial statements are the responsibility of management and have been reviewed and approved by the 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 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.



**Marc Guay**

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

February 9, 2021



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## INDEPENDENT AUDITORS' REPORT

To Unitholders of Boston Pizza Royalties Income Fund

### Opinion

We have audited the consolidated financial statements of Boston Pizza Royalties Income Fund (the Fund) which comprise:

- the consolidated statements of financial position as at December 31, 2020 and December 31, 2019
- the consolidated statements of comprehensive income for the years then ended
- the consolidated statements of changes in Unitholders' equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Fund as at December 31, 2020 and December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "**Auditors' Responsibilities for the Audit of the Financial Statements**" section of our auditors' report.

We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2020.



These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditors' report.

### Assessment of the recoverable amount of Intangible assets – BP Rights

#### Description of the matter

We draw attention to Notes 2(c), 3(i) and 6 to the financial statements. The Intangible assets – BP Rights are measured at historical cost and have a carrying value of \$284,182 thousand. The Fund performs an impairment test over the Intangible assets - BP Rights annually or when events or changes in circumstances indicate that the carrying value exceeds its recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use. In determining the recoverable amount of the Intangible assets - BP Rights, the Fund's significant assumptions include projected franchise sales by restaurants that are in the Royalty Pool and pre-tax discount rate.

#### Why the matter is a key audit matter

We identified the assessment of the recoverable amount of Intangible assets – BP Rights as a key audit matter. This matter represented an area of significant risk of misstatement given the high degree of estimation uncertainty in determining the recoverable amount. Minor changes in projected franchise sales by restaurants that are in the Royalty Pool and pre-tax discount rate had a significant effect on the recoverable amount. These factors indicated a significant risk of material misstatement. As a result, specialized skills and knowledge and significant auditor judgment were required in evaluating the results of our audit procedures.

#### How the matter was addressed in the audit

The following are the primary procedures we performed to address this key audit matter:

We evaluated the appropriateness of the Fund's projected franchise sales by restaurants that are in the Royalty Pool by comparing the projected franchise sales to historical franchise sales and external industry reports. When performing this assessment, we considered specific conditions and events affecting the franchise sales.

We compared the Fund's historical franchise sales growth rate expectations to actual results to assess the Entity's ability to accurately predict franchise sales growth.

We involved valuation professionals with specialized skills and knowledge, who assisted in the evaluation of the pre-tax discount rate used in the determination of the recoverable amount. The valuation professionals evaluated the pre-tax discount rate by comparing it against a pre-tax discount rate range that was independently developed using publicly available reports of industry commentators for comparable entities. The valuation professionals considered features and risks specific to the Intangible assets – BP Rights.

### **Other Information**

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Glossy Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Glossy Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

### **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this auditors' report is Michael J. Kennedy.

Chartered Professional Accountants

February 9, 2021  
Vancouver, Canada

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

	December 31, 2020	December 31, 2019
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 7,700	\$ 1,753
Royalty receivable from Boston Pizza International Inc. (note 1(b))	4,870	2,989
Distributions receivable from Boston Pizza Canada Limited Partnership (note 1(b))	1,543	940
Prepaid expenses	109	49
Current income tax receivable	-	33
	14,222	5,764
Investment in Units of Boston Pizza Canada Limited Partnership (note 5)	92,400	106,749
Intangible assets – BP Rights (note 6)	284,182	283,823
Interest rate swaps	-	90
<b>Total assets</b>	<b>\$ 390,804</b>	<b>\$ 396,426</b>
<b>Liabilities and Unitholders' Equity</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 522	\$ 522
Distributions payable to Fund unitholders (note 11(c))	5,703	2,506
Interest payable on Class B Units (note 15)	911	337
Current income tax payable (note 4)	237	-
Interest rate swaps (note 7)	801	-
Credit Facilities (note 7)	3,613	88,314
	11,787	91,679
Interest rate swaps (note 7)	1,173	-
Credit Facilities (note 7)	87,963	-
Deferred income taxes (note 4)	6,660	6,500
Other liabilities (notes 7(c) and 14)	-	800
Class B Unit Liability (note 8)	26,321	32,344
<b>Total liabilities</b>	<b>133,904</b>	<b>131,323</b>
<b>Unitholders' equity</b>		
Fund Units (note 11)	325,048	328,504
Accumulated deficit (note 12)	(68,148)	(63,401)
	256,900	265,103
<b>Total liabilities and unitholders' equity</b>	<b>\$ 390,804</b>	<b>\$ 396,426</b>

Nature of operations (note 1(b)); Subsequent events (note 18)

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

Marc Guay

David Merrell

Paulina Hiebert

**BOSTON PIZZA ROYALTIES INCOME FUND**
**Consolidated Statements of Comprehensive Income**
**For the years ended December 31, 2020 and 2019**

(Expressed in thousands of Canadian dollars, except per Fund Unit data)

	2020	2019
<b>Revenue</b>		
Royalty income (note 13)	\$ 24,528	\$ 34,149
Distribution income (note 13)	8,114	11,246
<b>Total revenue</b>	<b>32,642</b>	<b>45,395</b>
Administration charge from Boston Pizza International Inc.	400	400
Professional fees	351	202
Other administrative expenses	424	393
Trustee fees and expenses	264	253
<b>Total administrative expenses</b>	<b>1,439</b>	<b>1,248</b>
<b>Earnings before interest and fair value (gain) loss on financial instruments</b>	<b>31,203</b>	<b>44,147</b>
Interest expense on debt and financing fees	3,360	2,830
Interest expense on Class B Unit Liabilities (note 8)	2,085	4,133
Interest income (note 1(b))	(144)	(40)
<b>Net interest expense</b>	<b>5,301</b>	<b>6,923</b>
<b>Profit before fair value loss (gain) and income taxes</b>	<b>25,902</b>	<b>37,224</b>
Fair value loss on investment in Boston Pizza Canada Limited Partnership (note 5)	14,349	9,002
Fair value gain on Class B Unit Liability (note 8)	(6,382)	(4,120)
Fair value loss on interest rate swaps (note 7)	2,064	824
<b>Total fair value loss</b>	<b>10,031</b>	<b>5,706</b>
<b>Earnings before income taxes</b>	<b>15,871</b>	<b>31,518</b>
Current income tax expense (note 4)	6,141	8,595
Deferred income tax expense (note 4)	160	420
<b>Total tax expense</b>	<b>6,301</b>	<b>9,015</b>
<b>Net income and comprehensive income for the period</b>	<b>\$ 9,570</b>	<b>\$ 22,503</b>
<b>Net earnings per Fund Unit</b>		
Basic (note 3(f))	\$ 0.44	\$ 1.03
Diluted (note 3(f))	\$ 0.17	\$ 0.88
Weighted average Fund Units outstanding	21,565,799	21,787,763
Weighted average fully diluted Fund Units outstanding	24,827,368	25,011,637

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
<b>Balance – January 1, 2020</b>	<b>\$ 328,504</b>	<b>\$ (63,401)</b>	<b>\$ 265,103</b>
Acquisition of Fund Units (note 11(d))	(3,456)	-	(3,456)
Net and comprehensive income for the period	-	9,570	9,570
Distributions declared (note 11(c))	-	(14,317)	(14,317)
<b>Balance – December 31, 2020</b>	<b>\$ 325,048</b>	<b>\$ (68,148)</b>	<b>\$ 256,900</b>
<b>Balance – January 1, 2019</b>	<b>\$ 328,504</b>	<b>\$ (55,837)</b>	<b>\$ 272,667</b>
Net and comprehensive income for the period	-	22,503	22,503
Distributions declared (note 11(c))	-	(30,067)	(30,067)
<b>Balance – December 31, 2019</b>	<b>\$ 328,504</b>	<b>\$ (63,401)</b>	<b>\$ 265,103</b>

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, 2020 and 2019**  
(Expressed in thousands of Canadian dollars)

	2020	2019
<b>Operating activities</b>		
Net and comprehensive income for the period	\$ 9,570	\$ 22,503
Adjustments for:		
Fair value loss on investment in Boston Pizza Canada Limited Partnership	14,349	9,002
Fair value gain on Class B Unit Liability	(6,382)	(4,120)
Fair value loss on interest rate swaps	2,064	824
Interest expense on Class B Unit Liabilities	2,085	4,133
Deferred income tax expense	160	420
Current income tax expense	6,141	8,595
Interest expense on debt and financing fees	3,360	2,830
Interest income	(144)	(40)
Changes in non-cash working capital	(2,610)	62
Current income tax paid	(5,871)	(8,628)
Interest received	144	40
<b>Net cash generated from operating activities</b>	<b>22,866</b>	<b>35,621</b>
<b>Financing activities</b>		
Distributions paid to Fund unitholders	(11,120)	(30,067)
Interest paid on Class B Unit Liabilities	(1,511)	(4,094)
Interest paid on long-term debt	(3,157)	(2,821)
Acquisition of Fund Units	(3,456)	-
Proceeds from long-term debt	4,300	-
Repayment of long-term debt	(690)	-
Payment of deferred financing fees	(485)	-
(Repayment of) Proceeds from other liabilities	(800)	400
<b>Net cash used in financing activities</b>	<b>(16,919)</b>	<b>(36,582)</b>
Increase (decrease) in cash and cash equivalents	5,947	(961)
Cash and cash equivalents – beginning of year	1,753	2,714
<b>Cash and cash equivalents – end of year</b>	<b>\$ 7,700</b>	<b>\$ 1,753</b>

Supplemental cash flow information (note 17)

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

**BOSTON PIZZA ROYALTIES INCOME FUND**  
**Notes to the Consolidated Financial Statements**  
**For the years ended December 31, 2020 and 2019**

**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 Royalties LP (note 3(b)), acquire the trademarks and trade names owned by Boston Pizza International Inc. (Boston Pizza International Inc. together with its wholly-owned subsidiaries, “BPI”) (note 3(b)) 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 *Trademarks Act* (Canada). The Fund also hold an investment indirectly, through Holdings LP (note 3(b)), in Boston Pizza Canada Limited Partnership (“BP Canada LP”). BP Canada LP is a limited partnership controlled and operated by BPI and is the exclusive franchisor of Boston Pizza Restaurants in Canada. The rights to operations outside of Canada are owned by an affiliated company.

(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% (the “Royalty”) of franchise sales (“Franchise Sales”) of Boston Pizza Restaurants in the Royalty Pool (the “Royalty Pool”) as defined in the License and Royalty Agreement. 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 395 Boston Pizza Restaurants in the Royalty Pool as at December 31, 2020 (December 31, 2019 – 396).

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.

On March 11, 2020, the World Health Organization declared the new coronavirus disease (“COVID-19”) outbreak a pandemic. The COVID-19 pandemic has had sudden, unexpected and unprecedented impacts on the general economy and the restaurant industry and has specifically caused significant disruption to the business and revenues of the Fund and BPI. This has resulted in various government restrictions that have required a variety of temporary closures of dine-in restaurant operations or reductions of operating hours. At December 31, 2020, approximately 370 Boston Pizza Restaurants remained open, of which only approximately 100 were operating with in-restaurant dining, having their dining rooms, sports bars and patios open with reduced seating

**1. General Information (continued):**

(b) Nature of operations (continued):

capacity to provide appropriate physical distancing and were providing take-out and delivery services. The remainder were open for take-out and delivery services only. Such reduced services and closures have resulted in material declines in BPI's franchise sales since the first quarter of 2020.

To support BPI's franchisees through the crisis, BPI deferred the collection of the 7% royalties and 3% advertising fees from its franchisees on franchise sales occurring between March 1, 2020 and May 31, 2020 and is collecting the deferred fees over 15 months commencing September 2020. In July 2020, BPI resumed the collection of royalties and advertising fees in respect of franchise sales occurring from and after June 1, 2020. The temporary suspension of collecting royalty and advertising fees was a breach of BPI's obligations under the License and Royalty Agreement (*note 6*) between Royalties LP and BPI.

On June 22, 2020, the Fund and BPI reached agreements to address the financial challenges caused by the COVID-19 pandemic including entry into a pandemic recovery plan between BPI and certain of its and the Fund's subsidiaries (the "**Pandemic Recovery Plan**"). As part of the Pandemic Recovery Plan, BPI delayed the payment of Royalty and Distribution to the Fund in respect of March 2020 to May 2020 and, in June 2020, the Fund waived historical non-compliance with BPI's obligation to pay Royalty and Distribution in respect of non-payment and with BPI's obligation to collect royalty and advertising fees from BPI's franchisees. Additionally, during the second quarter of 2020, BPI was not in compliance with certain financial covenants under the general security agreements granted to Royalties LP to secure BPI's obligation to pay Royalty and Distribution. The Fund revised the covenant and waived historical non-compliance under such general security agreements.

The deferred Royalty and Distribution to the Fund bear interest at an annual rate equal to the prime rate for commercial loans offered by the Fund's bank plus 2% and are due and repayable in equal monthly instalments (of blended principal and interest) over 15 months commencing September 2020. At December 31, 2020, the deferred amount outstanding was \$4.1 million. BPI resumed payments to the Fund in July 2020 in respect of Royalty and Distribution from and after June 1, 2020.

In June 2020, Royalties LP drew down the Credit Facilities, (defined in *note 7*) by \$0.8 million and the Fund repaid BPI the Deferred Amount (defined in *note 14*). In exchange for the early repayment of the Deferred Amount, BPI and the Fund agreed to limit the annual amount of expenses for which BPI is entitled to be reimbursed to not more than \$0.4 million for 2020, 2021 and 2022, with such limit increasing by not more than the percentage change in the Canadian Consumer Price Index (as calculated by Statistics Canada) in the calendar year prior thereafter.

As at December 31, 2020, the Fund has cash and cash equivalents of \$7.7 million, positive working capital of \$2.4 million and an undrawn credit facility of \$2.0 million available for use. On June 22, 2020, the Fund reached agreements with its bank (the "**Bank**") and other stakeholders to address the financial challenges caused by the COVID-19 pandemic. The Bank and the Fund amended the Credit Agreement (defined in *note 7*) by a First Supplemental Credit Agreement

**1. General Information (continued):**

(b) Nature of operations (continued):

to have a revised maturity date of December 31, 2022 from January 25, 2025, to convert the committed revolving credit facilities to non-revolving term loans with scheduled quarterly principal repayment commencing December 31, 2020 and to revise interest rates. As a condition to agreeing to the recovery plan, the Bank required that the Fund not pay distributions to unitholders before October 1, 2020. Under the terms of the Credit Agreement, Royalties LP and Holdings LP would not have been in compliance with all of their financial covenants and financial condition tests as at May 31, 2020. Pursuant to the Fund's Credit Agreement dated January 24, 2020 that was amended on June 22, 2020, the Bank has waived all historical non-compliance of financial covenants. Certain financial covenants have been replaced in the amended agreement. The Fund was in compliance with all financial covenants as at December 31, 2020.

The Fund anticipates that it will have sufficient liquidity to fund its operations and debt service payments for the foreseeable future. However, to preserve cash, the Fund announced on March 23, 2020 the temporary suspension of monthly distributions on units of the Fund ("**Fund Units**") until further notice, commencing with the March 2020 distribution that ordinarily would have been payable in April 2020. On October 1, 2020, the Trustees of the Fund approved the recommencement of monthly distributions of \$0.065 per Fund Unit. Monthly distributions recommenced with the September 2020 distribution which was paid to Unitholders on October 30, 2020. On December 16, 2020, the Trustee of the Fund declared a special one-time distribution of \$0.20 per Fund Unit (the "**Special Distribution**") which was paid to Unitholders on January 29, 2021.

**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 of the Fund on February 9, 2021.

(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.

2. Basis of preparation (continued):

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

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 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.

*Estimates*

- Intangible Assets – the BP Rights (*note 6*)

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 calculation is dependent on a number of different variables including the estimated sales of the new Boston Pizza Restaurants for the calendar year in which they are rolled into the Royalty Pool and the tax rate. The value assigned to the new Boston Pizza Restaurants, and as a result, the value assigned to the BP Rights, could differ from actual results.

The impairment test requires that the Fund use a valuation technique to determine if impairment exists (refer to *note 3 (j)*). The valuation of the intangibles is based on a value in use approach, and depends on certain significant assumptions including projected Franchise Sales by restaurants that are in the Royalty Pool and the pre-tax discount rate. This valuation technique may not represent the actual recoverable amount that the Fund expects the BP Rights to generate. The Fund concluded that the recoverable amount exceeds the carrying amount of the BP Rights therefore, no impairment was recorded for the year ended during December 31, 2020.

2. Basis of preparation (continued):

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

- Investment in Boston Pizza Canada Limited Partnership Fair Value Adjustment (*note 5*)

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 9*).

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 8*)

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 9*).

This valuation technique may not represent the actual value of the financial liability should such units be extinguished and changes in the distribution rate on the Class B Units and the yield of the Fund 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 consolidated statement of comprehensive income.

**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 Boston Pizza GP Inc. (“**BPGP**”) and its interest in Boston Pizza Royalties Limited Partnership (“**Royalties LP**”). BPGP is the managing general partner of Royalties LP. The 20% residual ownership of BPGP is owned by BPI directly or indirectly. 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, Distribution, and interest income are recognized on the accrual basis and is accrued for when earned. Royalty from BPI to the Fund are 4%, and Distribution from BPI to the Fund are 1.5% less the pro rata portion payable to BPI in respect of its retained interest in the Fund, of Franchise Sales for such period reported by BPI for Boston Pizza Restaurants in the Royalty Pool. Refer to *note 1(b)* for further information.

(e) Distributions on Fund Units:

Declarations of distributions from the Fund are at the discretion of the Trustees of the Fund. 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 its Class B Units, interest paid on long-term debt, contractually required debt repayments, 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 8*) and Class 2 general partnership units of BP Canada LP (“**Class 2 GP Units**”) (*note 5*) outstanding during the period.

Diluted earnings per Fund Unit includes the Class B Units and Class 2 GP Units 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.

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

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

For the year ended December 31, 2020, the basic and diluted earnings per Fund Unit is \$0.44 and \$0.17 respectively, with the dilution a result of changes in the Class B Unit Liability. For December 31, 2019, the basic and diluted earnings per Fund Unit were \$1.03 and \$0.88, respectively.

The following reconciles the basic earnings to the diluted earnings:

(in thousands, except per Fund Unit data)	2020	2019
Net income for the period	\$ 9,570	\$ 22,503
Increase in Distribution income to the Fund	1,084	1,688
Decrease in interest expense on Class B Unit Liability	2,085	4,133
Fair value gain on Class B Unit Liability	(6,382)	(4,120)
Increase in Fund’s current and deferred income taxes	(2,206)	(2,295)
<b>Fund’s diluted earnings</b>	<b>4,151</b>	<b>21,909</b>
<b>Weighted average fully diluted Fund Units outstanding</b>	<b>24,827,368</b>	<b>25,011,637</b>
<b>Diluted earnings per Fund Unit</b>	<b>\$ 0.17</b>	<b>\$ 0.88</b>
	(Dilutive)	(Dilutive)

(g) Financial instruments:

(i) Recognition, classification and measurement:

Financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows.

All financial assets are initially recorded at fair value and subsequently classified as measured at amortized cost, fair value through other comprehensive income (“**FVOCI**”), or fair value through profit and loss (“**FVTPL**”).

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as FVTPL:

- the asset is held within a business model whose objective is to hold the asset to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt security is measured at FVOCI only if it meets both of the following conditions and is not designated as FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

(g) Financial instruments (continued):

On initial recognition of an equity instrument that is not held for trading, the Fund may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis. All other financial assets are classified as measured at FVTPL.

All financial liabilities are initially recorded at fair value and subsequently classified as measured at amortized cost or FVTPL. On initial recognition, the Fund may irrevocably designate a financial liability at FVTPL when doing so results in more relevant information, because either:

- the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases; or
- a group of financial liabilities or financial assets and financial liabilities is managed with its performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to key management personnel.

For financial assets classified as measured at FVTPL or designated at FVTPL, changes in fair value are recognized in the consolidated statement of comprehensive income. For financial assets classified as measured at FVOCI or an irrevocable election has been made, changes in fair value are recognized in the consolidated statement of comprehensive loss. For financial assets and other financial liabilities measured at amortized cost, interest income and interest expense are calculated using the effective interest method and is recognized in the consolidated statement of income.

(ii) Business model assessment:

The Fund makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the asset is managed and information is provided to management. The information considered includes:

- how the performance of the portfolio is evaluated and reported to management;
- how managers of the business are compensated;
- whether the assets are held for trading purposes;
- the risks that affect the performance of the financial assets held within the business model and how those risks are managed; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sale activity.

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

(g) Financial instruments (continued):

(iii) Contractual cash flow characteristics assessment:

In assessing whether the contractual cash flows are solely payments of principal and interest, 'principal' is defined as the fair value of the financial asset on initial recognition and 'interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

The Fund considers the contractual terms of the financial asset and whether the asset contains contractual terms that could change the timing or amount of cash flows such that it would not meet the condition of principal and interest. Contractual terms considered in this assessment include contingent events that would change the amount and timing of cash flows, leverage features, prepayment and extension terms, terms that limit the claim to cash flows from specified assets, and features that modify the consideration from time value of money.

(h) Impairment of financial assets:

*Credit-impaired financial assets*

At each reporting date, the Fund assesses whether financial assets carried at amortized cost are credit impaired. A financial asset is 'credit impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Fund on terms that the Fund would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amounts of the assets.

*Financial instruments and contract assets*

The Fund recognizes loss allowances for expected credit losses ("ECL") on:

- financial assets measured at amortized cost;
- debt investments measured at fair value through other comprehensive income; and
- contracted assets.

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

(h) Impairment of financial assets (continued):

The Fund measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which the credit risk has not increased significantly since initial recognition.

Loss allowances for trade receivables are measured at an amount equal to lifetime ECLs. Lifetime ECLs are the ECL that result from all possible default events over the expected life of a financial instrument. ECLs are probability-weighted estimate of credit losses, and credit losses are measured as the present value of cash shortfalls from a financial asset.

The Fund determines whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating lifetime ECLs, by considering reasonably available quantitative and qualitative information based on the Fund's credit risk experience, forward looking information, and other reasonable estimates.

(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 also subject to an annual impairment test (*note 6*). 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, 2020 and determined no impairment exists (*note 6*).

(j) Identifiable long-lived assets:

Long-lived assets consist of the BP Rights (*note 6*). The long-lived assets are indefinite life assets and are not amortized but tested for impairment on an annual basis and when indicators of impairment exist.

(k) Accounting standards and amendments issued and adopted:

*IAS 1, Presentation of Financial Statements and IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors*

The IASB issued amendments to IAS 1 – *Presentation of Financial Statements* and IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors*, Definition of Material and Amendments to References to the Conceptual Framework in IFRS Standards, effective January 1, 2020. These amendments do not have an impact on the Fund's consolidated financial statements.

**4. Income taxes:**

The Fund has recorded current income tax expense of \$6.1 million for the year ended December 31, 2020 (December 31, 2019 – \$8.6 million). The current income tax position (receivable or payable) is the cumulative result of the Fund's SIFT tax installments above the Fund's SIFT tax expense.

The reconciliation to statutory tax rate is as follows:

(in thousands, except tax rate)	2020	2019
Profit before income taxes	\$ 15,871	\$ 31,518
Combined Canadian federal and provincial rate	27.0%	27.0%
Computed expected tax expense	4,285	8,510
Current year's earnings not taxable	(1,831)	(2,572)
Current year's earnings that are taxable	3,431	3,077
Non-SIFT tax	416	-
Total tax expense per statement of income	\$ 6,301	\$ 9,015

The Fund has recorded a deferred income tax expense of \$0.2 million for the year ended December 31, 2020 (December 31, 2019 – \$0.4 million). The total balance of \$6.7 million in deferred income tax liability (December 31, 2019 – \$6.5 million) arises as a result of the Fund recognizing, in the current period, its cumulative share of the temporary differences between the accounting and tax bases of the BP Rights owned by the Royalties LP generated since the inception of the Fund. This expense had no impact on the Fund's cash flow for the period.

As at December 31, 2020, there is an unrecognized deductible temporary difference associated with the Fund's investments in BP Canada LP of \$31.5 million (2019 – \$20.6 million) as it is not probable that taxable profit will be available against which the deductible temporary difference can be utilized.

**5. Investment in Units of Boston Pizza Canada Limited Partnership:**

*Limited partnership units*

The investment in BP Canada LP is comprised of Class 1 LP Units and Class 2 LP Units. The Class 1 LP and Class 2 LP Units are held indirectly by the Fund and entitle the Fund to a cash distribution equal to 1.5% of Franchise Sales of Boston Pizza Restaurants in the Fund's Royalty Pool, less the pro rata portion payable to BPI in respect of its retained interest in the Fund. Refer to *note 9* for the fair value calculation of the investment in BP Canada LP.

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

(in thousands, except per unit data)	Issued and outstanding LP Units	Investment in BP Canada LP
<b>Class 1 LP Units</b>		
Class 1 LP Units at December 31, 2020 and 2019	1,000	\$ 33,314
<b>Class 2 LP Units</b>		
Class 2 LP Units at December 31, 2019	5,455,762	\$ 114,113
Fair value loss on Class 2 LP Units - cumulative		(40,678)
Balance at December 31, 2019	5,455,762	73,435
Fair value loss on Class 2 LP Units		(14,349)
Class 2 LP Units balance at December 31, 2020	5,455,762	\$ 59,086
Total LP Units balance at December 31, 2020		\$ 92,400

*General partnership units*

BPI receives its proportionate share of the 1.5% of franchise sales of Boston Pizza Restaurants in the Royalty Pool through distributions on Class 2 GP Units of BP Canada LP that are exchangeable for Fund Units. BPI continues to pay the Fund the balance of the Fund's interest in Franchise Sales of Royalty Pool restaurants ("**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 (refer to note 8). 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.

BPI has the right to receive Fund Units when it exercises its rights to exchange Class 2 GP Units into Fund Units. 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.

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

As at December 31, 2020, BPI's Class 2 GP Units were exchangeable for 828,753 Fund Units (December 31, 2019 – 803,520).

	Issued and outstanding Class 2 GP Additional Entitlements	Issued and outstanding Class 2 GP Additional Entitlements including Class 2 GP Holdback
Balance at December 31, 2018	716,287	736,608
Class 2 Additional Entitlements granted January 1, 2019 <sup>(1)</sup>	69,550	86,938
Adjustment to prior year Class 2 Additional Entitlements <sup>(2)</sup>	17,683	(2,638)
Balance at December 31, 2019	803,520	820,908
Class 2 Additional Entitlements granted January 1, 2020 <sup>(3)</sup>	9,742	12,177
Adjustment to prior year Class 2 Additional Entitlements <sup>(4)</sup>	15,491	(1,897)
Balance at December 31, 2020	828,753	831,188

<sup>(1)</sup> On January 1, 2019, ten new Boston Pizza Restaurants that opened during the period from January 1, 2018 to December 31, 2018 were added to the Royalty Pool while five restaurants that closed during 2018 were removed. The Franchise Sales from restaurants added to the Royalty Pool on January 1, 2019, net of closures, has been estimated at \$11.8 million.

<sup>(2)</sup> Adjusted for actual performance of eight net new Boston Pizza Restaurants added to the Royalty Pool on January 1, 2018 and the actual effective tax rate paid by the Fund in 2018.

<sup>(3)</sup> On January 1, 2020, five new Boston Pizza Restaurants opened during the period from January 1, 2019 to December 31, 2019 were added to the Royalty Pool while six restaurants that closed during 2019 were removed. The Franchise Sales from restaurants added to the Royalty pool on January 1, 2020, net of closures, has been estimated at \$1.6 million.

<sup>(4)</sup> Adjusted for actual performance of five net new Boston Pizza Restaurants added to the Royalty Pool on January 1, 2019 and the actual effective tax rate paid by the Fund in 2019.

**6. 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 8*), 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. 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.

**6. Intangible assets – BP Rights (continued):**

Each year on December 31, the Fund tests the carrying value of the BP Rights for impairment. Furthermore, on December 31, 2020, it was determined that indicators of impairment existed. Impairment exists if the carrying value of the BP Rights exceeds the recoverable amount. The recoverable amount is determined as the higher of its fair value less cost to sell or its value in use.

The Fund determined the recoverable amount of the BP Rights based on a value in use model. Management calculates the value in use by discounting the expected royalty payment to be received by the Fund based on projected franchise sales by restaurants that are in the Royalty Pool to their present value using a pre-tax discount rate that reflects current markets assessments of the time value of money and risks specific to the BP Rights. The pre-tax discount rate was determined to be 10.5%.

As at December 31, 2020, 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 by approximately \$41 million. The Fund has determined that no impairment exists.

The Fund performed a sensitivity analysis on the significant assumptions in the value in use calculation, which are the projected franchise sales by restaurants in the Royalty Pool and the pre-tax discount rate. If actual franchise sales were 12% lower or the pre-tax discount rate was 1.5% higher, the recoverable amount would approximate carrying value.

(in thousands)	
Balance – December 31, 2018	\$ 280,271
Class B Additional Entitlements granted January 1, 2019 <sup>(1)</sup>	3,705
Adjustment to prior year Class B Additional Entitlements <sup>(2)</sup>	(153)
Balance – December 31, 2019	283,823
Class B Additional Entitlements granted January 1, 2020 <sup>(3)</sup>	440
Adjustment to prior year Class B Additional Entitlements <sup>(4)</sup>	(81)
Balance – December 31, 2020	\$ 284,182

<sup>(1)</sup> On January 1, 2019, ten new Boston Pizza Restaurants that opened during the period from January 1, 2018 to December 31, 2018 were added to the Royalty Pool while five restaurants that closed during 2018 were removed.

<sup>(2)</sup> Adjusted for actual performance of new Boston Pizza Restaurants added to the Royalty Pool on January 1, 2018 and the actual effective tax rate paid by the Fund in 2018.

<sup>(3)</sup> On January 1, 2020, five new Boston Pizza Restaurants opened during the period from January 1, 2019 to December 31, 2019 were added to the Royalty Pool while six restaurants that closed during 2019 were removed.

<sup>(4)</sup> Adjusted for actual performance of new restaurants that were added to the Royalty Pool in 2019 and actual effective tax rate for 2019.

**7. Credit facilities:**

The following table summarizes the Fund's long-term debt and its fixed and variable rate swap terms as of December 31, 2020 under Facility B and Facility D (both defined below) of the credit agreement that expires on December 31, 2022.

(in thousands)	December 31, 2020	December 31, 2019
<b>Credit facility managed by interest rate swaps:</b>		
Facility D bearing interest at 0.87% plus between 2.00% and 3.00% per annum, with a swap maturity date of March 1, 2021 ( <i>note 7(d)(ii)</i> )	\$ 16,314	\$ 16,314
Facility B bearing interest at 1.51% plus between 2.00% and 3.00% per annum, with a swap maturity date of February 1, 2022	13,900	13,900
Facility B bearing interest at 2.40% plus between 2.00% and 3.00% per annum, with a swap maturity date of January 1, 2023	15,000	15,000
Facility B bearing interest at 2.27% plus between 2.00% and 3.00% per annum, with a swap maturity date of April 1, 2024	15,000	15,000
Facility D bearing interest at 1.02% plus between 2.00% and 3.00% per annum, with a swap maturity date of August 14, 2025 ( <i>note 7(d)(i)</i> )	17,000	17,000
<b>Credit Facility at variable interest rates:</b>		
Facility B bearing interest at short-term Canadian dollar offered loan rates (0.47% plus 2.50% per annum at December 31, 2020 and 1.97% plus 1.50% per annum at December 31, 2019), with a maturity date of December 31, 2022	14,710	11,100
<b>Deferred financing fees</b>	(348)	-
	\$ 91,576	\$ 88,314
Current portion of long-term debt	3,787	88,314
Current portion of deferred financing fees	(174)	-
	\$ 87,963	\$ -

As at December 31, 2019, Holdings LP and Royalties LP had credit facilities with the Bank in the amount of up to \$90.3 million (the "**Original Credit Facilities**"). On January 24, 2020, Holdings LP and Royalties LP entered into an amended and restated credit agreement (the "**Credit Agreement**") with the Bank pursuant to which the Original Credit Facilities were amended and extended (the Original Credit Facilities, as amended and extended, the "**Credit Facilities**"). On June 22, 2020, the Fund and the Bank further amended the Credit Agreement by a First Supplemental Credit Agreement (Credit Agreement as amended, the "**First Supplemental Credit Agreement**") as part of the Pandemic Recovery Plan (*note 1(b)*) pursuant to which the Credit Facilities were further amended.



7. Credit facilities (continued):

(a) Original Credit Facilities

The Original 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 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 Original Credit Facilities had a maturity date of May 5, 2020 and bore 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.

(b) Credit Agreement

The Credit Agreement extended the maturity date of the Credit Facilities from May 5, 2020 to January 24, 2025 and the terms of the facilities were amended as follows:

- (i) the total amount of credit available was increased by \$6.7 million, from \$90.3 million to \$97.0 million, by increasing the size of Facility B from \$55.0 million to \$61.7 million. Facility B is used 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;
- (ii) the permitted uses of Facility B were expanded to include the repayment of the Deferred Amount;
- (iii) the availment options for Facility B and Facility D, which purpose was to subscribe for Class 1 LP Units, were changed to include, among others, availment by way of (i) Canadian dollar prime rate loans, (ii) bankers' acceptances for one month or three months, and (iii) Canadian dollar offered rate loans with terms of one month or three months, with fixed rate operating loans being eliminated as an availment option;
- (iv) for Canadian prime rate loans, the interest rate is reduced to the Bank's prime rate plus between 0.00% and 0.40% (formerly between 0.00% and 0.50%). In the case of bankers' acceptances and Canadian dollar offered rate loans, the interest rate is equal to a variable interest rate based on the Bank's bankers' acceptance rates or Canadian dollar offered rates plus between 0.90% and 1.40% (formerly between 1.00% and 1.50%). The applicable margin is dependent on the total funded net debt to EBITDA ratio.

7. Credit facilities (continued):

(c) First Supplemental Credit Agreement

The First Supplemental Credit Agreement amended the Credit Agreement as follows:

- (i) revised the maturity date from the previous maturity date of January 24, 2025 to December 31, 2022;
- (ii) increased the interest rates (or margins, as applicable) by between 0.75% and 1.60% per annum. For Canadian prime rate loans, the interest rate is the Bank's prime rate plus between 0.75% and 1.75% (formerly 0.00% and 0.40%). In the case of bankers' acceptances and Canadian dollar offered rate loans, the interest rate is equal to a variable interest rate based on the Bank's bankers' acceptance rates or Canadian dollar offered rates plus between 2.00% and 3.00% (formerly 0.90% and 1.40%). The applicable margin is dependent on the total funded net debt to EBITDA ratio;
- (iii) converted Facility B and Facility D from being committed revolving credit facilities to non-revolving term loans. Quarterly principal repayments will be required on Facility B commencing in December 2020 to reduce the leverage level of the Fund over time as follows: \$0.7 million in the fourth quarter of 2020; \$1.0 million in each of the first three quarters of 2021; \$0.7 million in the fourth quarter of 2021; and \$0.5 million in each subsequent quarter for the balance of the term. Facility D will continue to require interest-only payments; and
- (iv) replaced various financial covenants with a new financial covenant that requires the Fund's total funded net debt to EBITDA ratio to not exceed 3.25:1 on closing, increasing immediately to not exceed 3.75:1 after closing, further increasing to not exceed 4.25:1 on October 1, 2020, reducing to not exceed 3.50:1 on April 1, 2021 and reducing further to not exceed 3.00:1 on and after July 1, 2021.

The Credit Facilities are guaranteed by the Fund, the Trust, Boston Pizza Holdings GP Inc., 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. The principal balance becomes due upon the expiry of the Credit Agreement on December 31, 2022.

During the year ended December 31, 2020, the Credit Facilities were drawn and repaid as follows:

- (i) The Fund acquired 266,300 Fund Units (December 31, 2019 – nil) under the normal course issuer bid at an average price of \$12.98 per unit for a total of \$3.5 million (December 31, 2019 – nil) and financed such purchases by drawing on Facility B.
- (ii) The Fund repaid BPI the Deferred Amount of \$0.8 million (December 31, 2019 – nil) and financed this repayment by drawing on Facility B.
- (iii) The Fund made a principal repayment of \$0.7 million (December 31, 2019 – nil) on Facility B in accordance with the terms of the First Supplemental Credit Agreement.

**7. Credit facilities (continued):**

As of December 31, 2020, no amount was drawn on Facility A, \$58.6 million was drawn on Facility B and \$33.3 million was drawn on Facility D.

Royalties LP and Holdings LP were in compliance with all of their financial covenants and financial condition tests as of December 31, 2020.

*(d) Other*

Certain interest rate swap agreements were expired and the Fund entered into new agreements as follows:

- (i) On August 1, 2020, the \$17.0 million interest rate swap on Facility D matured and was converted to debt bearing interest at variable interest rates plus the applicable margin of 2.50% per annum. On August 13, 2020, the Fund entered into a new agreement commencing August 14, 2020 to swap \$17.0 million (of its then \$32.4 million variable interest rate debt) at a five year fixed rate term of 1.02% based on the Bank's bankers' acceptance rates plus the applicable margin.
- (ii) On August 13, 2020, the Fund entered into a new agreement to forward swap \$15.0 million on Facility D. The swap will come into effect March 1, 2021 at a five-year fixed rate term of 1.09% based on the Bank's bankers' acceptance rates plus the applicable margin. This will partially replace the \$16.3 million interest rate swap on Facility D that will expire on March 1, 2021.
- (iii) On March 6, 2019, the Fund entered into a new agreement commencing April 1, 2019 to swap \$15.0 million (of its then \$26.1 million variable interest rate debt) at a five year fixed rate term of 2.27% based on the Bank's bankers' acceptance rates plus the applicable margin.

The Fund recorded a financial derivative liability based on the fair value of the interest rate swaps at December 31, 2020 of \$2.0 million (December 31, 2019 – asset of \$0.1 million) in accordance with accounting for derivatives under IFRS. The Fund intends to hold the outstanding interest rate swaps to maturity.

**8. Royalties LP unit liabilities:**

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 recorded at fair value. The determination of the fair value of the Class B Unit Liability is described in *note 9*.

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

**8. Royalties LP unit liabilities (continued):**

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.

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, 2020, the Fund would issue the equivalent number of Fund Units and the Class B Unit Liability would be extinguished.

The following chart summarizes the Class B Additional Entitlements and Class B Unit Liability:

	Issued and outstanding Additional Entitlements	Issued and outstanding Additional Entitlements including Holdback	Class B Unit Liability
Balance at December 31, 2018	2,123,977	2,178,166	\$ 32,912
Class B Additional Entitlements granted January 1, 2019 <sup>(1)</sup>	185,469	231,836	3,705
Adjustment to prior year Class B Additional Entitlements <sup>(2)</sup>	47,153	(7,036)	(153)
Fair value gain	-	-	(4,120)
Balance at December 31, 2019	2,356,599	2,402,966	\$ 32,344
Class B Additional Entitlements granted January 1, 2020 <sup>(3)</sup>	25,978	32,473	440
Adjustment to prior year Class B Additional Entitlements <sup>(4)</sup>	41,309	(5,058)	(81)
Fair value gain	-	-	(6,382)
Balance at December 31, 2020	2,423,886	2,430,381	\$ 26,321

<sup>(1)</sup> On January 1, 2019, ten new Boston Pizza Restaurants that opened during the period from January 1, 2018 to December 31, 2018 were added to the Royalty Pool while five restaurants that closed during 2018 were removed. The Franchise Sales from restaurants added to the Royalty Pool on January 1, 2019, net of closures, has been estimated at \$11.8 million.

<sup>(2)</sup> Adjusted for actual performance of eight net new Boston Pizza Restaurants added to the Royalty Pool on January 1, 2018 and the actual effective tax rate paid by the Fund in 2018.

<sup>(3)</sup> On January 1, 2020, five new Boston Pizza Restaurants opened during the period from January 1, 2019 to December 31, 2019 were added to the Royalty Pool while six restaurants that closed during 2019 were removed. The Franchise Sales from restaurants added to the Royalty pool on January 1, 2020, net of closures, has been estimated at \$1.6 million.

<sup>(4)</sup> Adjusted for actual performance of five net new Boston Pizza Restaurants added to the Royalty Pool on January 1, 2019 and the actual effective tax rate paid by the Fund in 2019.

**9. Financial Instruments**

*Financial Assets and Liabilities by Categories and Fair Value Information*

The following table shows the carrying values of assets and liabilities for each financial instrument category (*note 3(g)*) at December 31, 2020 and December 31, 2019. Unless otherwise noted, the fair values on the instruments approximate their carrying amount. 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.

		December 31, 2020	December 31, 2019
<b>Fair value through profit and loss</b>			
Class 1 Limited Partnership Units of BP Canada LP <sup>(i)</sup>	Level 2	\$ 33,314	\$ 33,314
Class 2 Limited Partnership Units of BP Canada LP <sup>(ii)</sup>	Level 2	59,086	73,435
Fair value of interest rate swaps <sup>(iii)</sup>	Level 2	(1,974)	90
Class B Unit Liability <sup>(iv)</sup>	Level 2	(26,321)	(32,344)
<b>Amortized cost</b>			
Cash and cash equivalents		\$ 7,700	\$ 1,753
Royalty receivable from BPI		4,870	2,989
Distributions receivable from BP Canada LP		1,543	940
Accounts payable and accrued liabilities		(522)	(522)
Distributions payable to Fund unitholders		(5,703)	(2,506)
Interest payable on Class B Units		(911)	(337)
Other liabilities		-	(800)
Credit facilities		(91,576)	(88,314)

- (i) The Class 1 LP Units are entitled to distributions determined with respect to the interest cost incurred on Facility D (*note 7*). The fair value of the Class 1 LP Units is estimated using a market-corroborated input (interest rate on the credit facility).
- (ii) The Class 2 LP Units have similar cash distribution entitlements and provisions to the Class 2 GP Units held by BPI, which are exchangeable for an equivalent number of Fund Units. The fair value of the Class 2 LP Units is determined by multiplying the issued and outstanding Class 2

**9. Financial Instruments (continued)**

LP Units indirectly held by the Fund at the end of the period by the closing price of a Fund Unit on the last business day of the period. As at December 31, 2020, the closing price of a Fund Unit was \$10.83 (December 31, 2019 – \$13.46) while the number of issued and outstanding Class 2 LP Units held by the Fund was 5,455,762 (December 31, 2019 – 5,455,762) resulting in a Class 2 LP Units fair value of \$59.1 million (December 31, 2019 - \$73.4 million). The fair value loss of the investment in BP Canada LP for the year ending December 31, 2020 was \$14.3 million (December 31, 2019 - \$9.0 million).

- (iii) The Credit Facilities are carried at amortized cost. Royalties LP and Holdings LP use interest rate swaps to manage risks from fluctuations in interest rates on \$77.2 million (December 31, 2019 – \$77.2 million) of this balance, and any changes in the fair value of the interest rate swaps are recorded in the consolidated statement of comprehensive income in the period in which they arise. Without factoring in the interest rate swaps, the fair value of the \$77.2 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, before deferred financing fees, is \$14.7 million (December 31, 2019 – \$11.1 million) since the debt has variable interest rates at terms that the Fund believes are reflective of currently available terms. The Credit Facilities are presented net of deferred financing fees which were \$0.3 million at December 31, 2020 (December 31, 2019 – nil).
- (iv) The Class B Units are exchangeable for an equivalent number of Fund Units, and therefore the fair value of a Class B unit is estimated to be equivalent to that of a Fund unit. The Fund estimates the fair value of the Class B Units Liability 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 the Fund Units on the last business day of the period. As at December 31, 2020, the closing price of a Fund Unit was \$10.83 (December 31, 2019 – \$13.46) 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 2,430,381 (December 31, 2019 – 2,402,966) resulting in a Class B Unit Liability fair value of \$26.3 million (December 31, 2019 – \$32.3 million). For the year ended December 31, 2020, the decrease of \$6.0 million is comprised of \$6.4 million in fair value gain offset by \$0.4 million in Additional Entitlements. This valuation technique may not represent the actual value of the financial asset should such Class B Units be exchanged.

*Financial Instruments and Related Risks*

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 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.

**9. Financial Instruments (continued)**

The performance of the Fund is directly dependent upon the Royalty 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 or Distribution due to the Fund.

The Fund has reviewed its Royalty receivable from BPI and Distribution receivable from BP Canada LP. Based on the BPI cash balance and working capital requirements, the Fund has determined that the collection risk on the Royalty receivable and Distribution receivable is minimal and no indicators of impairment exist. As at December 31, 2020, the Fund had no provision for credit risk recorded in its financial statements (December 31, 2019 – 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 (refer to *note 1(b)* for further details on the suspension of distributions and the Special Distribution). The Fund's capital resources are comprised of its cash and cash equivalents, Royalty receivable from BPI, Distribution receivable from BP Canada LP and its undrawn Facility A (*note 7*).

(in thousands)	December 31, 2020
Cash and cash equivalents	7,700
Royalty receivable from Boston Pizza International Inc.	4,870
Distribution receivable from Boston Pizza Canada Limited Partnership	1,543
Undrawn Facility A	2,000
	16,113

The Fund's obligations under the Credit Facilities, as detailed in *note 7*, are secured by a first charge over the assets of the Fund, mature at dates specified in *note 7* and have scheduled repayment terms according to dates specified in *note 7*.

The Fund is subject to certain guarantor covenants and reporting requirements arising from the Credit Facilities that are further described in *note 10*.

**9. Financial Instruments (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	522	< 1 year
Distributions payable to Fund unitholders	5,703	< 1 year
Interest payable on Class B Units	911	< 1 year
Credit Facilities	3,613	< 1 year
Credit Facilities ( <i>note 7 (c)</i> )	87,963	> 1 year

*Interest rate risk*

The Fund's exposure to interest rate risk is mainly through the Credit Facilities. The Fund has entered into interest rate swaps under the International Swap Dealers Association Master Agreements to manage interest rate risk on \$77.2 million of its Credit Facilities and these interest rate swaps are detailed in *note 7*. Therefore, the Fund's interest rate risk is mainly related to its \$14.7 million floating rate debt. A 1.0% change in short-term interest rates would result in a minimal change in interest expense based on the Fund's floating rate debt at December 31, 2020.

**10. 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. The Fund amended their debt structure during the year (refer to *note 7*). 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 and has adjusted the amount of distributions paid to Fund unitholders during the year ended December 31, 2020 (see *note 1(b)*), 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 historically eliminated the impact of seasonal fluctuations by equalizing monthly distributions. The suspension of distributions for March 2020 through August 2020 (monthly distributions recommenced with the September 2020 distribution which was paid to Unitholders on October 30, 2020) and the declaration of the Special Distribution in December 2020 is a departure from this approach and is specific to dealing with the challenges presented in 2020 by the ongoing COVID-19 pandemic.

**10. Capital Disclosures (continued):**

The Fund had debt, net of deferred financing fees, of \$91.6 million at December 31, 2020 (December 31, 2019 – \$88.3 million). In addition, the Fund’s banking covenant requires the Fund’s total funded net debt to EBITDA ratio to not exceed 3.25:1 on closing of the First Supplemental Credit Agreement (defined in *note 7*), increasing immediately to not exceed 3.75:1 after closing of the First Supplemental Credit Agreement, further increasing to not exceed 4.25:1 on October 1, 2020, reducing to not exceed 3.50:1 on June 30, 2021 and reducing further to not exceed 3.00:1 on and after September 30, 2021. The Fund is in compliance with its covenants as at December 31, 2020.

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 5, 8 and 11*.

**11. 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:

(in thousands, except unit data)	Number of Fund Units	Fund Units as equity
Opening balance at January 1, 2020 and 2019	21,787,763	\$ 328,504
Acquisition of Fund Units	(266,300)	(3,456)
Balance at December 31, 2020	21,521,463	\$ 325,048

As at December 31, 2020, the Class B Units held by BPI were exchangeable into 2,423,886 Fund Units and the Class 2 GP Units held by BPI were exchangeable into 828,753 Fund Units, for a total of 13.1% of the issued and outstanding Fund Units on a fully diluted basis.

**11. Fund Units (continued):**

(c) Distributions declared to and paid to Fund unitholders were as follows:

(in thousands, except per unit data)	Declared		Paid	
	2020	2019	2020	2019
Monthly Distributions	\$ 10,013	\$ 30,067	\$ 11,120	30,067
Special Distribution	4,304	-	-	-
<b>Total Distributions</b>	<b>\$ 14,317</b>	<b>\$ 30,067</b>	<b>\$ 11,120</b>	<b>30,067</b>
Monthly Distributions per Fund Unit	\$ 0.46	\$ 1.38	\$ 0.52	1.38
Special Distribution per Fund Unit	0.20	-	-	-
<b>Total Distributions per Fund Unit</b>	<b>\$ 0.66</b>	<b>\$ 1.38</b>	<b>\$ 0.52</b>	<b>1.38</b>

(d) On February 13, 2020, 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 February 19, 2020 to February 18, 2021 (the “**NCIB**”). The NCIB permits the Fund to repurchase for cancellation up to 550,000 Fund Units. Due to the volatility in the trading price, the automatic securities purchase plan (the “**ASPP**”) in place was automatically suspended by its terms on March 12, 2020 and will remain suspended until the Fund reinstates the ASPP in accordance with its terms. During the year ended December 31, 2020, the Fund acquired 266,300 Fund Units (December 31, 2019 – nil) under the NCIB at an average price of \$12.98 per Fund Unit for a total of \$3.5 million (December 31, 2019 – nil).

**12. Accumulated deficit:**

The Fund’s accumulated deficit includes fair value adjustments and deferred income tax expense, which are non-cash items. Excluding the cumulative effect of fair value adjustments and deferred income tax expense, the Fund would have a surplus of \$5.8 million at December 31, 2020 (\$0.4 million at December 31, 2019).

**13. Operations:**

(in thousands, except number of Restaurants in the Royalty Pool)	2020	2019
Restaurants in the Royalty Pool	395	396
Franchise Sales reported by Restaurants in the Royalty Pool	\$ 613,199	\$ 853,728
Royalty income – 4% of Franchise Sales	24,528	34,149
Distribution income – 1.5% of Franchise Sales (less BPI retained interest)	8,114	11,246

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. It is unknown how and to what extent seasonality will affect franchise sales given the effects of COVID-19 on Boston Pizza Restaurants.

**14. Other liabilities:**

The Fund and BPI had agreed that for 2019 and 2018, BPI would charge the Fund \$0.4 million of annual out-of-pocket expenses for which it is entitled to be reimbursed but the Fund would defer payment of the such amount to BPI (totaling \$0.8 million, the “Deferred Amount”). The Deferred Amount would not bear interest and would become payable to BPI when the Fund’s cash and cash equivalents were greater than 7% of Royalty and Distribution income.

As part of the Pandemic Recovery Plan, in June 2020, Royalties LP drew down the Credit Facilities, by \$0.8 million and the Fund repaid BPI the Deferred Amount. In exchange for the early repayment of the Deferred Amount, BPI and the Fund agreed to limit the annual amount of out-of-pocket expenses for which BPI is entitled to be reimbursed to not more than \$0.4 million for 2020, 2021 and 2022, with such limit increasing by not more than the percentage change in the Canadian Consumer Price Index (as calculated by Statistics Canada) in the calendar year prior thereafter.

**15. 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 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. The total amount charged from BPI in respect of these out-of-pocket expenses for the year ended December 31, 2020 was \$0.4 million (December 31, 2019 – \$0.4 million). The total amount payable to BPI in respect of these services for the year ended December 31, 2020 was nominal (December 31, 2019 – \$0.8 million). Refer to *note 14* for further details.

As at December 31, 2020, interest payable to BPI on Class B Units was \$0.9 million (December 31, 2019 – \$0.3 million), Royalty receivable from BPI was \$4.9 million (December 31, 2019 – \$3.0 million), and Distribution receivable from BP Canada LP was \$1.5 million (December 31, 2019 – \$0.9 million). Refer to *note 1(b)* for further details on distributions declared and deferred Royalty and Distribution payments.

**16. 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)	2020	2019
Remuneration paid to Trustees	\$ 252	\$ 226

**17. Supplemental cash flow information:**

(a) Non-cash transactions

(in thousands)	2020	2019
Amortization of deferred financing fees	\$ 137	\$ -
Roll-in of new stores – January 1, net	359	3,552

**17. Supplemental cash flow information (continued):**

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

(in thousands)	2020	2019
Change in:		
Royalty receivable from BPI	\$ (1,881)	\$ 37
Distribution receivable from BP Canada LP	(603)	25
Prepaid expenses	(60)	(4)
Accounts payable and accrued liabilities	-	13
Adjusted for:		
Interest expense	(3,223)	(2,830)
Interest paid on long-term debt	3,157	2,821
Changes in non-cash working capital	\$ (2,610)	\$ 62

**18. Subsequent events:**

(a) On January 1, 2021, two new Boston Pizza Restaurants that opened across Canada between January 1, 2020 and December 31, 2020 were added to the Royalty Pool and the eleven restaurants that permanently closed during 2020 were removed from the Royalty Pool. In addition, one seasonal Boston Pizza Restaurant that was believed to have permanently closed in 2019, and accordingly was removed from the Royalty Pool on January 1, 2020, re-opened in 2020. The Fund and BPI agreed to make adjustments to place the parties in the position they would have been had that seasonal Boston Pizza Restaurant not been removed from the Royalty Pool on January 1, 2020. Accordingly, the total number of restaurants in the Royalty Pool decreased to 387 from 395. The estimated net Franchise Sales from the two new Boston Pizza Restaurants less the eleven Boston Pizza Restaurants that permanently closed is negative \$15.2 million. This resulted in negative estimated Royalty and Distribution to the Fund of \$0.8 million (the “Deficiency”). As a result of the Deficiency, BPI did not receive any Additional Entitlements on January 1, 2021. However, BPI did not lose any of the Additional Entitlements it received in respect of previous years. Instead, BPI will be required to make-up the Deficiency on future Adjustment Dates by first adding Royalty and Distribution in an amount equal to the Deficiency before receiving any further Additional Entitlements.

(b) In the first quarter of 2021, adjustments to Royalty and Distribution payments and Class B Additional Entitlements and Class 2 Additional Entitlements were made based on the actual performance of five new Boston Pizza Restaurants that were added to the Royalty Pool on January 1, 2020 and the six restaurants that permanently closed and were removed from the Royalty Pool on January 1, 2020, the actual effective tax rate paid by the Fund in 2020 and the adjustment for the seasonal Boston Pizza Restaurant that re-opened in 2020. Based on these adjustments, BPI received 6,937 Class B Additional Entitlements and 2,601 Class 2 Additional Entitlements.

(c) On February 9, 2021, the Trustees of the Fund declared a distribution for January 2021 of \$0.065 per unit, which will be payable on February 26, 2021 to unitholders of record on February 21, 2021.

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**BOSTON PIZZA INTERNATIONAL INC**

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**BOSTON PIZZA INTERNATIONAL INC.**  
For the Period and Year ended December 31, 2020

**FINANCIAL HIGHLIGHTS**

The tables below set out selected information from the annual consolidated financial statements of Boston Pizza International Inc. ("BPI" and where applicable also includes its wholly-owned subsidiaries), and the accounts of Boston Pizza Canada Limited Partnership ("BP Canada LP"), together with other data, and should be read in conjunction with the annual consolidated financial statements of BPI for the years ended December 31, 2020 and December 31, 2019. The financial information reported in the tables included in this Management's Discussion and Analysis ("MD&A") are reported in accordance with International Financial Reporting Standards ("IFRS") except as otherwise noted and are stated in Canadian dollars. The financial results reported in the table below are reported with the adoption of IFRS 16, and as a result are not directly comparable to those figures contained within historical financial statements or MD&A of BPI that were prepared before the adoption of IFRS 16. Certain comparative figures have been reclassified to conform to the current year presentation.

<i>For the years ended December 31</i>	2020	2019	2018
(in thousands of dollars - except number of restaurants and per share items)			
System-Wide Gross Sales <sup>1</sup>	773,533	1,106,687	1,115,200
Number of Boston Pizza Restaurants <sup>2</sup>	387	395	396
Franchise Sales reported by Boston Pizza Restaurants <sup>3</sup>	615,094	859,038	859,485
<b>Income Statement Data</b>			
Total revenues	86,075	125,537	126,928
Royalty expense	(24,528)	(34,149)	(34,204)
Distribution expense	(8,114)	(11,246)	(11,407)
Operating expenses excluding Royalty expense and Distribution expense	(50,888)	(75,660)	(75,818)
Earnings before interest and fair value gain	2,545	4,482	5,499
Net interest (expense) income	(386)	1,482	1,538
Fair value gain	7,967	4,882	22,285
Earnings before income taxes	10,126	10,846	29,322
Current and deferred income tax (expense) recovery	(2,314)	(324)	347
Net and comprehensive income	7,812	10,522	28,975
Basic and diluted income per share	79.64	107.27	302.48
<b>Balance Sheet Data</b>	Dec 31, 2020	Dec 31, 2019	Dec 31, 2018
Total assets	147,829	147,564	140,279
Total liabilities	403,045	420,592	423,829

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**BOSTON PIZZA INTERNATIONAL INC.**  
For the Period and Year ended December 31, 2020

**SUMMARY OF QUARTERLY RESULTS**

	Q4 2020	Q3 2020	Q2 2020	Q1 2020
(in thousands of dollars - except number of restaurants and per share items)				
System-Wide Gross Sales <sup>1</sup>	181,723	237,208	129,845	224,757
Number of Boston Pizza Restaurants <sup>2</sup>	387	388	390	394
Franchise Sales reported by Boston Pizza Restaurants <sup>3</sup>	146,657	186,412	107,522	174,503
<b>Income Statement Data</b>				
Total revenues	21,522	24,499	14,703	25,351
Royalty expense	(5,862)	(7,417)	(4,286)	(6,963)
Distribution expense	(1,946)	(2,452)	(1,423)	(2,293)
Operating expenses excluding Royalty expense and Distribution expense	(11,873)	(12,906)	(8,188)	(17,921)
Earnings (loss) before interest and fair value (loss) gain	1,841	1,724	806	(1,826)
Net interest income (expense)	735	(700)	(513)	92
Fair value (loss) gain	(16,004)	7,109	(3,994)	20,856
(Loss) earnings before income taxes	(13,428)	8,133	(3,701)	19,122
Current and deferred income tax (expense) recovery	(7,272)	1,127	(1,225)	5,056
Net and comprehensive (loss) income	(20,700)	9,260	(4,926)	24,178
Basic and diluted (loss) income per share	(211.04)	94.41	(50.22)	246.50
	Q4 2019	Q3 2019	Q2 2019	Q1 2019
(in thousands of dollars - except number of restaurants and per share items)				
System-Wide Gross Sales <sup>1</sup>	276,509	283,570	281,310	265,298
Number of Boston Pizza Restaurants <sup>2</sup>	395	397	395	395
Franchise Sales reported by Boston Pizza Restaurants <sup>3</sup>	213,089	221,528	217,974	206,447
<b>Income Statement Data</b>				
Total revenues	31,397	31,792	32,305	30,043
Royalty expense	(8,447)	(8,769)	(8,675)	(8,258)
Distribution expense	(2,785)	(2,886)	(2,856)	(2,719)
Operating expenses excluding Royalty expense and Distribution expense	(17,778)	(17,726)	(21,093)	(19,063)
Earnings (loss) before interest and fair value gain (loss)	2,387	2,411	(319)	3
Net interest income	732	355	357	38
Fair value gain (loss)	11,570	488	(2,350)	(4,826)
Earnings (loss) before income taxes	14,689	3,254	(2,312)	(4,785)
Current and deferred income tax recovery (expense)	2,257	(722)	(540)	(1,319)
Net and comprehensive income (loss)	16,946	2,532	(2,852)	(6,104)
Basic and diluted income (loss) per share	172.76	25.81	(29.08)	(62.23)

1) "System-Wide Gross Sales" means the gross revenue: (i) of the corporate Boston Pizza Restaurants (defined below) in Canada owned by BPI; and (ii) reported to BP Canada LP 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 BP Canada LP approved national promotions and discounts, but excluding applicable sales and similar taxes.

2) As at the end of the applicable period.

3) "Franchise Sales" means the gross revenue: (i) of the corporate Boston Pizza Restaurants in Canada owned by BPI; and (ii) reported to BP Canada LP 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 BP Canada LP approved national promotions and discounts, and excluding applicable sales and similar taxes.



**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**BOSTON PIZZA INTERNATIONAL INC.**  
**For the Period and Year ended December 31, 2020**

**OVERVIEW**

This MD&A covers the three-month period from October 1, 2020 to December 31, 2020 (the "**Period**") and the twelve-month period from January 1, 2020 to December 31, 2020 (the "**Year**") and is dated February 9, 2021. 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 the accompanying notes. The annual consolidated financial statements of BPI are in Canadian dollars and have been prepared in accordance with IFRS except as otherwise noted.

**General**

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, Boston Pizza Royalties Income Fund (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 (defined below) 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 "**2015 Transaction**").

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 387 restaurants stretching from Victoria to St. John's, Boston Pizza has more restaurants and serves more customers annually than any other casual dining restaurant chain in Canada.

Royalty

BP Canada LP charges a 7.0% royalty fee on Franchise Sales for full-service Boston Pizza restaurants open in Canada and a 5.0% 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 4.0% 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**"<sup>4</sup>). As at December 31, 2020, there were 395 Boston Pizza Restaurants in the Royalty Pool.

Distributions from BP Canada LP

Boston Pizza Holdings Limited Partnership ("**Holdings LP**"), an entity controlled by the Fund, holds 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 holds, indirectly through Boston Pizza Canada Holdings Partnership ("**BPCHP**"), 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, 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 4 general partnership units, Class 5 general partnership units and Class 6 general partnership units of BP Canada LP that BPI holds.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**BOSTON PIZZA INTERNATIONAL INC.**  
**For the Period and Year ended December 31, 2020**

**Addition of New Restaurants to Royalty Pool**

On January 1 of each year (each, an "**Adjustment Date**"), an adjustment is made to add to the Royalty Pool new Boston Pizza Restaurants that opened ("**New Restaurants**") and to remove any Boston Pizza Restaurants that permanently closed since January 1 of the previous year ("**Closed Restaurants**"). In return for adding new Royalty and Distributions from the New Restaurants and after subtracting the Royalty and Distributions that are lost from the Closed Restaurants<sup>5</sup> (such difference, "**Net Royalty and Distributions**"), 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**", 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 Franchise Sales from the New Restaurants added to the Royalty Pool less the decrease in Franchise Sales from the Closed Restaurants is valued at a 7.5% discount. The Additional Entitlements are calculated at 92.5% of the estimated Royalty and Distributions expected to be generated by the New Restaurants less the actual Royalty and Distributions lost from the Closed 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 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. After the 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.

It is possible that on an Adjustment Date the Net Royalty and Distributions is negative as a result of the estimated Royalty and Distributions expected to be generated by the New Restaurants being less than the actual Royalty and Distributions that is lost from the Closed Restaurants (the amount by which it is less is the "**Deficiency**"). In such case, BPI would not receive any Additional Entitlements, however, nor would BPI lose any of the Additional Entitlements previously received by BPI. Rather, on future Adjustment Dates, BPI would be required to make-up the Deficiency by first adding Net Royalty and Distributions in an amount equal to the Deficiency before receiving any further Additional Entitlements (i.e. BPI only receives Additional Entitlements in respect of the cumulative amount by which Royalty and Distributions from New Restaurants exceeds actual Royalty and Distributions lost from Closed Restaurants).

**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.

- **Building the brand**
- **Continually improving the guest experience**
- **A commitment to Franchisee profitability**
- **On-going engagement in local 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

5) The Royalty and Distributions that are lost from the Closed Restaurants is calculated based upon the actual Franchise Sales received from the Closed Restaurants during the first 12-month period immediately following their addition to the Royalty Pool.

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pay 3.0% of Franchise Sales into the Co-op; 76.0% of these funds are used to purchase television, on-line and radio media advertising, and the remaining 24.0% 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 guests 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 strengthen Boston Pizza's position as Canada's number one casual dining brand.

**Early Effects of COVID-19 Pandemic on the Fund, BPI and BP Canada LP**

On March 11, 2020, the World Health Organization declared the new coronavirus disease ("**COVID-19**") outbreak a pandemic. The COVID-19 pandemic had sudden, unexpected and unprecedented impacts on the general economy, the restaurant industry and has specifically caused significant disruption to the business and revenues of the Fund, BPI and BP Canada LP. The following are the material impacts that the COVID-19 pandemic initially had on the business and revenues of the Fund, BPI and BP Canada LP:

1. On March 17, 2020, Boston Pizza temporarily closed all of their dining rooms and sports bars across Canada;
2. Between March 18, 2020 and May 4, 2020, approximately three-quarters of the 394 Boston Pizza Restaurants in Canada remained in partial operation providing only take-out and delivery services while approximately one-quarter of Boston Pizza Restaurants were temporarily closed completely, and System-Wide Gross Sales and Franchise Sales were approximately 25% of what they were prior to March 18, 2020;
3. After May 4, 2020, certain Boston Pizza Restaurants began re-opening their dining rooms and sports bars with 50% seating capacity and appropriate physical distancing measures as permitted by provincial and local health authorities;
4. BPI and BP Canada LP deferred the collection of royalties and advertising fees from its franchisees commencing with the amounts that were payable in April 2020 in respect of Franchise Sales generated in March 2020. BP Canada LP recommenced collecting royalty and advertising fees from its franchisees in respect of Franchise Sales occurring from and after June 1, 2020 and in September 2020 commenced collecting the royalty and advertising fees that were deferred in respect of Franchise Sales occurring between March 1, 2020 and May 31, 2020 over 15 months without interest;
5. BPI and BP Canada LP had delayed the payment of Royalty and Distributions to the Fund in respect of March, April and May 2020, and in September 2020 commenced repaying such delayed amounts over 15 months with interest at the annual rate equal to the prime rate for commercial loans offered by the Bank (defined below) plus 2%; and
6. On March 23, 2020, the trustees of the Fund temporarily suspended monthly distributions on Fund Units, commencing with the March 2020 distribution that ordinarily would have been payable on April 30, 2020 to Unitholders of record on April 21, 2020.

**Comprehensive COVID-19 Recovery Plan and Refinancing of the Fund's and BPI's Credit Facilities**

The foregoing effects of COVID-19 resulted in BPI and BP Canada LP not paying the Fund Royalty and Distributions during the second quarter of 2020 as required by the various agreements governing the same, BPI and BP Canada LP not being in compliance with certain financial covenants under the general security agreements granted to Royalties LP during the second quarter of 2020, and BPI not being in compliance with certain financial covenants under the credit agreement with its and the Fund's bank (the "**Bank**") during the second quarter of 2020. On June 22, 2020, the Fund and BPI announced that they reached agreements to holistically address their financial challenges caused by the COVID-19 pandemic including entry into a pandemic recovery plan among BPI and certain of its and the Fund's subsidiaries dated June 22, 2020 (the "**Pandemic Recovery Plan**"). The Pandemic Recovery Plan contained the following elements:

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1. BPI's sole shareholder invested \$5.0 million of additional capital in BPI on June 22, 2020 and invested an additional \$5.0 million of capital in BPI on September 24, 2020 to reduce indebtedness and enhance liquidity and cashflow;
2. In June 2020, BPI's liquidity and cashflow were further strengthened by the Bank providing BPI \$6.25 million of additional credit facilities under the Export Development Canada's ("**EDC**") business credit availability program. The Fund and the Bank consented to such additional credit facilities. These credit facilities were drawn down in June 2020. See the "Liquidity & Capital Resources – Indebtedness" section of this MD&A for more details;
3. In July 2020, BPI's liquidity and cashflow were further strengthened as a result of the Business Development Bank of Canada ("**BDC**") providing BPI \$2.0 million of additional subordinated credit facilities (the "**BDC Facilities**") under the federal government's COVID-19 relief programs. The Fund and the Bank consented to such additional credit facilities. The BDC Facilities were drawn down in July 2020. See the "Liquidity & Capital Resources – Indebtedness" section of this MD&A for more details;
4. BPI and the Bank restructured BPI's Credit Facilities (defined below) to enhance short-term liquidity and address the challenges faced by BPI. Specifically, the term of the Credit Facilities has a new maturity date of December 31, 2022, interest rates increased by between 0.50% and 1.75% depending upon the type of loan and BPI's total funded net debt to EBITDA ratio, and are now, in the case of Canadian prime rate loans equal to the Bank's prime rate plus between 1.50% and 2.50% (depending on the total funded net debt to EBITDA ratio), and in the case of bankers' acceptances and Canadian dollar offered rate loans equal to a variable interest rate based on the Bank's bankers' acceptance rates or Canadian dollar offered rates plus between 2.75% and 3.75% (depending on the total funded net debt to EBITDA ratio), and excluding the \$5 million of additional capital from BPI's sole shareholder that was applied as a payment against the Credit Facilities, principal repayments were waived for the second and third quarters of 2020. In addition, the financial covenants were modified to be appropriate to the challenges facing BPI and the Bank waived all historical non-compliance with financial covenants. See the "Liquidity & Capital Resources – Indebtedness" section of this MD&A for more details;
5. The Fund and the Bank restructured the Fund's credit facilities in a manner to address the challenges faced by the Fund. Specifically, the term of these credit facilities has a new maturity date of December 31, 2022, interest rates increased by between 0.75% and 1.60% depending upon the type of loan and the Fund's total funded net debt to EBITDA ratio, and are now, in the case of Canadian prime rate loans equal to the Bank's prime rate plus between 0.75% and 1.75% (depending on the total funded net debt to EBITDA ratio) and in the case of bankers' acceptances and Canadian dollar offered rate loans equal to a variable interest rate based on the Bank's bankers' acceptance rates or Canadian dollar offered rates plus between 2.00% and 3.00% (depending on the total funded net debt to EBITDA ratio), the non-operating facilities were converted from being committed revolving credit facilities to non-revolving term loans and, as a condition to agreeing to the Pandemic Recovery Plan, the Bank required: (i) that certain quarterly principal repayments be made commencing on December 31, 2020 to reduce the leverage level of the Fund; and (ii) that the Fund not pay distributions to Unitholders before October 1, 2020. In addition, the financial covenants were modified to be appropriate to the challenges facing the Fund and the Bank waived all historical non-compliance of financial covenants;
6. BPI recommenced paying Royalty and Distributions to the Fund in July 2020, in respect of June 2020, and in September 2020 commenced repaying historical Royalty and Distributions that it did not pay the Fund in respect of March 2020 through May 2020 in equal monthly instalments (of blended principal and interest) over 15 months with interest at the annual rate equal to the prime rate for commercial loans offered by the Bank plus 2.00%. The Fund waived historical non-compliance with BPI's obligation to pay Royalty and Distributions in respect of such non-payment. See the "Operating Results – Breaches and Amendments Related to Royalty, Distributions and Amendments to General Security Agreements" section of this MD&A for more details;

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7. During the second quarter of 2020, BPI and BP Canada LP were not in compliance with certain financial covenants under the general security agreements granted to Royalties LP to secure BPI's and BP Canada LP's obligation to pay Royalty and Distributions. Specifically, the general security agreements required BPI and BP Canada LP to not exceed a specified debt-to-EBITDA ratio. BPI, BP Canada LP and the Fund replaced that covenant to provide: (i) that BPI's trailing 12-month EBITDA must not be less than certain specified values until expiry of the Credit Facilities and will be tested quarterly; and (ii) upon the Credit Facilities being renewed or refinanced, BPI's financial covenants to the Fund will mirror those contained in the renewed or refinanced credit agreement, and upon expiry of those renewed credit facilities or if no such renewal or refinancing occurs, BPI's total funded debt to EBITDA ratio must not exceed 2.5:1. In addition, the Fund and BPI created a new financial covenant that requires BPI and BP Canada LP to pay the Fund each quarter until December 31, 2022 a minimum amount of Royalty and Distributions. This new covenant is intended to ensure that the Fund will have sufficient cash flow to comply with the financial covenants under the Fund's credit facilities. This will be calculated on a trailing 12-month basis and tested quarterly. The Fund waived historical non-compliance with the covenants under such general security agreements. See the "Operating Results – Breaches and Amendments Related to Royalty, Distributions and Amendments to General Security Agreements" section of this MD&A for more details;
8. To further enhance BPI's liquidity and cashflow, Royalties LP drew down the Fund's credit facilities in the second quarter of 2020 by \$0.8 million and used such funds to repay BPI \$0.8 million of reimbursable charges that BPI previously agreed to defer until the Fund achieved certain financial ratios in exchange for BPI having agreed to limit the amount of out-of-pocket expenses for which BPI is entitled to be reimbursed. See the "Liquidity & Capital Resources – Related Party Transactions" section of this MD&A for more details; and
9. As noted above, as a condition to agreeing to the Pandemic Recovery Plan, the Bank required that the Fund not pay distributions to Unitholders before October 1, 2020.

Full particulars of the comprehensive COVID-19 recovery plan are contained in the Pandemic Recovery Plan and other documents referenced in this MD&A, copies of which are available on [www.sedar.com](http://www.sedar.com).

**Effects of COVID-19 Pandemic on the Fund, BPI and BP Canada LP during the Second Half of the Year**

Throughout the second half of the Year, the business of the Boston Pizza Restaurants in the Royalty Pool initially improved and subsequently declined as a result of the "second wave" of the COVID-19 pandemic. The following is a summary of some key developments:

1. During the third quarter of 2020, most Boston Pizza Restaurants had re-opened their dining rooms and sports bars with reduced seating capacity and appropriate physical distancing measures as permitted by provincial and local health authorities. As at September 30, 2020, approximately 380 Boston Pizza Restaurants had their dining rooms and sports bars or patios open with reduced seating capacity and were providing take-out and delivery services;
2. Franchise Sales, and the resulting Royalty and Distributions, for July, August and September 2020 were 81.0%, 84.2% and 88.9% of the levels the respective months of 2019, respectively. SRS<sup>6</sup> (as defined below) for July, August and September 2020 were negative 18.3%, negative 15.9% and negative 10.9%, respectively, when compared to the same periods in 2019;
3. As the number of persons testing positive for COVID-19 increased during the latter part of the third quarter of 2020, certain jurisdictions restricted in-premises operating hours for Boston Pizza Restaurants in an attempt to help "flatten the curve";

<sup>6</sup> SRS is a non-IFRS financial measure and as such, does not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers. A reconciliation of SRS to an IFRS measure is not possible as there is no directly comparable measure under IFRS. BPI believes that SRS provides investors with useful information regarding the change in gross sales of Boston Pizza Restaurants.

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4. On October 1, 2020, the trustees of the Fund recommenced monthly distributions of \$0.065 per Fund Unit compared to the monthly distributions of \$0.102 per Fund Unit that existed prior to the Fund temporarily suspending distributions on March 23, 2020. Monthly distributions recommenced with the September 2020 distribution that was paid to Unitholders on October 30, 2020;
5. Since September 2020, between 25 and 275 Boston Pizza Restaurants (depending upon the specific date) temporarily closed their dining rooms, sports bars and patios as a result of governments imposing various restrictions designed to slow the spread of COVID-19. Franchise Sales, and the resulting Royalty and Distribution Income, for October, November and December 2020 were 80.7%, 68.0% and 59.9% of the levels they were in the respective month of 2019. SRS for October, November and December 2020 were negative 21.2%, negative 34.2% and negative 43.2%, respectively, when compared to the same periods in 2019. As at December 31, 2020, approximately 370 Boston Pizza Restaurants were providing take-out and delivery services, with approximately 100 of these restaurants also having their dining rooms and sports bars open with reduced seating capacity;
6. On December 16, 2020, the trustees of the Fund declared a special one-time cash distribution of \$0.20 per Fund Unit which was paid on January 29, 2021 to Unitholders of record at the close of business on December 31, 2020; and
7. Franchise Sales, and the resulting Royalty and Distribution Income, for January 2021 were 55.1% of the levels they were in January 2020. SRS for January 2021 was negative 49.5% when compared to the same period in 2020. As at January 31, 2021, approximately 375 Boston Pizza Restaurants were providing take-out and delivery services, with approximately 105 of these restaurants also having their dining rooms and sports bars open with reduced seating capacity.

**Seasonality**

Boston Pizza Restaurants typically 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 generally 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. It is unknown how and to what extent seasonality will affect Franchise Sales given the effects of COVID-19 on Boston Pizza Restaurants.

**New Restaurant Openings, Permanent/Temporary Closures and Renovations**

During the Period, there were no New Restaurants and one Closed Restaurant. During the Year, there were two New Restaurants and 11 Closed Restaurants. As well, during the Period, one Boston Pizza Restaurant was renovated, and six Boston Pizza Restaurants were renovated during the Year. Boston Pizza 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. As noted above, as at December 31, 2020, approximately 370 Boston Pizza Restaurants were providing take-out and delivery services, with approximately 100 of these restaurants also having their dining rooms and sports bars open with reduced seating capacity.

**OPERATING RESULTS**

**Same Restaurant Sales ("SRS")**

SRS, 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. SRS is a non-IFRS financial measure. The two principal factors that affect SRS are changes in guest traffic and changes in average guest cheque.

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Period

SRS was negative 32.9% for the Period compared to negative 2.1% reported in the fourth quarter of 2019. Franchise Sales, the basis upon which 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, SRS was negative 29.7% for the Period compared to negative 1.8% for the fourth quarter of 2019. The decline in SRS for the Period was principally due to declines in restaurant guest traffic and the temporary closure of dining rooms and sports bars, partially offset by increased take-out and delivery sales as a result of the COVID-19 pandemic.

Year

SRS was negative 29.4% for the Year compared to negative 2.2% reported in 2019. On a Franchise Sales basis, SRS was negative 27.6% for the Year compared to negative 1.5% in 2019. The decline in SRS for the Year was principally due to declines in restaurant guest traffic and the temporary closure of dining rooms and sports bars, partially offset by increased take-out and delivery sales as a result of the COVID-19 pandemic.

**Revenues**

Period

BPI's total revenue was \$21.5 million for the Period compared to \$31.4 million for the fourth quarter of 2019. BPI's revenue was principally derived from royalty revenue and advertising fund contributions received by BP Canada LP from franchised Boston Pizza Restaurants, sales from corporately owned restaurants, initial franchise fees, franchise renewal fees and supplier contributions. The \$9.9 million decrease in revenue for the Period was primarily due to lower royalty revenues, advertising fund contributions and supplier contributions resulting from lower SRS and lower revenues from corporately owned restaurants.

Year

BPI's total revenue was \$86.1 million for the Year compared to \$125.5 million in 2019. The \$39.4 million decrease in revenue for the Year was primarily due to lower royalty revenues, advertising fund contributions and supplier contributions resulting from lower SRS and lower revenues from corporately owned restaurants.

**Royalty Expense and Distribution Expense**

Period

BPI's Royalty expense to Royalties LP (being 4.0% of Franchise Sales from Boston Pizza Restaurants in the Royalty Pool) was \$5.9 million and Distribution expense (being 1.5% of Franchise Sales from Boston Pizza Restaurants in the Royalty Pool, less BPI's retained interest) was \$1.9 million for the Period compared to \$8.4 million and \$2.8 million, respectively, for the fourth quarter of 2019. The \$2.5 million decrease in Royalty expense and \$0.9 million decrease in Distribution expense for the Period was due to negative SRS on a Franchise Sales basis.

Year

BPI's Royalty expense to Royalties LP was \$24.5 million and Distribution expense was \$8.1 million for the Year compared to \$34.1 million and \$11.2 million, respectively, in 2019. The \$9.6 million decrease in Royalty expense and \$3.1 million decrease in Distribution expense for the Year was due to negative SRS on a Franchise Sales basis.

**Operating Expenses Excluding Royalty Expense and Distribution Expense**

Period

BPI's operating expenses excluding Royalty expense and Distribution expense were \$11.9 million for the Period,

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which included advertising fund expenses of \$4.2 million, compensation expense of \$3.1 million, other expense associated with services provided to franchised Boston Pizza Restaurants of \$2.3 million, operational costs of corporately owned restaurants of \$1.3 million and depreciation and amortization of \$1.5 million. These expenses were partially offset by the amortization of deferred gain on the sale of BP Rights to Royalties LP of \$0.7 million. In the fourth quarter of 2019, BPI's operating expenses excluding Royalty expense and Distribution expense were \$17.8 million. Operating expenses excluding Royalty expense and Distribution expense included advertising fund expenses of \$6.2 million, compensation expense of \$4.5 million, operational costs of corporately owned restaurants of \$2.9 million, other expense associated with services provided to franchised Boston Pizza Restaurants of \$2.9 million, depreciation and amortization of \$1.6 million, and management fees for services rendered by companies under common control of \$0.4 million. These expenses were partially offset by the amortization of deferred gain on the sale of BP Rights to Royalties LP of \$0.7 million.

The decrease in operating expenses excluding Royalty expense and Distribution expense of \$5.9 million for the Period was attributed to a decrease in advertising fund expenses due to reduced media and promotional expenditures, a decrease in restaurant operating costs resulting from declines in guest traffic, a decrease in compensation expense arising from reduced corporate staff headcount and government wage subsidy received, a decrease in management fees for services rendered by companies under common control, and a decrease in other expense including travel and consulting as a measure to reduce costs. This was partially offset by additional bad debt expense recognized for potential uncollectable accounts.

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 dated July 17, 2002, as amended on May 9, 2005, between Royalties LP and BPI. The net deferred gain at December 31, 2020 was \$227.7 million compared to \$230.1 million at December 31, 2019.

Year

BPI's operating expenses excluding Royalty expense and Distribution expense were \$50.9 million for the Year, which included advertising fund expenses of \$16.8 million, compensation expense of \$14.9 million, other costs associated with services provided to franchised Boston Pizza Restaurants of \$8.2 million, operational costs of corporately owned restaurants of \$7.5 million, depreciation and amortization of \$5.8 million, and management fees for services rendered by companies under common control of \$0.4 million. These expenses were partially offset by the amortization of deferred gain on the sale of BP Rights to Royalties LP of \$2.8 million. In 2019, BPI's operating expenses excluding Royalty expense and Distribution expense were \$75.7 million. Operating expenses excluding Royalty expense and Distribution expense include advertising fund expenses of \$26.4 million, compensation expense of \$20.3 million, operational costs of corporately owned restaurants of \$14.2 million, other costs associated with services provided to franchised Boston Pizza Restaurants of \$10.1 million, depreciation and amortization of \$5.7 million, and management fees for services rendered by companies under common control of \$2.0 million. These expenses were partially offset by the amortization of deferred gain on the sale of BP Rights to Royalties LP of \$2.8 million.

The decrease in operating expenses excluding Royalty expense and Distribution expense of \$24.8 million for the Year was primarily attributed to a decrease in advertising fund expenses due to a decrease in advertising activity, a decrease in restaurant operating costs resulting from declines in guest traffic, a decrease in compensation expense arising from reduced corporate headcount and government wage subsidy received, a decrease in other costs including travel and consulting as a measure to reduce costs and a decrease in management fees for services rendered by companies under common control. This was partially offset by additional bad debt expense recognized for potential uncollectable accounts and an increase in depreciation and amortization expense.

**Earnings before Interest and Fair Value Gain (Loss)**

Period

BPI's earnings before interest and fair value gain (loss) was \$1.8 million for the Period compared to \$2.4 million for the fourth quarter of 2019. The \$0.6 million decrease in earnings before interest and fair value gain (loss) for the

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Period was principally due to a decrease in revenues, partially offset by a decrease in Royalty, Distributions and operating expenses.

Year

BPI's earnings before interest and fair value gain (loss) was \$2.5 million for the Year compared to \$4.5 million in 2019. The \$2.0 million decrease in earnings before interest and fair value gain (loss) for the Year was principally due to a decrease in revenues, partially offset by a decrease in Royalty, Distributions and operating expenses.

**Net Interest Income (Expense)**

Period

BPI's net interest income during the Period was \$0.7 million, comprised mainly of \$1.4 million of interest income received by BPI on its Class B general partner units of Royalties LP ("**Class B Units**"), partially offset by \$0.6 million of interest expense on the debt and financing fees owed to the Fund and \$0.1 million of interest expense on lease obligations. BPI's net interest income for the fourth quarter of 2019 was \$0.7 million, comprised mainly of \$1.4 million of interest income received by BPI on its Class B Units, partially offset by \$0.5 million of interest expense on the Credit Facilities and \$0.1 million in interest expense on lease obligations. The nominal change in net interest income for the Period was primarily due to the suspension of monthly distributions on the Class B Units during the Period, partially offset by a special distribution declared by the Fund.

Year

BPI's net interest expense for the Year was \$0.4 million, comprised mainly of \$1.9 million of interest expense on the debt and financing fees, \$0.5 million of interest expense on lease obligations and \$0.1 million of interest expense on payables owed to the Fund, partially offset by \$2.1 million of interest income received by BPI on the Class B Units. BPI's net interest income in 2019 was \$1.5 million, comprised mainly of \$4.1 million of interest income received by BPI on the Class B Units, partially offset by \$2.2 million of interest expense on its debt and \$0.4 million in interest expense on lease obligations. The \$1.9 million decrease in net interest income for the Year was primarily due to the suspension of monthly distributions on the Class B Units commencing with the March 2020 distribution, as well as the net impact of the distribution rate reduction. This was partially offset by a net decrease in interest expense on debt, a special distribution declared by the Fund and an increase in Class B Additional Entitlements.

**Fair Value Gain (Loss)**

Period

During the Period, BPI recognized a fair value loss of \$16.0 million compared to a fair value gain of \$11.6 million for the same period in 2019. The change in fair value was principally due to the change in the price of Fund Units into which the 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 on the last business day of the Period. As at December 31, 2020, the Fund's closing price was \$10.83 per Fund Unit (September 30, 2020 – \$5.54 per Fund Unit) and the number of Fund Units BPI would be entitled to receive if it exchanged all of the Class B Units (including the Class B Holdback) held by BPI was 2,430,381 (September 30, 2020 – 2,430,381). Consequently, the Class B Units were calculated to be valued at \$26.3 million (September 30, 2020 – \$13.5 million). The difference between the value of the Class B Units at the end of the Period and September 30, 2020 was a fair value gain of \$12.9 million. In general, the value of the Class B Units will increase as the market price of Fund Units increase and vice versa. In addition, the value of the Class B Units increases as the number of Fund Units BPI would be entitled to receive if it exchanged all of the Class B Units (including the Class B Holdback) increases and vice versa.

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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 2015 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, 2020 to be \$33.3 million (September 30, 2020 – \$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 on the last business day of the Period. As at December 31, 2020, the Fund indirectly held 5,455,762 Class 2 LP Units (September 30, 2020 – 5,455,762) and the Fund's closing price was \$10.83 per Fund Unit (September 30, 2020 – \$5.54 per Fund Unit). Consequently, BPI estimated the fair value of the Class 2 LP Units liability as at December 31, 2020 to be \$59.1 million (September 30, 2020 – \$30.2 million), resulting in a fair value loss of \$28.9 million for the Period. In general, the fair value of the Class 2 LP Units liability will increase as the market price of Fund Units increases and vice versa.

Year

Year, BPI recognized a fair value gain of \$8.0 million compared to \$4.9 million for the same period in 2019. The change in fair value was principally due to the change in the price of Fund Units into which the Class B Units are exchangeable and upon which the Class 2 LP Units liability is measured.

As at December 31, 2019, the Fund's closing price was \$13.46 per Fund Unit and the number of Fund Units BPI would be entitled to receive if it exchanged all of the Class B Units (including the Class B Holdback) held by BPI was 2,402,966. The Class B Units were calculated to be valued at \$32.3 million as at December 31, 2019. As discussed above, the Class B Units at the end of the Year were valued at \$26.3 million. The difference between the value of the Class B Units on December 31, 2019 and at the end of the Year is a decrease of \$6.0 million, comprised of a fair value loss of \$6.4 million partially offset by \$0.4 million of Class B Additional Entitlements received by BPI on January 1, 2020.

As discussed above, the carrying amount for the Class 1 LP Units was \$33.3 million and BPI estimates the fair value of the Class 1 LP Units as at December 31, 2020 to be \$33.3 million (December 31, 2019 – \$33.3 million), resulting in no fair value adjustment for the Year.

As at December 31, 2019, the Fund indirectly held 5,455,762 Class 2 LP Units and the Fund's closing price was \$13.46 per Fund Unit. Consequently, BPI estimated the fair value of the Class 2 LP Units liability as at December 31, 2019 to be \$73.4 million. As discussed above, BPI estimated the fair value of the Class 2 LP Units liability as at December 31, 2020 to be \$59.1 million resulting in a fair value gain of \$14.3 million for the Year.

**Earnings (Loss) before Income Taxes**

Period

Given the combined effects of the above-noted factors, BPI had a loss before income taxes of \$13.4 million for the Period compared to earnings before income taxes of \$14.7 million for the fourth quarter of 2019. The \$28.1 million decrease in earnings before income taxes for the Period was primarily due to an increase in the fair value loss and a decrease in earnings before interest and fair value gain.

Year

Given the combined effects of the above-noted factors, BPI had earnings before income taxes of \$10.1 million for the Year compared to earnings before income taxes of \$10.8 million in 2019. The \$0.7 million decrease in earnings before income taxes was primarily due to the decrease in earnings before interest and fair value gain, an increase in net interest expense, partially offset by an increase in the fair value gain.

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**Income Tax Expense (Recovery)**

Period

BPI recognized a \$1.1 million current income tax recovery for the Period compared to a \$0.4 million for the fourth quarter of 2019. The 0.7 million increase in the current income tax recovery for the Period is primarily due to lower earnings before interest and fair value gain.

BPI recognized a \$8.3 million deferred income tax expense for the Period compared to a \$1.8 million deferred income tax recovery for the fourth quarter of 2019. The \$10.1 million increase in deferred income tax expense is primarily due to a recognition of a valuation allowance on the deferred tax asset relating to the temporary difference in fair value of the Class B Units held by BPI in the Period. Due to the valuation allowance recognized, the deferred tax impact on the Class B Units recorded up until the end of the third quarter of 2020 was reversed in the Period.

Year

BPI recognized a \$0.6 million current income tax expense for the Year compared to \$1.8 million in 2019. The \$1.2 million decrease in current income tax expense Year is primarily due to lower earnings before income taxes and fair value gain (loss).

BPI recognized a \$1.7 million deferred income tax expense for the Year compared to a deferred income tax recovery of \$1.5 million in 2019. The \$3.2 million increase in deferred income tax expense is primarily due to a recognition of a valuation allowance on Class B Units held by BPI, partially offset by loss carry-forwards recognized for corporately owned restaurants.

**Net and Comprehensive Income (Loss)**

Period

BPI's net and comprehensive loss during the Period was \$20.7 million compared to net and comprehensive income \$16.9 million for the fourth quarter of 2019. The increase of \$37.6 million in net and comprehensive loss for the Period is primarily due to the increase in loss before income taxes and the increase in income tax expense compared to the same period in 2019.

Year

BPI's net and comprehensive income for the Year was \$7.8 million compared to \$10.5 million in 2019. The decrease of \$2.7 million in net and comprehensive income is primarily due to the decrease in earnings before income taxes and the increase in the income tax expense compared to 2019.

**Breaches and Amendments Related to Royalty, Distributions and Amendments to General Security Agreements**

BP Canada LP temporarily suspended collection of royalty and advertising fees from its franchisees commencing with the amounts that would have been payable in April 2020 in respect of Franchise Sales generated in March 2020. This temporary suspension of collecting royalty and advertising fees was a breach of BPI's obligations under the License and Royalty Agreement dated July 17, 2002, as amended on May 9, 2005, between Royalties LP and BPI (the "**License and Royalty Agreement**").

BP Canada LP recommenced collecting royalty and advertising fees from its franchisees in respect of Franchise Sales occurring from and after June 1, 2020, and is collecting the deferred royalty and advertising fees in respect of Franchise Sales occurring between March 1, 2020 and May 31, 2020 over 15 months without interest, which commenced in September 2020.

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BPI and BP Canada LP delayed payment of Royalty and Distributions to the Fund in respect of March through May 2020, but had advised the Fund that they would pay such amounts in the future with interest. Such non-payment was a breach of BPI's obligations under the License and Royalty Agreement and BP Canada LP's obligations under the limited partnership agreement governing BP Canada LP. As part of the Pandemic Recovery Plan, BPI recommenced paying Royalty and Distributions to the Fund on a current basis commencing in respect of June 2020, which was paid in July 2020, and is repaying historical Royalty and Distributions that it did not pay in respect of March 2020 through May 2020 in monthly instalments (of blended principal and interest) over 15 months with interest at the annual rate equal to the prime rate for commercial loans offered by the Bank plus 2%, which commenced in September 2020. The Fund waived historical non-compliance with BPI's obligation to pay Royalty and Distributions in respect of non-payment and with BPI's obligation to collect royalty and advertising fees from BP Canada LP's franchisees.

During the second quarter of 2020, BPI and BP Canada LP were not in compliance with certain financial covenants under the general security agreements granted to the Fund to secure BPI's and BP Canada LP's obligation to pay the Fund Royalty and Distributions. Specifically, the general security agreements required BPI and BP Canada LP to not exceed a specified debt-to-EBITDA ratio. BPI, BP Canada LP and the Fund replaced that covenant to provide that: (i) BPI's trailing 12-month EBITDA must not be less than certain specified values until expiry of BPI's Credit Facilities and will be tested quarterly; and (ii) upon BPI's Credit Facilities being renewed or refinanced, BPI's financial covenants to the Fund will mirror those contained in the renewed or refinanced credit agreement, and upon expiry of those renewed credit facilities or if no such renewal or refinancing occurs, BPI's total funded debt to EBITDA ratio must not exceed 2.5:1. In addition, the Fund and BPI created a new financial covenant that requires BPI and BP Canada LP to pay the Fund each quarter until December 31, 2022 a minimum amount of Royalty and Distributions. This new covenant is intended to ensure that the Fund will have sufficient cash flow to comply with the financial covenants under the Fund's credit facilities. This will be calculated on a trailing 12-month basis and tested quarterly. The Fund waived historical non-compliance with the covenants under such general security agreements.

**New Restaurants Added to the Royalty Pool**

*Boston Pizza Restaurants Added to Royalty Pool on January 1, 2020*

On January 1, 2020, the Royalty Pool was adjusted to include five New Restaurants that opened across Canada between January 1, 2019 and December 31, 2019, and to remove six Closed Restaurants for 2019. The estimated annual Franchise Sales in 2020 for the five New Restaurants less the six Closed Restaurants was \$1.6 million. The estimated Net Royalty and Distributions expected to be generated was 5.5% of this amount, or \$0.09 million. The pre-tax amount for the purposes of calculating the Additional Entitlements was approximately \$0.08 million or 92.5% of \$0.09 million. The estimated effective tax rate that the Fund would pay in the calendar year 2020 was 24.0%. Accordingly, the after-tax additional Royalty and Distributions for the purposes of calculating the Additional Entitlements was approximately \$0.06 million (i.e. 76% of \$0.08 million). In return for adding the additional Net Royalty and Distributions from the five New Restaurants and six Closed Restaurants, BPI indirectly received 35,720 Additional Entitlements (representing 80% of the total Additional Entitlements), comprised of 25,978 Class B Additional Entitlements and 9,742 Class 2 Additional Entitlements, and the Holdback was 8,930 Additional Entitlements (representing 20% of the total Additional Entitlements), comprised of 6,495 Class B Holdback and 2,435 Class 2 Holdback. The 35,720 Additional Entitlements represented 0.1% of Fund Units on a fully-diluted basis as of January 1, 2020. 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 after the actual performance of the five New Restaurants added to the Royalty Pool on January 1, 2020 and the actual effective tax rate paid by the Fund for 2020 were known. After both the actual performance of the five New Restaurants added to the Royalty Pool on January 1, 2020 and the actual effective tax rate paid by the Fund for 2020 were known, the number of Additional Entitlements was adjusted in February 2021 to reflect the actual Franchise Sales generated by those Boston Pizza Restaurants in 2020 and the actual effective tax rate paid by the Fund in 2020. See the "Operating Results – Subsequent Events" section of this MD&A for details of these adjustments.

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*Audit of Boston Pizza Restaurants Added to Royalty Pool on January 1, 2019*

In February 2020, an audit of the Franchise Sales of the 10 New Restaurants that were added to the Royalty Pool on January 1, 2019 was performed and the actual effective tax rate paid by the Fund for the 2019 calendar year was determined. The purpose of this was to compare the actual Franchise Sales from these 10 New Restaurants to the estimated amount of Franchise Sales expected to be generated by these 10 New Restaurants during 2019 and to compare the actual effective tax rate paid by the Fund for 2019 to the estimated effective tax rate the Fund expected to pay for 2019. The original Franchise Sales expected to be generated from these 10 New Restaurants less the Franchise Sales from the five Closed Restaurants during 2018 was \$11.8 million, and the actual Franchise Sales generated from these five net New Restaurants was \$1.0 million less. The original effective tax rate the Fund expected to pay for 2019 was 27.0% and the actual effective tax rate paid by the Fund for 2019 was 22.3%. As a result, Royalties LP decreased interest payable to BPI by a nominal amount in early 2020 to reconcile the difference paid on the full number of Class B Additional Entitlements and the effective tax rate. In addition, BP Canada LP increased a subsequent distribution payable to Holdings LP on its Class 2 LP Units by a nominal amount, and correspondingly decreased a subsequent 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 Additional Entitlements at the Adjustment Date in 2019. Following the audit, BPI received 56,800 Additional Entitlements, comprised of 41,309 Class B Additional Entitlements and 15,491 Class 2 Additional Entitlements.

**Subsequent Events**

*Boston Pizza Restaurants Added to Royalty Pool on January 1, 2021*

On January 1, 2021, the Royalty Pool was adjusted to include the two New Restaurants that opened across Canada during the Year and to remove 11 Closed Restaurants for the Year. In addition, one seasonal Boston Pizza Restaurant that was believed to have permanently closed in 2019, and accordingly was removed from the Royalty Pool on January 1, 2020, re-opened during the Year. The Fund and BPI agreed to make adjustments to place the parties in the position they would have been had that seasonal Boston Pizza Restaurant not been removed from the Royalty Pool on January 1, 2020. With the adjustment for these openings and closures during 2020, the Royalty Pool now includes 387 Boston Pizza Restaurants. The estimated annual Franchise Sales in 2021 for the two New Restaurants that opened in 2020 is \$3.3 million. As described above, BPI is required to deduct from this amount the actual Franchise Sales received from the 11 Closed Restaurants during the first 12-month period immediately following their addition to the Royalty Pool, which is \$18.5 million. Accordingly, the resulting estimated annual net Franchise Sales for the two New Restaurants and the 11 Closed Restaurants in 2020 is negative \$15.2 million. Consequently, this resulted in the Net Royalty and Distributions having a Deficiency of \$0.8 million (being 5.5% of negative \$15.2 million Franchise Sales) as a result of the estimated Royalty and Distributions expected to be generated by the New Restaurants (\$0.2 million) being less than the actual Royalty and Distributions that is lost from the Closed Restaurants (\$1.0 million). Since there is a Deficiency of \$0.8 million, BPI did not receive any Additional Entitlements on January 1, 2021. However, BPI did not lose any of the Additional Entitlements it received in respect of previous years. Instead, BPI will be required to make-up the Deficiency on future Adjustment Dates by first adding Net Royalty and Distributions in an amount equal to the Deficiency before receiving any further Additional Entitlements.

As noted above, one seasonal Boston Pizza Restaurant that was believed to have permanently closed in 2019 was removed from the Royalty Pool on January 1, 2020. During 2020, management of BPI became aware of new information, which resulted in that seasonal Boston Pizza Restaurant being re-opened for business. Since that location is seasonal and it re-opened in 2020, the Fund and BPI determined that this location should never have been removed from the Royalty Pool on January 1, 2020. Consequently, the number of Boston Pizza Restaurants in the Royalty Pool has been adjusted to 387, being the 395 Boston Pizza Restaurants that were part of the Royalty Pool on January 1, 2020, plus the two New Restaurants in 2020, plus the one seasonal Boston Pizza Restaurant that was removed from the Royalty Pool on January 1, 2020, less the 11 Closed Restaurants for 2020. As part of the adjustment that occurred in early 2021 to reconcile distributions paid to BPI and Additional Entitlements received by BPI in respect of the New Restaurants that were added to the Royalty Pool on January 1, 2020, the parties also adjusted distributions paid to BPI and the number of Additional Entitlements held by BPI to put BPI and the Fund

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into the position they would have been had that seasonal Boston Pizza Restaurant not been removed from the Royalty Pool on January 1, 2020. Franchise Sales reported by the Fund and BPI in 2020 included Franchise Sales generated by this seasonal Boston Pizza Restaurant, so no adjustments were required in that regard.

*Audit of Boston Pizza Restaurants Added to Royalty Pool on January 1, 2020*

In February 2021, an audit of the Franchise Sales of the five New Restaurants that were added to the Royalty Pool on January 1, 2020 was performed and the actual effective tax rate paid by the Fund for the 2020 calendar year was determined. The purpose of this was to compare the actual Franchise Sales from these five New Restaurants to the estimated amount of Franchise Sales expected to be generated by these five New Restaurants during 2020 and to compare the actual effective tax rate paid by the Fund for 2020 to the estimated effective tax rate the Fund expected to pay for 2020. The original Franchise Sales expected to be generated from these five New Restaurants less the Franchise Sales from the six Closed Restaurants in 2020 was \$1.6 million. The actual Franchise Sales generated from these five New Restaurants after subtracting the Franchise Sales from the five Closed Restaurants in 2020 (i.e. excluding the seasonal Boston Pizza Restaurant that re-opened in 2020) was \$0.1 million more. The original effective tax rate the Fund expected to pay for 2020 was 24.0% and the actual effective tax rate paid by the Fund for 2020 was 29.3%. As a result, Royalties LP increased interest payable to BPI by a nominal amount in early 2021 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 increase a future distribution payable to BPI on its Class 2 GP Units by a nominal amount, and will correspondingly decrease a future distribution payable to Holdings LP on its Class 2 LP 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 Additional Entitlements at the Adjustment Date in 2020. Following the audit, BPI received 9,538 Additional Entitlements, comprised of 6,937 Class B Additional Entitlements and 2,601 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 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 Fund Units. References to "Class B Additional Entitlements" and "Class 2 Additional Entitlements" in the table below refer to the number of Fund Units into which the Class B Units and Class 2 GP Units, respectively, are exchangeable as of the dates indicated.

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**Summary of Boston Pizza Royalties Income Fund Units**

	Dec. 31, 2020 Excluding Holdback	Dec. 31, 2020 Including Holdback	Feb. 9, 2021 Excluding Holdback	Feb. 9, 2021 Including Holdback
<i>Fund Units Outstanding</i>				
Total Issued and Outstanding Fund Units	21,521,463	21,521,463	21,521,463	21,521,463
<i>Class B Additional Entitlements Outstanding</i>				
Class B Additional Entitlements (Excluding Jan. 1, 2021 Adjustment Date)	2,423,886	2,423,886	2,423,886	2,423,886
Class B Holdback (Excluding Jan. 1, 2021 Adjustment Date)	N/A	6,495	N/A	N/A <sup>(1)</sup>
Class B Additional Entitlements – Issued Jan. 1, 2021	N/A	N/A	--	--
Class B Holdback – Created Jan. 1, 2021	N/A	N/A	N/A	-- <sup>(2)</sup>
Class B Holdback – Issued in respect of 2020 after audit	N/A	N/A	6,937	6,937 <sup>(3)</sup>
Total Class B Additional Entitlements	2,423,886	2,430,381	2,430,823	2,430,823
<i>Class 2 Additional Entitlements Outstanding</i>				
Class 2 Additional Entitlements (Excluding Jan. 1, 2021 Adjustment Date)	828,753	828,753	828,753	828,753
Class 2 Holdback (Excluding Jan. 1, 2021 Adjustment Date)	N/A	2,435	N/A	N/A <sup>(1)</sup>
Class 2 Additional Entitlements – Issued Jan. 1, 2021	N/A	N/A	--	--
Class 2 Holdback – Created Jan. 1, 2021	N/A	N/A	N/A	-- <sup>(2)</sup>
Class 2 Holdback – Issued in respect of 2020 after audit	N/A	N/A	2,601	2,601 <sup>(3)</sup>
Total Class 2 Additional Entitlements	828,753	831,188	831,354	831,354
<i>Summary</i>				
Total Issued and Outstanding Fund Units	21,521,463	21,521,463	21,521,463	21,521,463
Total Additional Entitlements	3,252,639	3,261,569	3,262,177	3,262,177
Total Diluted Fund Units	24,774,102	24,783,032	24,783,640	24,783,640
BPI's Total Percentage Ownership	13.1%	13.2%	13.2%	13.2%

- (1) Additional Entitlements from the five New Restaurants and six Closed Restaurants added to and removed from the Royalty Pool on January 1, 2020 prior to the audit of the Franchise Sales of the five New Restaurants, the determination of the actual effective tax rate paid by the Fund and the adjustment for the seasonal Boston Pizza Restaurant that re-opened in 2020.
- (2) There is no Holdback for the adjustment to the Royalty Pool that occurred on January 1, 2021 since BPI did not receive any Additional Entitlements in respect thereof due to a Deficiency existing.
- (3) Additional Entitlements from the five New Restaurants and six Closed Restaurants added to and removed from the Royalty Pool on January 1, 2020 after the audit of the Franchise Sales of the five New Restaurants, the determination of the actual effective tax rate paid by the Fund and the adjustment for the seasonal Boston Pizza Restaurant that re-opened in 2020.

BPI directly and indirectly 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 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 9, 2021, BPI was entitled to 3,262,177 votes, representing 13.2% 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 periodically to reflect any additional Boston Pizza Restaurants that were added to the Royalty Pool.

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**LIQUIDITY & CAPITAL RESOURCES**

BPI is an entirely franchised business except for five corporate restaurants. For 2021, BPI has forecasted capital requirements of approximately \$2.2 million, which consist mainly of the development of software applications and digital platforms, computer equipment, and leasehold improvements. BPI believes it has sufficient cash and capital resources to cover forecasted expenditures, capital requirements, commitments and repayments for 2021. 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. BPI manages its working capital with the Operating Line (defined below), BCAP Loan (defined below) and the BDC Facilities (defined below).

**Indebtedness**

**BPI Credit Facilities**

As at December 31, 2019, BPI had credit facilities with the Bank in the amount of \$50 million (the "**Original Credit Facilities**") with a maturity date of September 27, 2022 and were comprised of: (i) a \$10 million committed revolving facility to cover BPI's day-to-day operating requirements if needed (the "**Operating Line**"); and (ii) a \$40 million committed non-revolving term facility to finance the reorganization of BPI and its shareholders (the "**Reorganization**"), which was completed on September 30, 2017 (the "**Term Loan**"). The Original Credit Facilities bore interest at variable interest rates, as selected by BPI, comprised of a combination of the Bank's bankers' acceptance rates plus between 1.00% and 2.50%, or the Bank's prime rate plus between 0.00% and 1.00%, depending upon debt to EBITDA ratios, and interest was payable monthly in arrears. The Term Loan and the principal amount drawn on the Operating Line were due and payable upon maturity. The principal amount drawn on the Term Loan had to be reduced by quarterly payments amortized over 15 years. The Term Loan was fully drawn down on September 29, 2017 and the proceeds were used to finance the Reorganization.

The principal financial covenants of the Original Credit Facilities were: (i) BPI and its subsidiaries, taken as a whole, must have maintained a total funded debt to EBITDA ratio of not greater than: (A) 5.50:1 on or before September 30, 2018; (B) 4.75:1 between October 1, 2018 and September 30, 2019; (C) 4.00:1 between October 1, 2019 and March 31, 2020; and (D) 3.00:1 after March 31, 2020 (tested on a trailing 12-month basis) and (ii) BPI and its subsidiaries, taken as a whole, must have not permit its debt service coverage ratio to be less than 1.25:1 (tested on a trailing 12-month basis).

On January 24, 2020, BPI entered into a First Amended and Restated Credit Agreement (the "**Credit Agreement**") with the Bank pursuant to which the Original Credit Facilities were amended and extended (the Original Credit Facilities, as amended and extended, the "**Credit Facilities**") as follows:

- The maturity date was extended from September 27, 2022 to January 24, 2025;
- The total amount of credit available was decreased from \$50.0 million to \$44.0 million, by decreasing the size of the Term Loan from \$40.0 million to \$34.0 million to reflect repayments of principal that BPI previously paid the Bank;
- The availment options for the Operating Line were changed to include, among others, availment by way of (i) Canadian dollar prime rate loans, (ii) bankers' acceptances with a maturity between 30 and 182 days, (iii) Canadian dollar offered rate loans with terms of one (1) month or three (3) months, and (iv) letter of credit advances;
- The interest rates (or margins, as applicable) applicable to Canadian dollar prime rate loans, bankers' acceptances and Canadian dollar offered rate loans were reduced. In the case of Canadian prime rate loans, the interest rate was equal to the Bank's prime rate plus between 0.00% and 1.50% (depending on the total funded net debt to EBITDA ratio) and, in the case of bankers' acceptances and Canadian dollar offered rate loans, the interest rate was equal to a variable interest rate based on the Bank's bankers' acceptance rates or Canadian dollar offered rates plus between 1.00% and 2.50% (depending on the total



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funded net debt to EBITDA ratio). The fees applicable to letter of credit advances were equal to the maximum amount that the lender may be called upon to disburse under a letter of credit multiplied by the applicable margin between 1.00% and 2.50% (depending on the total funded net debt to EBITDA ratio) multiplied by the number of days in which the letter of credit advances were outstanding in the given fiscal quarter; and

- Certain financial covenants and other provisions, including the margin requirements, were modified.

The Credit Facilities are guaranteed by BPI's wholly-owned subsidiaries, all of whom granted security for their obligations under those guarantees. No security had been given by BP Canada LP in respect of the Credit Facilities. The guarantees and security supporting the Credit Facilities are unchanged from those provided in respect of the Original Credit Facilities.

On June 22, 2020 as part of the Pandemic Recovery Plan, BPI and the Bank entered into a First Supplemental Credit Agreement (the "**First Supplemental Credit Agreement**") to further amend the Credit Facilities as part of the Pandemic Recovery Plan. The principal amendments were as follows:

- The term of the Credit Facilities was shortened to expire on December 31, 2022 instead of January 24, 2025;
- The interest rates (or margins, as applicable) applicable to the Credit Facilities increased by between 0.50% and 1.75% per annum. In the case of Canadian prime rate loans, the interest rate is equal to the Bank's prime rate plus between 1.50% and 2.50% (depending on the total funded net debt to EBITDA ratio) and, in the case of bankers' acceptances and Canadian dollar offered rate loans, the interest rate is equal to a variable interest rate based on the Bank's bankers' acceptance rates or Canadian dollar offered rates plus between 2.75% and 3.75% (depending on the total funded net debt to EBITDA ratio);
- Excluding the \$5 million additional capital from BPI's sole shareholder that was applied as payment against the Term Loan, the regular quarterly principal repayments were waived for the second and third quarters of 2020, after which time they recommenced under the Credit Agreement governing the Credit Facilities;
- Various financial covenants were waived for the remainder of the term, including the requirement that: (a) the market value of the Class B Units and Class 2 GP Units exceed the amount of indebtedness outstanding under the Credit Facilities and the Acquired Restaurant Credit Facility (defined below); (b) BPI's total funded net debt to EBITDA ratio be less than specified ratios; (c) BPI maintain a minimum ratio of cash flow available for debt service to total debt service; and (d) BPI maintain a minimum fixed charge coverage ratio under the Acquired Restaurant Credit Facility; and
- A new financial covenant was created in the credit agreement governing the Credit Facilities that requires BPI's trailing 12-month EBITDA to be not less than certain specified values and will be tested on a quarterly basis.

The Bank waived all historical non-compliance with financial covenants.

The Credit Agreement, as amended by the First Supplemental Credit Agreement, governing the Credit Facilities contains certain covenants and restrictions, including the requirement to have sufficient trailing 12-month EBITDA described above. A failure of BPI 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. BPI was in compliance with all of its financial covenants and financial condition tests at December 31, 2020. As of December 31, 2020, there were no amounts drawn on the Operating Line and \$27.7 million was outstanding on the Term Loan.

**BCAP Loan**

On June 22, 2020 as part of the First Supplemental Credit Agreement, the Bank loaned BPI the \$6.25 million under the EDC's business credit availability program (the "**BCAP Loan**"). The BCAP Loan may be used to provide

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additional liquidity to finance operations, and may not be used (i) to repay or refinance existing debt obligations, (ii) to make distributions; or (iii) to pay any bonuses or increases executive compensation, has a term of one year, which may be extended annually at the request of BPI for up to five years subject to compliance with certain requirements, requires interest only payments for the first year and is repayable in monthly blended payments of principal and interest amortized over four years commencing after the first year of the term, with any remaining balance outstanding being due upon expiry of the term. The BCAP Loan bears interest at the Bank's prime rate plus 2.5% and is subject to an annual fee equal to 1.8% of the total amount of credit available (i.e. \$6.25 million). The BCAP Loan is guaranteed by all of BPI's subsidiaries except BP Canada LP, and is secured by the same security that secures the Credit Facilities to the Bank. That security shares priority with the general security agreements granted by BPI and its subsidiaries to the Bank under the Credit Facilities. As of December 31, 2020, \$6.25 million was drawn on the BCAP Loan.

**BDC Facilities**

On July 7, 2020, BDC loaned BPI \$2.0 million under the federal government's COVID-19 relief programs. The BDC Facilities may be used for working capital purposes, have a term of three years and are repayable in a combination of monthly payments commencing after the first year of the term and a balloon payment upon maturity. The BDC Facilities bear interest at BDC's floating base rate (currently 4.55% per annum) less 1.75% (i.e. currently 2.80%). The BDC Facilities are secured by a subordinate charge over all of BPI's assets and are guaranteed by all of BPI's subsidiaries except BP Canada LP. All of BPI's subsidiaries other than BP Canada LP have granted BDC a subordinate charge over all of their assets to support such guarantees. The security held by BDC is subordinate to the security held by the Bank to secure the Credit Facilities with the Bank and the security held by the Fund to secure BPI's obligation to pay the Fund Royalty and Distributions. As of December 31, 2020, \$2.0 million was drawn on the BDC Facilities.

**Acquired Restaurant Credit Facility**

In 2016 and 2017, a subsidiary of BPI established a \$4.2 million credit facility with the Bank for the purposes of funding a portion of the acquisition cost for a Boston Pizza Restaurant that one of BPI's subsidiaries purchased from a former franchisee of BP Canada LP in June 2016 (the "**Acquired Restaurant**") and making renovations to the Acquired Restaurant. On January 24, 2020, that credit facility was amended and extended (the "**Acquired Restaurant Credit Facility**"). Prior to June 22, 2020, the total available credit under the Acquired Restaurant Credit Facility was approximately \$3.4 million, it bore interest at the Bank's prime rate plus 1.0%, it was repayable on January 24, 2025, but was subject to reductions in principal based upon monthly payments of blended interest and principal over 15 years. On June 22, 2020 as part of the Pandemic Recovery Plan, the subsidiary of BPI and the Bank further amended the Acquired Restaurant Credit Facility. The principal amendments were as follows (a) the term of the Acquired Restaurant Credit Facility was shortened to expire on March 31, 2022 instead of January 24, 2025; (b) the \$50,000 million committed revolving operating facility under the Acquired Restaurant Credit Facility was eliminated; and (c) financial covenants were waived for the remainder of the term of the Acquired Restaurant Credit Facility. BPI has guaranteed the Acquired Restaurant Credit Facility to the Bank. As of December 31, 2020, \$2.9 million was drawn on the Acquired Restaurant Credit Facility.

**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, 2020 is as follows:

(in thousands of dollars)	Within 1 year	2 - 3 years	4 - 5 years	Over 5 years	Total	Book Value
Accounts payable, accrued liabilities and income taxes payable	7,372	-	-	-	7,372	7,372
Royalty and distributions payable to the Fund	6,502	-	-	-	6,502	6,413
Long-term debt <sup>1</sup>	5,562	34,042	2,834	-	42,438	38,848
Other long-term liabilities	-	776	115	56	947	947
Lease commitments <sup>2</sup>	1,953	2,522	1,547	2,219	8,241	6,864
	21,389	37,341	4,496	2,275	65,500	60,444

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Note:

- 1) Includes estimated interest on long-term debt and excludes deferred financing costs of \$0.7 million.  
2) Represents minimum annual rental payments under operating lease contracts for office space, restaurants space and equipment.

**Cash Flows**

Cash Flow from Operating Activities

Period

During the Period, operating activities generated \$3.7 million of cash compared to \$2.3 million during the fourth quarter of 2019. The increase in cash generated of \$1.4 million during the Period was primarily due to an increase in net income after adjustments for non-cash items, an increase in working capital, a decrease in income taxes paid, partially offset by the impact of a decrease in royalties and advertising fees received from franchisees of BP Canada LP resulting from a decline in revenue.

Year

For the Year, operating activities generated \$3.9 million of cash compared to \$6.2 million in 2019. The decrease in cash generated of \$2.3 million for the Year was primarily due to the decrease in working capital, a decrease in royalties and advertising fees received from franchisees of BP Canada LP resulting from a decline in revenue, partially offset by a decrease in income taxes paid, an increase in net income after adjustments for non-cash items and income taxes received.

Cash Flow from Financing Activities

Period

During the Period, financing activities used \$1.8 million of cash compared to \$2.3 million during the fourth quarter of 2019. The decrease in cash used of \$0.5 million during the Period was primarily due to no repayment of the Operating Line or shareholder loan compared to 2019, partially offset by an increase in repayment of debt and higher payment of lease obligations during the Period.

Year

For the Year, financing activities generated \$6.0 million of cash compared to \$6.9 million of cash used in 2019. The increase in cash generated of \$12.9 million for the Year was primarily due to proceeds from the capital contribution, BCAP Loan, BDC Loan, lower repayment of shareholder loan, partially offset by an increase in repayment of debt and an increase in repayment of Operating Line.

Cash Flow from Investing Activities

Period

During the Period, investing activities generated \$0.3 million of cash compared to \$0.3 million during the fourth quarter of 2019. Cash generated from investing activities typically represents distributions received by BPI on the Class B Units. Cash used from investing activities typically represents purchases of property and equipment as well as intangible assets. The nominal increase in cash generated during the Period was due to fewer purchases in property, plant and equipment and intangibles, partially offset by the suspension of distributions on the Class B Units.

Year

For the Year, investing activities generated \$0.5 million of cash compared to \$2.1 million generated in 2019. The decrease in cash generated of \$1.6 million for the Year was due to decrease in distributions received on the Class

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B Units attributable to the suspension and rate reductions of distributions, partially offset by fewer purchases in property, plant and equipment.

**Related Party Transactions**

BPI's related party balances owing at the end of the period and related party transactions for the Period were as follows:

	December 31,	
(in thousands of dollars)	2020	2019
Accounts receivables due from associated companies	\$ 2,633	\$ 951
Receivable from Boston Pizza Royalties Limited Partnership <sup>(1)</sup>	-	800
Accounts payable due to associated companies	51	664
Shareholder loan payable	-	303
Royalty payable to Royalties LP	4,870	2,989
Distributions payable to Holdings LP	1,543	940

(in thousands of dollars)	Q4 2020	Q4 2019	2020	2019
Revenues from a company under common control	\$ 566	\$ 789	\$ 2,393	\$ 3,187
Fees charged to the Fund in respect of administrative services <sup>(1)</sup>	100	100	400	400
Royalty expense to the Fund	5,862	8,447	24,528	34,149
Distribution expense to the Fund	1,946	2,785	8,114	11,246
Management fees paid for services rendered to companies under common control	-	424	409	1,965
Management fees paid to companies under common control included in compensation expense	-	223	216	1,035
Additional capital from parent company <sup>(2)</sup>	-	-	10,000	-

(1) The Fund is considered to be a related party of BPI by virtue of common officers and directors of BPI and Boston Pizza GP Inc., the managing general partner of Royalties LP. The Fund has engaged Royalties LP, its administrator, to provide certain administrative services on behalf of the Fund ("**Administrative Services**"). 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 the Administrative Services. The total amount paid to BPI in respect of these services for the Period was \$0.1 million (Q4 2019 – nil). Royalties LP and BPI agreed that for 2018 and 2019 BPI charged Royalties LP \$0.4 million of annual out-of-pocket expenses for which it was entitled to be reimbursed but that Royalties LP deferred payment of such amount to BPI (the "**Deferred Amount**"). The Deferred Amount did not bear interest and was to become payable to BPI when the Fund's cash and cash equivalents were greater than 7% of Royalty and Distributions. As noted above, as part of the Pandemic Recovery Plan, Royalties LP drew down \$0.8 million from the Fund's credit facilities, and Royalties LP repaid BPI \$0.8 million of the Deferred Amount. BPI and Royalties LP agreed to limit the annual amount of out-of-pocket expenses for which BPI is entitled to be reimbursed to not more than \$0.4 million for each of 2020, 2021 and 2022, with such limit increasing by not more than the percentage change in the Canadian Consumer Price Index (as calculated by Statistics Canada) in the calendar year prior thereafter.

(2) BPI received \$5.0 million of capital from its parent company on June 22, 2020 and an additional \$5.0 million on September 24, 2020.

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

**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

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Committee of Sponsoring Organizations of the Treadway Commission Internal Control – Integrated Framework: 2013.

**CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS**

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. The value of New 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 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 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 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 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, BPI's results of operations and financial position may be impacted.

*Estimate – Class B Units, Class 1 LP Units, and Class 2 LP Units*

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 (i.e. as prices) or indirectly (i.e. 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 data.

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

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(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. This requires that BPI use a valuation technique to determine the value of BPI's investment in BP Royalties LP at each reporting date. The Class B Units are exchangeable for Fund Units, and thus, it is estimated that the value of the Class B Units approximates the number of Fund Units into which they are exchangeable. The Fund estimates the fair value of the Class B Units Liability 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 the Fund Units on the last business day of the period.

This valuation technique may not represent the actual value of the financial asset should such units be extinguished and changes in the distribution rate on the Class B Units and the yield of the Fund Units could materially impact the Company's financial position and net and comprehensive income.

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

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 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 recognized 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 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 fair value of the Class 2 LP Units liability for BPI mirrors the fair value of the investment in Class 2 LP Units asset recognized by the Fund for any particular period. The Class 2 LP Units have similar cash distribution entitlements and provisions to the Class 2 GP Units held by BPI, which are exchangeable for Fund Units. 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 fair value of the Class 2 LP Units is determined by multiplying the issued and outstanding Class 2 LP Units indirectly held by the Fund at the end of the period by the closing price of a Fund Unit on the last business day of the 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.

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**CHANGES IN ACCOUNTING POLICIES**

The International Accounting Standards Board (the "IASB") issued amendments to IAS 1 – *Presentation of Financial Statements* and IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors*, Definition of Material and Amendments to References to the Conceptual Framework in IFRS Standards, effective January 1, 2020. These amendments do not have an impact on BPI's condensed consolidated interim financial statements.

In May 2020, the IASB issued amendments to IFRS 16 – *Leases*, effective for annual reporting periods beginning on or after June 2020. It provides lessees with an exemption from assessing whether a COVID-19 related rent concession is a lease modification. The amendments do not have a material impact on BPI's condensed consolidated interim financial statements.

**SHORT-TERM OUTLOOK**

The information contained in this "Short-Term 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.

The COVID-19 pandemic has had sudden, unexpected and unprecedented impacts on the general economy, the restaurant industry and has specifically caused significant disruption to the business of the Fund and BPI. The focus of BPI's management is to continue to: (i) monitor carefully the continuously evolving COVID-19 situation; (ii) modify the operating procedures of Boston Pizza Restaurants to ensure the safety of guests and staff of BP Canada LP's franchisees; (iii) responsibly and safely operate the dining rooms and sports bars of Boston Pizza Restaurants across Canada when permitted by applicable provincial health authorities; (iv) maximize the opportunity to grow its take-out and delivery business; and (v) review and adapt current and future plans to responsibly address the challenges and opportunities presented by COVID-19. Management of BPI anticipates that sales levels for the first half of 2021 will continue to be challenged as a result of COVID-19.

**RISKS & UNCERTAINTIES**

**Risks Related to the Business of BPI and BP Canada LP**

COVID-19 Risk

On March 11, 2020, World Health Organization declared the COVID-19 outbreak a pandemic. The COVID-19 pandemic has had sudden, unexpected and unprecedented impacts on the general economy, the restaurant industry and has specifically caused significant disruption to the business and revenues of BPI. The COVID-19 pandemic has resulted and will continue to result in material declines to Franchise Sales and SRS when compared to the same period in the previous year. The declines in Franchise Sales and SRS will result in significant declines to Royalty and Distributions payable by BPI and BP Canada LP to the Fund when compared to the same period in the previous year. It is unknown if, when and to what extent the Franchise Sales of Boston Pizza Restaurants will return to the levels they were at prior to the emergence of the COVID-19 pandemic. As well, it is unknown how many and how long additional COVID-19 outbreaks, including outbreaks caused by variants of the COVID-19 virus, will last and the extent to which they necessitate further reduced service levels or temporary closures of Boston Pizza Restaurants. Any reduced service levels or temporary closures of Boston Pizza Restaurants will result in further declines to Franchise Sales, SRS, Royalty and Distributions. In addition, it is unknown if and to what extent the COVID-19 pandemic will alter consumer behaviour and demand for casual dining restaurant services.

COVID-19 and the reactions to it, including the possibility that it may result in a prolonged global recession, may also have the effect of exacerbating the potential impact of the other risks disclosed in this Risk & Uncertainties section.

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The Restaurant Industry and its Competitive Nature

The performance of the Fund is directly dependent upon the Royalty 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, 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, pandemics and national health crises (including COVID-19), 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, and the ability of BP Canada LP to pay Distributions to Holdings LP.

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 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 Restaurants to replace the Franchise Sales of the Close Restaurants.

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BPI and BP Canada LP Revenue

The ability of BPI to pay the Royalty 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.

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 *Trademarks 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 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 restrict 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 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

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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 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 are 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 Distributions to Holdings LP, and of BPI to pay the Royalty to Royalties LP.

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

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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 any of BPI, BP Canada LP or Boston Pizza franchisees experience 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.

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.

Leverage: Restrictive Covenants

BPI has third-party debt service obligations under the Credit Facilities, BCAP Loan, BDC Facilities and Acquired Restaurant Credit Facility. The degree to which BPI is leveraged could have important consequences to Unitholders, including: (i) a portion of BPI's cash flow from operations could be dedicated to the payment of the principal of and interest on BPI's indebtedness, thereby reducing funds available for payment of the Royalty; and (ii) certain of BPI's borrowings are at variable rates of interest, which exposes them to the risk of increased interest rates. The Credit Facilities are due on December 31, 2022, at which time BPI will need to refinance such loans. There can be no assurance that refinancing of this indebtedness will be available to BPI, or available to BPI on acceptable terms. If BPI cannot refinance this indebtedness on acceptable terms upon maturity, it will negatively impact the ability of BPI to pay Royalty. Given the Fund's dependence upon BPI, this will negatively impact the Fund's distributable cash and the Fund's ability to make distributions on Fund Units. BPI's ability to make scheduled payments of principal or interest on, or to refinance, its indebtedness depends on future cash flows, which is dependent on the success of Boston Pizza Restaurants, prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond its control.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**BOSTON PIZZA INTERNATIONAL INC.**  
**For the Period and Year ended December 31, 2020**

The Credit Facilities contain numerous restrictive covenants that limit the discretion of BPI's management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of BPI 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, and to merge or consolidate with another entity.

A failure by BPI 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 BPI's assets would be sufficient to repay that indebtedness. If BPI were unable to repay that indebtedness, it would adversely affect BPI's ability to pay the Royalty, and thereby negatively impacting the Fund's distributable cash and the Fund's ability to make distributions on Fund Units.

**ADDITIONAL INFORMATION**

Additional information relating to BPI, the Fund, Royalties LP, Boston Pizza GP Inc., BPCHP, Boston Pizza Holdings Trust, Holdings LP, Boston Pizza Holdings GP Inc. and BP Canada LP, including the Fund's Annual Information Form dated February 9, 2021, is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Fund's website at [www.bpincomefund.com](http://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., BPCHP, 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:

- future distributions and dates distributions are to be paid or payable;
- how changes in distributions will be implemented;
- how distributions will be funded;
- implementation of the Pandemic Recovery Plan;
- management anticipates that sales levels for the first half of 2021 will continue to be challenged as a result of COVID-19;
- COVID-19 has resulted and will continue to result in material declines to Franchise Sales and SRS at Boston Pizza Restaurants, and the declines in Franchise Sales and SRS will result in significant declines to Royalty and Distributions payable by BPI and BP Canada LP to the Fund, and significant declines in the amount of cash available for distribution to Unitholders;
- Boston Pizza Restaurants will close for two to three weeks to complete a renovation and experience an incremental sales increase in the year following the re-opening;
- impact of seasonality on Franchise Sales;
- the "Four Pillars" strategy will continue to focus BPI's and BP Canada LP's efforts to develop new markets and strengthen Boston Pizza's position as Canada's number one casual dining brand;
- estimates relating to the amount and timing to cash flows related to BPI's contractual obligations and commercial commitments;
- the calculation and testing of the amended financial covenants to the general security agreements;
- adjustments to Additional Entitlements that are to occur in the future and when such adjustments will occur;

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**BOSTON PIZZA INTERNATIONAL INC.**  
**For the Period and Year ended December 31, 2020**

- belief that BPI has sufficient cash and capital resources for 2021, 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;
- anticipated impact on financial performance of the adoption of new accounting policies;
- BPI continuing to: (i) monitor carefully the continuously evolving COVID-19 situation; (ii) modify the operating procedures of Boston Pizza Restaurants to ensure the safety of guests and employees of BP Canada LP's franchisees; (iii) responsibly and safely re-open the dining rooms and sports bars of Boston Pizza Restaurants across Canada when permitted by applicable provincial health authorities; (iv) maximize the opportunity to grow its take-out and delivery business; and (v) review and adapt current and future plans to responsibly address the challenges and opportunities presented by COVID-19; and
- BPI making responsible adjustments to its business as circumstances warrant.

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;
- expectations related to future general economic conditions;
- management of BPI and BP Canada LP maintaining current strategies to drive higher guest traffic and higher average guest cheques;
- Boston Pizza Restaurants maintaining operational excellence;
- culinary innovation and menu re-pricing;
- continuing operations of key suppliers;
- availability of experienced management and hourly employees;
- ability to obtain qualified franchisees;
- ability to open sufficient New Restaurants to replace Franchise Sales of Closed Restaurants;
- ability to comply with disclosure obligations under franchise laws and regulations;
- ability to obtain adequate insurance coverage;
- ability to enter into arrangements with suppliers and distributors to generate competitive pricing for franchisees and revenue for BP Canada LP;
- ability to cover forecasted expenditures, capital requirements, commitments and repayments for 2021;
- current sources of liquidity are sufficient to cover currently known short and long term obligations;
- COVID-19 will continue to negatively impact the restaurant industry and necessitate the closure and/or reduction of seating capacity of certain Boston Pizza dining rooms and sports bars across Canada;
- the closure and/or reduction of seating capacity of certain Boston Pizza dining rooms and sports bars across Canada will result in significant declines in BPI's revenue; and
- COVID-19 and its related restrictions will eventually dissipate.

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;
- consumer spending habits;

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**BOSTON PIZZA INTERNATIONAL INC.**  
**For the Period and Year ended December 31, 2020**

- consumer confidence in the retail sector;
- household debt;
- weather;
- pricing;
- changes in demographic trends;
- changes in consumer preferences and discretionary spending patterns;
- changes in national and local business and economic conditions;
- legislation and government regulation;
- cash distributions are not guaranteed;
- accounting policies and practices;
- the results of operations and financial conditions of BPI and the Fund;
- inflation;
- publicity from any food borne illness;
- increase in food, labour or benefits costs;
- Boston Pizza Restaurant closures;
- successful challenge of the BP Rights;
- inadequacy of insurance coverage;
- increases in sales tax;
- litigation against franchisees;
- inability to attract and retain key personnel;
- data security breaches and technological failures;
- pandemics and national health crises, in particular COVID-19; and
- the closure of Boston Pizza dining rooms and sports bars across Canada continuing to result in material declines to Franchise Sales and SRS.

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 BPI for the period and year ended December 31, 2020.

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, BPI assumes no obligation to update or revise forward-looking information to reflect new events or circumstances.



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## INDEPENDENT AUDITORS' REPORT

To the Shareholder of Boston Pizza International Inc.,

### **Opinion**

We have audited the consolidated financial statements of Boston Pizza International Inc. ("BPI"), which comprise:

- the consolidated statements of financial position as at December 31, 2020 and December 31, 2019
- the consolidated statements of comprehensive income for the years then ended
- the consolidated statements of changes in shareholder's deficiency for the years then ended
- the consolidated statement of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of BPI as at end of December 31, 2020 and December 31, 2019, and its consolidated financial performance, and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

### **Basis for Opinion**

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "**Auditors' Responsibilities for the Audit of the Financial Statements**" section of our auditors' report.

We are independent of BPI in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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



### **Other Information**

Management is responsible for the other information. Other information comprises:

- the information, included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Glossy Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report.

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Glossy Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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

In preparing the financial statements, management is responsible for assessing BPI's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate BPI or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing BPI's financial reporting process.

### **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.



Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 BPI's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on BPI's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause BPI to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this auditors' report is Michael J. Kennedy.



Chartered Professional Accountants

February 9, 2021  
Vancouver, Canada

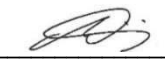
**BOSTON PIZZA INTERNATIONAL INC.**  
**Consolidated Statements of Financial Position**  
(Expressed in thousands of Canadian dollars)

	December 31, 2020	December 31, 2019
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 12,727	\$ 2,326
Accounts receivable (note 4(a))	10,338	9,077
Prepaid expenses and other current assets	1,068	843
Income tax receivable (note 14)	-	460
Advertising fund restricted assets	11,009	9,167
Interest receivable from Boston Pizza Royalties Limited Partnership	911	337
	36,053	22,210
Long-term receivables (note 4(a))	220	760
Receivable from Boston Pizza Royalties Limited Partnership (note 4(b))	-	800
Investment in Boston Pizza Royalties Limited Partnership (note 5)	26,321	32,344
Property and equipment (note 6)	12,798	16,226
Intangible assets (note 7)	5,733	6,780
Deferred income taxes (note 14)	66,704	68,444
<b>Total assets</b>	<b>\$ 147,829</b>	<b>\$ 147,564</b>
<b>Liabilities and Shareholder Deficiency</b>		
<b>Current liabilities</b>		
Bank indebtedness (note 8)	\$ -	\$ 801
Accounts payable and accrued liabilities	7,200	8,250
Income tax payable	172	-
Royalty and distributions payable to the Fund (note 1)	6,413	3,929
Deferred revenue	2,199	2,074
Debt (note 8)	3,803	3,485
Lease obligation (note 9)	1,607	1,700
Shareholder loan payable (note 16)	-	303
Advertising fund restricted liabilities	12,369	12,859
	33,763	33,401
Deferred revenue	4,402	5,682
Debt (note 8)	34,387	33,881
Lease obligation (note 9)	5,257	6,855
Advertising fund restricted liabilities	4,221	3,639
Other long-term liabilities	947	250
Boston Pizza Canada Limited Partnership units liability (note 10)	92,400	106,749
Deferred gain (note 11)	227,668	230,135
<b>Total liabilities</b>	<b>403,045</b>	<b>420,592</b>
<b>Shareholder deficiency</b>		
Share capital	38,248	28,248
Accumulated deficit	(293,464)	(301,276)
	(255,216)	(273,028)
<b>Total liabilities and shareholder deficiency</b>	<b>\$ 147,829</b>	<b>\$ 147,564</b>

Organization and nature of operations (note 1); Subsequent events (note 20)

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

Approved on behalf of the Board:

  
James Treliving, Director

**BOSTON PIZZA INTERNATIONAL INC.**  
**Consolidated Statements of Comprehensive Income**  
**For the years ended December 31, 2020 and 2019**  
(Expressed in thousands of Canadian dollars, except per share data)

	2020	2019
<b>Revenue</b>		
Franchise, restaurant and other	\$ 67,520	\$ 99,394
Advertising fund revenue	18,555	26,143
	86,075	125,537
Royalty expense (note 16)	24,528	34,149
Distribution expense (note 10 and 17)	8,114	11,246
Restaurant operating costs	7,559	14,153
Compensation expense (note 4(a) and 17)	14,907	20,268
Advertising fund expense	16,819	26,355
Other expenses (note 16)	8,221	10,078
Depreciation and amortization (note 6 and 7)	5,799	5,664
Management fee (note 17)	409	1,965
Amortization of deferred gain (note 11)	(2,826)	(2,823)
Operating expenses	83,530	121,055
<b>Earnings before interest, fair value gain and taxes</b>	<b>2,545</b>	<b>4,482</b>
Interest income from Boston Pizza Royalties Limited Partnership	(2,085)	(4,133)
Interest on payables owed to the Fund (note 1)	138	-
Interest on debt and financing fees	1,906	2,206
Interest on lease obligations (note 9)	427	445
Net interest expense (income)	386	(1,482)
Fair value loss on investment in Boston Pizza Royalties Limited Partnership (note 5)	6,382	4,120
Fair value gain on Boston Pizza Canada Limited Partnership units liability (note 10)	(14,349)	(9,002)
Total fair value gain	(7,967)	(4,882)
<b>Earnings before income taxes</b>	<b>10,126</b>	<b>10,846</b>
Current income tax expense (note 14)	574	1,786
Deferred income tax expense (recovery) (note 14)	1,740	(1,462)
Total tax expense	2,314	324
<b>Net and comprehensive income</b>	<b>\$ 7,812</b>	<b>\$ 10,522</b>
Basic and diluted earnings per share	\$ 79.64	\$ 107.27

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
<b>Balance – December 31, 2019</b>	\$ 28,248	\$ (301,276)	\$ (273,028)
Contribution of share capital ( <i>notes 1 and 17</i> )	10,000	-	10,000
Net and comprehensive income for the year	-	7,812	7,812
<b>Balance – December 31, 2020</b>	\$ 38,248	\$ (293,464)	\$ (255,216)
<b>Balance – December 31, 2018</b>	\$ 28,248	\$ (311,798)	\$ (283,550)
Net and comprehensive income for the year	-	10,522	10,522
<b>Balance – December 31, 2019</b>	\$ 28,248	\$ (301,276)	\$ (273,028)

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, 2020 and 2019**

(Expressed in thousands of Canadian dollars)

	2020	2019
<b>Cash flows generated from (used in)</b>		
<b>Operating activities</b>		
Net and comprehensive income	\$ 7,812	\$ 10,522
Adjustments for:		
Depreciation and amortization ( <i>notes 6 and 7</i> )	5,799	5,664
Current income tax expense ( <i>note 14</i> )	574	1,786
Deferred income tax expense (recovery) ( <i>note 14</i> )	1,740	(1,462)
Amortization of deferred gain ( <i>note 12</i> )	(2,826)	(2,823)
Bad debt expense ( <i>note 16</i> )	2,820	200
Impairment of intangible asset	156	-
Fair value loss on investment in Boston Pizza Royalties Limited Partnership ( <i>note 5</i> )	6,382	4,120
Fair value gain on Boston Pizza Canada Limited Partnership units liability ( <i>note 10</i> )	(14,349)	(9,002)
Interest income from Boston Pizza Royalties Limited Partnership	(2,085)	(4,133)
Interest on payables owed to the Fund ( <i>note 1</i> )	138	-
Interest on debt and financing fees	1,906	2,206
Interest on lease obligations	427	445
Change in non-cash operating items ( <i>note 18(a)</i> )	(4,641)	923
Income tax paid	(573)	(2,351)
Income tax received	631	142
Net cash generated from operating activities	3,911	6,237
<b>Financing activities</b>		
Proceeds from capital contribution ( <i>note 17</i> )	10,000	-
Proceeds from debt	8,250	-
Repayment of debt	(7,382)	(2,275)
Payment of deferred financing fees	(286)	-
Repayment of shareholder loan payable	(303)	(800)
(Repayment of) proceeds from revolving facility	(801)	167
Payment of lease obligations ( <i>note 9</i> )	(1,406)	(1,606)
Interest paid	(2,110)	(2,394)
Net cash generated (used) in financing activities	5,962	(6,908)
<b>Investing activities</b>		
Interest received from investment in Boston Pizza Royalties Limited Partnership	1,510	4,094
Purchase of property and equipment, net ( <i>note 18(b)</i> )	(141)	(563)
Purchase of intangible assets, net ( <i>note 18(b)</i> )	(841)	(1,420)
Net cash generated in investing activities	528	2,111
<b>Increase in cash</b>	10,401	1,440
<b>Cash – beginning of year</b>	2,326	886
<b>Cash – end of year</b>	\$ 12,727	\$ 2,326

Supplemental cash flow information (*note 18*)

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

**1. General information:**

(a) Organization:

Boston Pizza International Inc. was incorporated on May 26, 1982 under the laws of British Columbia and continued under the *Canada Business Corporations Act* on August 26, 2002. The principal business office is located at 10760 Shellbridge Way, Richmond, BC.

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., Front & John Pizza Ltd., Stadium District Pizza Ltd., Theatre District Pizza Ltd., Boston Pizza Canada Holdings Partnership (“**BPCHP**”) and Boston Pizza Canada Holdings Inc. (“**BPCHI**”), and the accounts of Boston Pizza Canada Limited Partnership (“**BP Canada LP**”), collectively the “**Company**” or “**BPI**”. James Treliving Holdings Ltd. (“**JTHL**”) is the sole shareholder of the Company, owning 100% of BPI.

BPI pays Boston Pizza Royalties Income Fund (the “**Fund**”) a royalty of 4.0% of Franchise Sales (defined below) 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 (the “**Distribution**”) equal to 1.5% of Franchise Sales of Boston Pizza Restaurants in the Royalty Pool (the “**Franchise Sales Participation**”) less the pro rata portion payable to BPI in respect of its retained interest in the Fund. BP Canada LP, a British Columbia limited partnership controlled and operated by BPI, is the exclusive franchisor of the Boston Pizza concept in Canada.

(b) Nature of operations:

The Company’s principal business activity is the operation and franchising of Boston Pizza restaurants in Canada. As at December 31, 2020, 387 Boston Pizza restaurants were in operation (December 31, 2019 – 395).

On March 11, 2020, the World Health Organization declared the new coronavirus disease (“**COVID-19**”) outbreak a pandemic. The COVID-19 pandemic has had sudden, unexpected and unprecedented impacts on the general economy and the restaurant industry and has specifically caused significant disruption to the business and revenues of BPI. This has resulted in various government restrictions that have required a variety of temporary closures of dine-in restaurant operations or reductions of operating hours. At December 31, 2020, approximately 370 Boston Pizza Restaurants remained open, of which approximately 100 were operating with in-restaurant dining, having their dining rooms, sports bars and patios open with reduced seating capacity to provide appropriate physical distancing and were providing take-out and delivery services. The remainder were open for take-out and delivery services only. Such reduced services and closures have resulted in material declines in BPI’s franchise sales since the first quarter of 2020.

To support BPI’s franchisees through the crisis, BPI deferred the collection of the 7% royalties and 3% advertising fees from its franchisees on franchise sales occurring between March 1, 2020 and May 31, 2020 and commenced the collection of the deferred fees in September 2020 over 15 months. In July 2020, BPI resumed the collection of royalties and advertising fees in respect of franchise sales occurring

**1. General information (continued):**

on and after June 1, 2020. This temporary suspension of collecting royalty and advertising fees was a breach of BPI’s obligations under the License and Royalty Agreement (defined in *note 5*), between Boston Pizza Royalties Limited Partnership (the “**Royalties LP**”) and BPI.

On June 22, 2020 the Fund and BPI reached agreements to address the financial challenges caused by the COVID-19 pandemic including entry into a pandemic recovery plan between BPI and certain of its and the Fund’s subsidiaries (the “**Pandemic Recovery Plan**”). As part of the Pandemic Recovery Plan, BPI delayed the payment of Royalty and Distribution to the Fund in respect of March 2020 to May 2020 and, in June 2020, the Fund waived historical non-compliance with BPI’s obligation to pay Royalty and Distribution in respect of non-payment and with BPI’s obligation to collect royalty and advertising fees from BPI’s franchisees. Additionally, during the second quarter of 2020, BPI was not in compliance with certain financial covenants under the general security agreements granted to Royalties LP to secure BPI’s obligation to pay Royalty and Distribution. The Fund amended the covenant and waived historical non-compliance under such general security agreements.

The deferred Royalty and Distribution to the Fund bear interest at an annual rate equal to the prime rate for commercial loans offered by the Fund’s bank plus 2% and are due and repayable in equal monthly instalments (of blended principal and interest) over 15 months which commenced in September 2020. At December 31, 2020, the deferred amount outstanding was \$4.1 million. BPI resumed payments to the Fund commencing in respect of June 2020.

Also, in the Pandemic Recovery Plan, BPI’s and the Fund’s bank (the “**Bank**”) provided BPI \$6.25 million of additional credit facilities under the Export Development Canada (“**EDC**”) business credit availability program, which was received in June 2020. In July 2020, the Company also received \$2.0 million of additional subordinated credit facilities under the federal government’s COVID-19 relief program from the Business Development of Canada (“**BDC**”) (*note 8*).

Furthermore, JTHL invested \$5.0 million of additional capital in BPI on June 22, 2020 and invested an additional \$5.0 million of capital in BPI on September 24, 2020. A portion of the proceeds received was used to reduce the Term Loan (defined in *note 8*) with the remainder used to enhance liquidity and cashflow.

Lastly, BPI and the Bank amended the Credit Agreement, (defined in *note 8*) by a First Supplemental Credit Agreement to have a revised a maturity date of December 31, 2022 and revised interest rates. Pursuant to the terms of the First Supplemental Credit Agreement, the Company used the additional capital from JTHL received in June 2020 to reduce the principal balance of the Term Loan by \$4.0 million and \$1.0 million in June and July 2020, respectively. Aside from these scheduled repayments, regular quarterly principal repayments for the Term Loan were waived for the second and third quarters of 2020 and the repayments resumed in the fourth quarter of 2020. As at December 31, 2020, BPI was in compliance with the covenants under the First Supplemental Credit Agreement.

In addition to reaching mutually satisfactory arrangements with the Bank, BPI continues to actively manage its financial condition by taking steps to preserve liquidity. These measures consist of the reduction and/or deferral of capital and operating expenditures (*note 12*). Commencing April 2020, management fees paid to a company under common control were reduced to nil. For the year ended

1. General information (continued):

December 31, 2020, total management fees paid were \$0.4 million (2019 - \$2.0 million) and will not resume until one of BPI's financial ratios reaches a certain level. In June 2020, the Fund has also repaid the \$0.8 million of reimbursable charges that BPI previously agreed to defer until the Fund achieved certain financial ratios ("**Deferred Amount**") (note 4(b)). In exchange for the early repayment on the Deferred Amount, BPI and the Fund agreed to limit the annual amount of expenses for which BPI is entitled to be reimbursed to not more than \$0.4 million for 2020, 2021 and 2022, with such limit increasing by not more than the percentage change in the Canadian Consumer Price Index (as calculated by Statistics Canada) in the calendar year prior thereafter. During the year, the Company also received government financial assistance under the Canada Emergency Wage Subsidy ("**CEWS**") and Canada Emergency Rent Subsidy ("**CERS**") program (note 4).

Due to the adverse financial impact from COVID-19 in the first and second quarters of 2020, BPI was not in compliance with a certain financial covenant under the General Security Agreements ("**GSA**") granted to the Fund. The Fund revised the covenant and waived its rights for the historical non-compliance under the GSA. During the second quarter of 2020, BPI was not in compliance with certain non-financial covenants under the License and Royalty Agreement (defined in note 5) and the Limited Partnership Agreement governing BP Canada LP ("**BPCLP Agreement**") due to the deferral of royalties and distributions payment. The Fund waived historical non-compliance with BPI's obligation to pay royalty and distributions in respect of non-payment.

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 Director for issue on February 9, 2021.

(b) Functional and presentation currency:

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

(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, prior to an internal reorganization of corporate structure in 2017 (the "**Reorganization**"), 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 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 sales of the new Boston Pizza restaurants and a tax 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. This requires that the Company use a valuation technique to determine the value of the Investment in BP Royalties LP at each reporting date (refer to note 12).

This valuation technique may not represent the actual value of the financial asset should such units be extinguished and changes in the distribution rate on the Class B Units and the yield of the Fund Units could materially impact the Company's financial position and net and comprehensive income.

• **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. This requires that the Company use a valuation technique to determine the value of the BP Canada LP Units Liability at each reporting date (refer to note 12).

This valuation technique may not represent the actual value of the financial liability and could materially impact the Company's financial position and net and comprehensive income.

**2. Basis of preparation (continued):**

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

**Estimates (continued):**

• **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.

• **Going Concern**

As discussed in *note 1*, the Company has implemented a number of measures to provide liquidity during the COVID-19 period. While these measures are considered sufficient for the foreseeable future, the future effect of COVID-19 on the economy in general and the Company in particular remains uncertain. The medium and long-term impacts to BPI will depend on the length of time restaurants take to resume normal operating levels, the number of franchisees who are not able to reopen for dine-in, and the overall macroeconomic impact. As at December 31, 2020, the Company has a cash balance of \$12.7 million, working capital of \$2.3 million and \$10 million of operating line of credit. The Company anticipates that it will have sufficient liquidity to fund its operations and debt service payments for the foreseeable future.

**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*)
- BP Canada LP units liability (*note 10*)
- Receivable from Boston Pizza Royalties Limited Partnership (*note 4(b)*)

(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%
Stadium District Pizza Ltd.	100%
Theatre District Pizza Ltd.	100%
Boston Pizza Canada Holdings Partnership	100%
Boston Pizza Canada Holdings Inc.	100%
Boston Pizza Canada Limited Partnership	100%

The parent company of BPI is JTHL.

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) Cash and cash equivalents:

Cash and cash equivalents consist of cash on hand and balances with banks and short-term money investments that are readily convertible to cash with original terms of three months or less.

(d) Advertising Fund:

The Company operates an Advertising Fund (the "**Advertising Fund**") established to collect and administer funds contributed for use in advertising and promotional programs designed to increase

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

(d) Advertising Fund (continued):

sales and enhance the reputation of the Company and its franchisees. 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 and research, menu development, promotional and loyalty programs, brand protection, administration of the Gift Card Program, and other administration costs.

The Company reports contributions and expenditures on a gross basis on the Company's statement of comprehensive income. Advertising Fund contributions received may not equal advertising expenditures for the period due to timing of promotions and this difference is recognized to earnings. To the extent that cumulative advertising contributions temporarily exceed Advertising Fund expenditures, the difference is recognized as an accrual owed by the Advertising Fund. The assets and liabilities held by the Advertising Fund are considered restricted and are recognized as such on the Company's statement of financial position.

(e) 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 recognized in Advertising Fund (defined below) 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 recognized 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 card 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.

(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,

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

(f) Property and equipment (continued):

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 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.

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%
Right-of-use assets	Straight-line	term of lease
Leasehold improvements	Straight-line	shorter of term of the lease or useful life

(g) 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.

(h) Income taxes:

Income tax comprises current and deferred taxes. 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.

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

(h) Income taxes (continued):

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

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.

(i) Revenue recognition and deferred revenue:

(i) Franchise revenues:

Monthly franchise fee:

Monthly franchise fees are recognized as they are earned.

Franchise fee deposits:

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

Franchisee renewal fees:

Franchisee renewal fees related to the franchise agreement are deferred and recognized as revenue over the period of the renewal term.

(ii) Advertising fund revenue:

Monthly advertising fees:

Monthly advertising fund contributions are recognized as they are earned.

Gift card breakage income:

Gift card breakage income is recognized when the likelihood of the gift card being redeemed is remote.

(iii) Corporately owned restaurant revenues:

Corporately owned restaurant revenues are recognized at the time of sale.

(iv) Supplier contributions:

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

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

(j) 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. 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 in *note 10*). The Class B Additional Entitlements are included in the deferred gain.

(k) Financial instruments:

(i) Recognition, classification and measurement:

Financial assets are initially recognized at fair value and subsequently classified as measured at amortized cost, fair value through other comprehensive income ("FVOCI"), or fair value through profit and loss ("FVTPL").

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as FVTPL:

- the asset is held within a business model whose objective is to hold the asset to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt security is measured at FVOCI only if it meets both of the following conditions and is not designated as FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity instrument that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis. All other financial assets are classified as measured at FVTPL.

Financial liabilities are initially recognized at fair value and subsequently classified as measured at amortized cost or FVTPL. On initial recognition, the Company may irrevocably designate a financial liability at FVTPL when doing so results in more relevant information, because either:

- the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases; or



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

(k) Financial instruments (continued):

(i) Recognition, classification and measurement (continued):

- a group of financial liabilities or financial assets and financial liabilities is managed with its performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to key management personnel.

For financial assets classified as measured at FVTPL or designated at FVTPL, changes in fair value are recognized in the consolidated statement of comprehensive income. For financial assets classified as measured at FVOCI or an irrevocable election has been made, changes in fair value are recognized in the consolidated statement of comprehensive income. For financial assets and other financial liabilities measured at amortized cost, interest income and interest expense is calculated using the effective interest method and is recognized in the consolidated statement of income.

(ii) Business model assessment:

The Company makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the asset is managed and information is provided to management. The information considered includes:

- how the performance of the portfolio is evaluated and reported to management;
- how managers of the business are compensated;
- whether the assets are held for trading purposes;
- the risks that affect the performance of the financial assets held within the business model and how those risks are managed; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sale activity.

(iii) Contractual cash flow characteristics assessment:

In assessing whether the contractual cash flows are solely payments of principal and interest, 'principal' is defined as the fair value of the financial asset on initial recognition and 'interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

The Company considers the contractual terms of the financial asset and whether the asset contains contractual terms that could change the timing or amount of cash flows such that it would not meet the condition of principal and interest. Contractual terms considered in this assessment include contingent events that would change the amount and timing of cash flows, leverage features, prepayment and extension terms, terms that limit the claim to cash flows from specified assets, and features that modify the consideration from time value of money.

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

(k) Financial instruments (continued):

(ii) Contractual cash flow characteristics assessment (continued):

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.

(l) Impairment of financial assets:

*Credit-impaired financial assets*

At each reporting date, the Company assesses whether financial assets carried at amortized cost are credit impaired. A financial asset is 'credit impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amounts of the assets.

*Financial instruments and contract assets*

The Company recognizes loss allowances for expected credit losses ("ECL") on:

- financial assets measured at amortized cost;
- debt investments measured at fair value through other comprehensive income; and
- contracted assets.

The Company measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which the credit risk has not increased significantly since initial recognition.

Loss allowances for trade receivables are measured at an amount equal to lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. ECLs are probability-weighted estimate of credit losses, and credit losses are measured as the present value of cash shortfalls from a financial asset.

The Company determines whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating lifetime ECLs, by considering reasonably available

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

(l) Impairment of financial assets (continued):

quantitative and qualitative information based on the Company's credit risk experience, forward looking information, and other reasonable estimates.

(m) Impairment of non-financial assets:

Property and equipment and intangible assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Long-lived assets that are not amortized 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 asset's carrying amount exceeds its recoverable amount. The Company evaluates impairment losses for potential reversals when events or circumstances warrant such consideration.

(n) 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.

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 affecting EPS for the Company.

(o) Accounting policies adopted as of January 1, 2020:

During the year, the Company received government financial assistance under the CEWS and CERS programs. Under IAS 20 - Accounting for Government Grants and Disclosure of Government Assistance, Grants from the government are recognized at their fair value where there is reasonable assurance that the grant will be received and the Company will comply with the conditions attached to the grant. Grants relating to income are deducted from the related expense in the period during which the related expense is incurred.

(p) Accounting standards and amendments adopted as of January 1, 2020:

(i) The IASB issued amendments to *IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material and Amendments to References to the Conceptual Framework in IFRS Standards*, effective January 1, 2020. These amendments did not have an impact on the Company's consolidated financial statements.

(ii) In May 2020, the IASB issued amendments to *IFRS 16 – Leases*, effective for annual reporting periods beginning on or after June 1, 2020. It provides lessees with an exemption from

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

(p) Accounting standards and amendments adopted as of January 1, 2020 (continued):

(iii) assessing whether a COVID-19 related rent concession is a lease modification. The amendments do not have a material impact on the Company's consolidated financial statements.

**4. Accounts and other receivables:**

(a) Current and long-term receivables:

	December 31, 2020	December 31, 2019
Trade receivables and other (net of allowance)	\$ 7,352	\$ 8,537
Receivables due from associated companies	2,633	540
Government grant receivable	353	-
<b>Total current receivables</b>	<b>\$ 10,338</b>	<b>\$ 9,077</b>
Long-term trade receivables (net of allowance)	220	349
Long-term receivables due from associated companies (net of allowance)	-	411
<b>Total long-term receivables</b>	<b>\$ 220</b>	<b>\$ 760</b>

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.

During the year ended December 31, 2020, the Company recognized \$4.8 million of government financial assistance under the CEWS and CERS programs, of which \$0.4 million was received after December 31, 2020. The government financial assistance received under the CEWS and CERS programs were recognized as a reduction of compensation expense and rent expense in the consolidated statement of net and comprehensive income, respectively. There are no unfulfilled conditions or other contingencies attaching to the amounts received under the program.

**4. Accounts and other receivables (continued):**

(a) Current and long-term receivables (continued):

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

	December 31, 2020	December 31, 2019
Current	\$ 4,415	\$ 8,236
Past due 1-30 days	184	337
Past due 31-60 days	345	457
Past due 61-90 days	272	213
Past due over 90 days	5,342	594
	<u>\$ 10,558</u>	<u>\$ 9,837</u>

The allowance for doubtful accounts was \$4.6 million as at December 31, 2020 (December 31, 2019 – \$2.0 million) with \$2.1 million (December 31, 2019 – \$0.7 million) applied against short-term trade receivables and \$2.5 million against long-term trade receivables (December 31, 2019 – \$1.3 million). The Company's collections policy is to first apply cash receipts against the oldest outstanding invoices.

(b) Receivable from Boston Pizza Royalties Limited Partnership:

BPI charged the Fund annual reimbursable charges of \$0.4 million in each of 2018 and 2019 and BPI previously agreed with the Fund to defer the payment of these charges until the Fund has achieved certain financial ratios. The Deferred Amount did not bear interest and was repaid in June 2020. There is no deferral for the 2020 reimbursable charges.

**5. Investment in Boston Pizza Royalties Limited Partnership:**

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 commencing in 2002, 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").

The investment in Royalties LP is principally comprised of Class B Units. The value of additional Boston Pizza restaurants rolled into the Royalty Pool (as defined in the License and Royalty Agreement between Royalties LP and BPI (the "License and Royalty Agreement")) is also recognized within the Company's investment in Royalties LP through the additional entitlement of Class B Units. Annually, on the Adjustment Date, an adjustment is made to add to the Royalty Pool new Boston Pizza restaurants that opened and to remove any Boston Pizza restaurants that permanently closed since the previous Adjustment Date. In return for adding net additional Royalty (as defined in the License and Royalty Agreement) revenue to the Fund, BPI receives Class B Additional Entitlements to indirectly acquire additional units of Fund Units. BPI receives the Class B Holdback once the performance of the new Boston Pizza restaurants and the actual effective tax rate paid by the Fund are known for certain.

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 Class B Units are accounted for as a financial asset which is measured each reporting date at fair value. 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

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

value using the closing price of a Fund Unit. The determination of the fair value of the Investment in Royalties LP is described in *note 12*. The statement of comprehensive income includes interest revenue as earned, and the impact of the fair value adjustments on the Class B Units.

The investment in Royalties LP is comprised of:

	Issued and outstanding Additional Entitlements	Issued and outstanding Additional Entitlements including Holdback	Class B Unit Entitlement
Balance as at December 31, 2018	2,123,977	2,178,166	\$ 32,912
Class B Additional Entitlements granted January 1, 2019 <sup>(1)</sup>	185,469	231,836	3,705
Adjustment to prior year Class B Additional Entitlements <sup>(2)</sup>	47,153	(7,036)	(153)
Fair value loss	-	-	(4,120)
Balance as at December 31, 2019	2,356,599	2,402,966	\$ 32,344
Class B Additional Entitlements granted January 1, 2020 <sup>(3)</sup>	25,978	32,473	440
Adjustment to prior year Class B Additional Entitlements <sup>(4)</sup>	41,309	(5,058)	(81)
Fair value loss	-	-	(6,382)
Balance as at December 31, 2020	<u>2,423,886</u>	<u>2,430,381</u>	<u>\$ 26,321</u>

<sup>(1)</sup> On January 1, 2019, ten new Boston Pizza Restaurants that opened during the period from January 1, 2018 to December 31, 2018 were added to the Royalty Pool while five restaurants that closed during 2018 were removed. The Franchise Sales from restaurants added to the Royalty Pool on January 1, 2019, net of closures, has been estimated at \$11.8 million.

<sup>(2)</sup> Adjusted for actual performance of eight net new Boston Pizza Restaurants added to the Royalty Pool on January 1, 2018 and the actual effective tax rate paid by the Fund in 2018.

<sup>(3)</sup> On January 1, 2020, five new Boston Pizza Restaurants opened during the period from January 1, 2019 to December 31, 2019 were added to the Royalty Pool while six restaurants that closed during 2019 were removed. The Franchise Sales from restaurants added to the Royalty pool on January 1, 2020, net of closures, has been estimated at \$1.6 million.

<sup>(4)</sup> Adjusted for actual performance of five net new Boston Pizza Restaurants added to the Royalty Pool on January 1, 2019 and the actual effective tax rate paid by the Fund in 2019.

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**6. Property and equipment:**

<b>Cost</b>	Office furniture and equipment	Right-of-use assets	Leasehold improvements	Total
At January 1, 2019	\$ 12,275	\$ 2,929	\$ 13,257	\$ 28,461
IFRS 16 adoption adjustments	-	8,978	-	8,978
Additions	315	20	428	763
At December 31, 2019	12,590	11,927	13,685	38,202
Adjustments	-	(285)	-	(285)
Additions	205	-	37	242
At December 31, 2020	\$ 12,795	\$ 11,642	\$ 13,722	\$ 38,159

<b>Accumulated Depreciation</b>	Office furniture and equipment	Right-of-use assets	Leasehold improvements	Total
At January 1, 2019	\$ 9,548	\$ 2,895	\$ 6,157	\$ 18,600
Depreciation	638	1,582	1,156	3,376
At December 31, 2019	10,186	4,477	7,313	21,976
Depreciation	600	1,537	1,248	3,385
At December 31, 2020	\$ 10,786	\$ 6,014	\$ 8,561	\$ 25,361

<b>Net book Value</b>	Office furniture and equipment	Right-of-use assets	Leasehold improvements	Total
At December 31, 2019	\$ 2,404	\$ 7,450	\$ 6,372	\$ 16,226
At December 31, 2020	2,009	5,628	5,161	12,798

As of January 1, 2019, BPI adopted IFRS 16 *Leases* and recognized right-of-use assets of \$10.1 million, offset by a balance of \$1.1 million in lease incentives. As at December 31, 2020, the right-of-use assets include a balance of \$0.5 million (December 31, 2019 - \$0.8 million) in lease incentives which is being amortized over the terms of the leases.

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**7. Intangible assets:**

<b>Cost</b>	Computer Software and other	Reacquired Franchise Rights	Total
At January 1, 2019	\$ 18,866	\$ 2,647	\$ 21,513
Additions	2,070	-	2,070
At December 31, 2019	20,936	2,647	23,583
Additions	1,523	-	1,523
Impairment expense	(240)	-	(240)
At December 31, 2020	\$ 22,219	\$ 2,647	\$ 24,866

<b>Accumulated Amortization</b>	Computer software and other	Reacquired Franchise Rights	Total
Opening - January 1, 2019	\$ 13,696	\$ 819	\$ 14,515
Amortization	1,820	468	2,288
Ending - December 31, 2019	15,516	1,287	16,803
Amortization	1,928	486	2,414
Impairment expense	(84)	-	(84)
Ending - December 31, 2020	\$ 17,360	\$ 1,773	\$ 19,133

<b>Net book value (in thousands)</b>	Computer software and other	Reacquired Franchise Rights	Total
At December 31, 2019	\$ 5,420	\$ 1,360	\$ 6,780
At December 31, 2020	4,859	874	5,733

During the year ended December 31, 2020, the Company recognized impairment expense related to intangible assets with carrying net book value of \$0.2 million.

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**8. Debt:**

The Company's debt consists of the following:

	December 31, 2020	December 31, 2019
Term Loan bearing variable interest at bankers' acceptance plus between 2.75% and 3.75% per annum and due in 2022 <sup>(a)</sup>	\$ 27,666	\$ 34,667
Acquired Restaurant Credit Facility bearing variable interest at prime plus 1.00% per annum and due in 2022 <sup>(b)</sup>	2,932	3,313
BCAP non-revolving facility bearing variable interest at prime plus 2.50% per annum and due in 2025 <sup>(c)</sup>	6,250	-
BDC non-revolving facility bearing variable interest rates less 1.75% per annum (4.55% less 1.75% per annum as at December 31, 2020), and due in 2023 <sup>(d)</sup>	2,000	-
Deferred financing fees	(658)	(614)
	<u>38,190</u>	<u>37,366</u>
Current portion of debt	4,123	3,709
Current portion of deferred financing fees	(320)	(224)
	<u>\$ 34,387</u>	<u>\$ 33,881</u>

(a) At December 31, 2019, the Company had credit facilities with the bank in the amount of up to \$50 million (the "**Original Credit Facilities**"). On January 24, 2020, the Company entered into an amended and restated credit agreement (the "**Credit Agreement**") with the Bank pursuant to which the Original Credit Facilities were amended and extended (the Original Credit Facilities, as amended and extended, the "**BPI Credit Facilities**"). On June 22, 2020, the Company and the Bank further amended the Credit Agreement by a First Supplemental Credit Agreement (Credit Agreement as amended, the "**First Supplemental Credit Agreement**") as part of the Pandemic Recovery Plan (*note 1*) pursuant to which the BPI Credit Facilities were further amended.

Original Credit Facilities

The Original Credit Facilities are comprised of:

- (i) a \$10 million committed revolving facility to cover BPI's day-to-day operating requirements if needed (the "**Operating Line**"); and
- (ii) a \$40 million committed non-revolving term facility to finance the Reorganization (the "**Term Loan**").

The Original Credit Facilities had a maturity date of September 27, 2022 and bore interest at variable interest rates, comprised of a combination of the bank's bankers' acceptance rates plus between 1.00% and 2.50% or the bank's prime rate plus between 0.00% and 1.00%, depending upon debt to EBITDA ratios, and interest was payable monthly in arrears. As of December 31, 2019, \$0.8

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**8. Debt (continued):**

million was drawn on the Operating Line and \$34.7 million was outstanding on the Term Loan. The principal amount that was drawn on the Term Loan had to be reduced by quarterly payments amortized over 15 years.

Credit Agreement

On January 24, 2020, the Company entered into the Credit Agreement with the Bank pursuant to which the Original Credit Facilities were amended and extended with a new maturity date of January 24, 2025. The terms of the BPI Credit Facilities were amended as follows:

- (i) the total amount of credit available decreased by \$6.0 million, from \$50.0 million to \$44.0 million, by decreasing the size of the Term Loan from \$40 million to \$34.0 million to reflect repayments of principal that BPI previously paid to the Bank;
- (ii) the availment options for the Operating Line were changed to include, among others, availment by way of (i) Canadian dollar prime rate loans, (ii) bankers' acceptances with a maturity between 30 and 182 days, (iii) Canadian dollar offered rate loans with terms of one month or three months, and (iv) letter of credit advances;
- (iii) the interest rates (or margins, as applicable) applicable to Canadian dollar prime rate loans, bankers' acceptances and Canadian dollar offered rate loans were reduced. In the case of Canadian prime rate loans, the interest rate was equal to the Bank's prime rate plus between 0.00% and 1.50% (formerly 0.00% and 1.00%) depending on the total funded net debt to EBITDA ratio and, in the case of bankers' acceptances and Canadian dollar offered rate loans, the interest rate was equal to a variable interest rate based on the Bank's bankers' acceptance rates or Canadian dollar offered rates plus between 1.00% and 2.50% depending on the total funded net debt to EBITDA ratio. The fees applicable to Letter of Credit advances was equal to the maximum amount that the lender may be called upon to disburse under a Letter of Credit multiplied by the applicable margin between 1.00% and 2.50% (depending on the total funded net debt to EBITDA ratio) multiplied by the number of days in which the Letter of Credit advances were outstanding in the given fiscal quarter; and
- (iv) certain financial covenants and other provisions were modified;

The guarantees and security supporting BPI Credit Facilities remain unchanged from those provided in respect of the Original Credit Facilities.

The BPI Credit Facilities contain certain financial covenants which could have entitled the Bank to demand repayment of the outstanding balance drawn on the BPI Credit Facilities prior to maturity. Prior to June 22, 2020, BPI was not in compliance with certain financial covenants under the Credit Agreement. On June 22, 2020, the Bank has amended the covenants under the First Supplemental Credit Agreement and waived all historical non-compliance of financial covenants.

First Supplemental Credit Agreement

On June 22, 2020, the First Supplemental Credit Agreement amended the Credit Agreement as follows:

**8. Debt (continued):**

- (i) to reduce the Term Loan from \$34.0 million to \$33.3 million to reflect repayments of principal that BPI previously paid to the Bank up to that date;
- (ii) to revise the maturity date from the previous maturity date of January 25, 2025 to December 31, 2022;
- (iii) to increase the interest rates (or margins, as applicable) of Canadian dollar prime rate loans, bankers' acceptances and Canadian dollar offered rate loans. In the case of Canadian prime rate loans, the interest rate is equal to the Bank's prime rate plus between 1.50% and 2.50% (formerly 0.00% and 1.50%) depending on the total funded net debt to EBITDA ratio and in the case of bankers' acceptances and Canadian dollar offered rate loans, the interest rate is equal to a variable interest rate based on the Bank's bankers' acceptance rates or Canadian dollar offered rates plus between 2.75% to 3.75% (formerly 1.00% and 2.50%) depending on the total funded net debt to EBITDA ratio;
- (iv) to defer the quarterly principal repayments for the Term Loan in the second and third quarters of 2020 totaling \$1.3 million. The deferred principal will be repaid upon the maturity of the Term Loan on December 31, 2022;
- (v) various financial covenants were replaced with a new covenant to maintain BPI's trailing twelve-month EBITDA to not less than certain specified values and will be tested on a quarterly basis;
- (vi) to expand permitted indebtedness to include debt in relation to COVID-19 offered through the BDC and EDC.

Pursuant to the terms of the First Supplemental Credit Agreement, during the year ended December 31, 2020, the Company used the proceeds of the additional capital received from JTHL to repay \$5.0 million of the Term Loan.

The BPI Credit Facilities under this agreement are guaranteed by BPI's wholly-owned subsidiaries, all of whom have granted security for their obligations under those guarantees. No security has been given by BP Canada LP in respect of the Credit Facilities. The guarantees and security supporting the Credit Facilities are unchanged from those provided in respect of the Original Credit Facilities.

As of December 31, 2020, no amount was drawn (December 31, 2019 - \$0.8 million) on the Operating Line.

- (b) In addition to the BPI Credit Facilities, one of BPI's wholly-owned subsidiaries has a \$3.3 million committed non-revolving term loan that was established to fund a 2016 restaurant purchase and renovations. On January 24, 2020, this credit facility was amended and extended (the "**Acquired Restaurant Credit Facility**"). The maturity date of the Acquired Restaurant Credit Facilities was extended from March 7, 2022 to January 24, 2025. The applicable margin and other terms of the agreement remain consistent with the prior agreement.

On June 22, 2020 as part of the Pandemic Recovery Plan, the subsidiary of BPI and the Bank further amended the Acquired Restaurant Credit Facility. The amended terms include a revised maturity date of March 31, 2022 from January 24, 2025, elimination of the \$0.1 million revolving operating

**8. Debt (continued):**

facility and waiver of a certain financial covenants for the duration of the term of the loan. Principal payments are required to be made monthly on the facility until maturity date. The Acquired Restaurant Credit Facility is secured by certain assets of BPI.

- (c) On June 25, 2020, the Bank provided \$6.25 million of credit facilities to BPI under the EDC's business credit availability program (the "**BCAP Loan**"). The BCAP Loan may be used to provide additional liquidity to finance operations and may not be used (i) to pay or refinance existing debt obligations, (ii) to make distributions; or (iii) to pay any bonuses or increase executive compensation, has a term of one year, which may be extended annually at the request of BPI for up to five years subject to compliance with certain requirements. The loan requires interest-only payments for the first year and is repayable in monthly blended payments of principal and interest amortized over four years commencing after the first year of the term (July 2021), with any remaining balance outstanding being due upon expiry of the term. The BCAP Loan bears interest at the Bank's prime rate plus 2.50% and is subject to an annual fee equal 1.80% of the total amount of credit available (i.e. \$6.25 million).

The BCAP Loan is guaranteed by all of BPI's subsidiaries except BP Canada LP, and is secured by the same security that secures the BPI Credit Facilities to the Bank. That security shares priority with the general security agreements granted by BPI and its subsidiaries to the Bank under the Credit Facilities.

- (d) On July 8, 2020, BDC loaned BPI \$2 million (the "**BDC Loan**") under the federal government's COVID-19 relief programs. The BDC Loan is being used for working capital purposes, has a term of three years and is repayable in combination of monthly payments commencing May 2021 and a balloon payment upon maturity. The BDC Loan bears interest at BDC's floating base rate (currently 4.55% per annum) less 1.75% (i.e. currently 2.80%). The BDC Loan is secured by certain assets of BPI.

BPI was in compliance with all of its financial covenants and financial condition tests as of December 31, 2020.

- (e) Principal repayments on long-term debt are as follows:

	December 31, 2020
2021	\$ 4,123
2022	32,383
2023 and thereafter	2,342
	<u>\$ 38,848</u>

The fair value of the Company's debt was \$38.8 million (December 31, 2019 – \$38.0 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.

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**9. Lease obligations:**

The Company's lease obligations are initially measured at the present value of the lease payments that are not paid at the commencement date using the Company's incremental borrowing rate. After initial recognition, the lease liabilities are measured at amortized cost using the effective interest method. The Company's lease obligations consist of:

	December 31, 2020	December 31, 2019
Balance, beginning of year	\$ 8,555	\$ -
IFRS 16 adoption adjustment	-	10,106
Adjustments	(285)	55
Principal payments	(1,406)	(1,606)
Balance, end of year	6,864	8,555
Current portion of lease obligations	1,607	1,700
Long-term portion of lease obligations	\$ 5,257	\$ 6,855

Interest expense on lease obligations for the year ended December 31, 2020 was \$0.4 million. Total cash outflow for leases was \$1.8 million which includes \$1.4 million of principal payments and \$0.4 million of interest for lease obligations. Expenses for leases of low-dollar value items are not material. All extension options have been included in the measurement of lease obligations where applicable.

The annual lease obligations for the next five years and thereafter are as follows:

	December 31, 2020	December 31, 2019
Within 1 year	1,953	\$ 2,069
2 to 3 years	2,522	3,244
4 to 5 years	1,547	1,867
Over 5 years	2,219	2,921
Total undiscounted lease obligations	\$ 8,241	\$ 10,101

**10. Boston Pizza Canada Limited Partnership units liability:**

*Limited partnership 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. Refer to *note 12* for the fair value calculation of the BP Canada LP Unit Liability.

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

The BP Canada LP units liability is comprised of:

	Issued and outstanding LP Units		Investment in BP Canada LP
<b>Class 1 LP Units</b>			
Class 1 LP Units at December 31, 2020 and 2019	1,000	\$	33,314
<b>Class 2 LP Units</b>			
Class 2 LP Units at December 31, 2019	5,455,762	\$	114,113
Fair value gain on Class 2 LP Units since inception			(40,678)
Balance at December 31, 2019	5,455,762		73,435
Fair value gain on Class 2 LP Units			(14,349)
Class 2 LP Units balance at December 31, 2020	5,455,762	\$	59,086
Total LP Units balance at December 31, 2020		\$	92,400

*General partnership units*

BPI receives its proportionate share of the 1.5% of franchise sales of Boston Pizza restaurants in the Royalty Pool through distributions on Class 2 general partnership units ("**Class 2 GP Units**") of BP Canada LP that are exchangeable for Fund Units. These units are eliminated upon consolidation with BP Canada LP. The Company continues to pay the Fund the balance of the Fund's interest in franchise sales of Royalty Pool restaurants in the form of Royalty.

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 restaurants 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 of Royalty Pool restaurants (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, 2020, the Company had the right to receive 828,753 (December 31, 2019 – 803,520) Fund Units when it exercises its rights to exchange its Class 2 GP Units into Fund Units.

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

	Issued and outstanding Class 2 GP Additional Entitlements	Issued and outstanding Class 2 GP Additional Entitlements including Class 2 GP Holdback
Balance at December 31, 2018	716,287	736,608
Class 2 Additional Entitlements granted January 1, 2019 <sup>(1)</sup>	69,550	86,938
Adjustment to prior year Class 2 Additional Entitlements <sup>(2)</sup>	17,683	(2,638)
Balance at December 31, 2019	803,520	820,908
Class 2 Additional Entitlements granted January 1, 2020 <sup>(3)</sup>	9,742	12,177
Adjustment to prior year Class 2 Additional Entitlements <sup>(4)</sup>	15,491	(1,897)
Balance at December 31, 2020	828,753	831,188

<sup>(1)</sup> On January 1, 2019, ten new Boston Pizza Restaurants that opened during the period from January 1, 2018 to December 31, 2018 were added to the Royalty Pool while five restaurants that closed during 2018 were removed. The Franchise Sales from restaurants added to the Royalty Pool on January 1, 2019, net of closures, has been estimated at \$11.8 million.

<sup>(2)</sup> Adjusted for actual performance of eight net new Boston Pizza Restaurants added to the Royalty Pool on January 1, 2018 and the actual effective tax rate paid by the Fund in 2018.

<sup>(3)</sup> On January 1, 2020, five new Boston Pizza Restaurants opened during the period from January 1, 2019 to December 31, 2019 were added to the Royalty Pool while six restaurants that closed during 2019 were removed. The Franchise Sales from restaurants added to the Royalty pool on January 1, 2020, net of closures, has been estimated at \$1.6 million.

<sup>(4)</sup> Adjusted for actual performance of five net new Boston Pizza Restaurants added to the Royalty Pool on January 1, 2019 and the actual effective tax rate paid by the Fund in 2019.

**11. Deferred gain:**

The gain realized on the sale of BP Rights is being deferred and amortized over the 99 years term of the License and Royalty Agreement. In return for adding net franchise sales to the Royalty Pool, Boston Pizza receives Class B Additional entitlements which are included in the deferred gain. 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 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.

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**11. Deferred gain (continued):**

	December 31, 2020	December 31, 2019
Balance, beginning of year	\$ 230,135	\$ 229,406
Additional Entitlements	359	3,552
Amortization of deferred gain	(2,826)	(2,823)
Balance, end of year	\$ 227,668	\$ 230,135

The following table summarizes the number of Class B Additional Entitlements received by the Company in return for the net franchise sales added to the Royalty Pool from the net new restaurant on January 1:

	January 1, 2020	January 1, 2019
Restaurants in Royalty Pool	395 <sup>(1)</sup>	396
Estimated Franchise Sales from additions to Royalty Pool	\$ 1,594	\$ 11,845
Class B Units Additional Entitlement (including Holdbacks)	32,473 units	231,836 units
Class B Holdback (20% of total entitlement) <sup>(2)</sup>	6,495 units	46,367 units
Adjustment to prior year Class B additional entitlement <sup>(3)</sup>	41,309 units	47,153 units

<sup>(1)</sup> On January 1, 2020, five new Boston Pizza restaurants that opened during the period from January 1, 2019 to December 31, 2019 were added to the Royalty Pool while six restaurants that closed during 2019 were removed.

<sup>(2)</sup> Unissued and not eligible for exchange into Fund Units until January 1 of the next year.

<sup>(3)</sup> Adjusted for actual performance of new restaurants added to Royalty Pool and actual effective tax rate of the Fund



**12. Financial Instruments**

(a) Financial Assets and Liabilities by Categories and Fair Value Information

The following table shows the carrying values of assets and liabilities for each of these categories at December 31, 2020 and 2019. Unless otherwise noted, the fair values on the instruments approximate their carrying amount. The Company must classify fair value measurements according to a hierarchy that reflects the significance of the inputs used in performing such measurements.

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.

		December 31, 2020	December 31, 2019
<b>Fair value through profit and loss</b>			
Receivable from Boston Pizza Royalties Limited Partnership	Level 2	\$ -	\$ 800
Class B Units Investment in Boston Pizza Royalties Limited Partnership <sup>(i)</sup>	Level 2	26,321	32,344
Class 1 Boston Pizza Canada Limited Partnership units liability <sup>(ii)</sup>	Level 2	(33,314)	(33,314)
Class 2 Boston Pizza Canada Limited Partnership units liability <sup>(iii)</sup>	Level 2	(59,086)	(73,435)
<b>Amortized cost</b>			
Cash		\$ 12,727	\$ 2,326
Accounts receivable		10,558	9,837
Interest receivable from Boston Pizza Royalties Limited Partnership		911	337
Bank indebtedness		-	(801)
Accounts payable and accrued liabilities		(7,200)	(8,250)
Royalty and distribution payable to the Fund		(6,413)	(3,929)
Debt		(38,190)	(37,366)
Lease obligations		(6,864)	(8,555)
Other long-term liabilities		(947)	(250)
Shareholder loan payable		-	(303)

**12. Financial Instruments (continued):**

(a) Financial Assets and Liabilities by Categories and Fair Value Information (continued):

- (i) The Class B Units are exchangeable for an equivalent number of Fund Units, and thus, it is estimated that the fair value of a Class B Unit approximates the fair value of a Fund Unit. The Fund estimates the fair value of its Class B Units Liability 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 the Fund Units on the last business day of the period. As at December 31, 2020, the closing price of a Fund Unit was \$10.83 (December 31, 2019 – \$13.46) 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 2,430,381 (December 31, 2019 – 2,402,966) resulting in a valuation of Class B Units at a fair value of \$26.3 million (2019 – \$32.3 million). For the year ended December 31, 2020, the decrease of \$6.0 million is comprised of \$6.4 million in fair value loss offset by \$0.4 million in Additional Entitlements. This valuation technique may not represent the actual value of the financial asset should such Class B Units be exchanged.
- (ii) 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 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.
- (iii) The Class 2 LP Units have similar cash distribution entitlements and provisions to the Class 2 GP Units held by BPI, which are exchangeable for an equivalent number of Fund Units. 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 fair value of the Class 2 LP Units is determined by multiplying the issued and outstanding Class 2 LP Units indirectly held by the Fund at the end of the period by the closing price of a Fund Unit on the last business day of the period. As at December 31, 2020, the closing price of a Fund Unit was \$10.83 (December 31, 2019 – \$13.46) while the number of issued and outstanding Class 2 LP Units held by the Fund was 5,455,762 (December 31, 2019 – 5,455,762) resulting in a Class 2 LP Units fair value of \$59.1 million (December 31, 2019 – \$73.4 million). The fair value gain on the Class 2 LP Units Liability for the year ending December 31, 2020 was \$14.3 million (2019 – \$9.0 million).

(b) Financial Instruments and Related Risks

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 is the risk that the fair values and future cash flows of the Company's financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate cash flow risk primarily on its bank indebtedness, long-term debt subject to floating rates of interest and lease obligations. The Company is exposed to interest rate fair value risk on its lease obligations subject to fixed rate of interest. The Company monitors its exposure to interest rates by monitoring the fluctuation in the bankers' acceptance rates, prime interest rate and evaluates interest rate swaps when necessary. The Company had \$38.8 million (December 31, 2019 – \$38.0 million) in floating rate debt and \$6.9 million in lease obligations (December 31, 2019 – \$8.6 million) as at

**12. Financial Instruments (continued):**

(b) Financial Instruments and Related Risks (continued):

December 31, 2020. The annual impact for every 1% increase in the variable rate would result in an additional interest expense of \$0.4 million.

*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 its current and future obligations will be met. Due to COVID-19, the Company has incurred operating losses and experienced negative cash flow from operations. In the first and second quarters of 2020, BPI was not in compliance with certain financial covenants under the GSA, the License and Royalty Agreement and the BPCLP Agreement and BPI was not in compliance with certain financial and/or non-financial covenants under the credit agreement with the Bank. At June 22, 2020, the Fund and the Bank waived all historical non-compliance of these covenants. During the year ended December 31, 2020, the Company has taken the following measures to strengthen its liquidity position:

- Implemented various cost saving measures by reducing its operating and capital expenditures;
- Received from BPI's sole shareholder \$5 million of additional capital in BPI in each of June 2020 and September 2020, totalling \$10 million, to reduce indebtedness and enhance liquidity and cashflow;
- Obtained \$6.25 million of additional credit facilities under the under the EDC business credit availability program (*note 8(c)*); and
- Obtained \$2.0 million of credit facilities from the BDC under the federal government's COVID-19 relief programs (*note 8(d)*);
- Restructured the BPI Credit Facilities (*note 8(a)*);
- Deferred its royalty and distribution payments to the Fund. The deferred amount will be fully paid over a 15-month period at prime plus 2% interest, having commenced September 2020;
- Recognized \$4.8 million of government assistance under the CEWS and CERS programs during the year. During the year ended December 31, 2020, \$4.4 million had been received. A further \$0.4 million was received subsequent to year end;
- Received an early repayment on the \$0.8 million Deferred Amount from the Fund;
- Reduced management fees paid to a company under common control to nil.

**12. Financial instruments (continued):**

(b) Financial Instruments and related risk (continued)

The Company believes that it will have sufficient working capital to meet the maturities of the Company's financial liabilities as follows:

	December 31, 2020	Maturity	December 31, 2019	Maturity
Bank indebtedness	\$ -	-	\$ 801	< 1 year
Accounts payable and accrued liabilities	7,200	< 1 year	8,250	< 1 year
Current portion of debt	3,803	< 1 year	3,485	< 1 year
Current portion of shareholder loan payable	-	-	303	< 1 year
Debt	34,387	2021-2025	33,881	2020-2022
Lease obligations	6,864	2021-2030	8,555	2020-2030
Other long-term liabilities	947	2021-2024	250	2019-2021

As a result of COVID-19 and the impact on operations as described in *note 1*, the liquidity risk has increased since December 31, 2019. The Company believes that its current sources of liquidity are sufficient to cover its currently known short- and long-term cash obligations.

*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, trade accounts receivable and long-term receivables from companies under common control. The Company's maximum exposure to credit risk is the value of its current and non-current accounts receivable of \$15.1 million (December 31, 2019 – \$11.8 million). The allowance for doubtful accounts was \$4.6 million at December 31, 2020 (December 31, 2019 – \$2.0 million).

**13. 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

The capital of the company consists of items included in shareholder deficiency, deferred gain, and debt, net of cash and cash equivalents as follows:

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**13. Capital disclosures (continued):**

	December 31, 2020	December 31, 2019
<b>Liquidity:</b>		
Cash	\$ 12,727	\$ 2,326
Undrawn credit facilities (note 8)	10,000	9,199
<b>Total liquidity</b>	<b>\$ 22,727</b>	<b>\$ 11,525</b>
<b>Capitalization:</b>		
Debt	\$ 38,190	37,366
Shareholder loan payable	-	303
<b>Total debt</b>	<b>\$ 38,190</b>	<b>\$ 37,669</b>
Deferred gain	\$ 227,668	\$ 230,135
Shareholder deficiency	(255,216)	(273,028)
	<b>\$ (27,548)</b>	<b>\$ (42,893)</b>

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 \$10.0 million secured line of credit which is subject to certain financial covenants.

The Company's long-term debt includes credit facility agreements that are subject to certain financial covenants (note 8).

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**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:

	2020	2019
Earnings before income taxes	\$ 10,126	\$ 10,846
Combined Canadian federal and provincial tax rates	26.8%	26.8%
Computed expected tax expense	2,714	2,907
Increased (reduced) by:		
Permanent differences	60	111
Fair value adjustment on BP Canada LP units liability	(3,845)	(2,412)
Valuation allowance on investment in BP Royalties LP	3,200	-
Differences from changes in statutory rates and other	107	(484)
Other	78	202
<b>Income tax expense</b>	<b>\$ 2,314</b>	<b>\$ 324</b>

BPI's deferred income tax recovery is primarily comprised of temporary differences related to the following:

	2020	2019
<b>Temporary differences:</b>		
Fair value adjustment on investment in Boston Pizza Royalties Limited Partnership	\$ 1,539	\$ (970)
Other	201	(492)
<b>Deferred income tax recovery</b>	<b>\$ 1,740</b>	<b>\$ (1,462)</b>

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

	December 31, 2020	December 31, 2019
<b>Future income tax assets:</b>		
Investment in Boston Pizza Royalties Limited Partnership	\$ -	\$ 1,539
Deferred gain	61,013	61,654
Deferred revenue	1,650	1,858
Non-capital loss carryforwards	1,757	1,141
Other	2,284	2,252
<b>Deferred income tax asset</b>	<b>\$ 66,704</b>	<b>\$ 68,444</b>

The Company believes that it is probable that the results of future operations will generate sufficient taxable income to realize the above noted deferred income tax assets. Deferred tax asset that have not been recognized as part of the above was \$3.2 million relating to the deductible temporary difference relating to the fair value adjustment on BP Royalties LP.

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**15. Share capital:**

The Company has an unlimited number of Common Shares without par value authorized of which 98,087 were issued and outstanding as at December 31, 2020 and 2019.

**16. Other expenses:**

The following are the components of other expenses:

	December 31, 2020	December 31, 2019
Bad debt expense	2,820	200
Office, rent and utilities	1,381	1,543
Marketing and advertising	824	2,838
Professional fees	765	467
Travel	757	2,373
Research and development	511	904
Other	1,163	1,753
	<b>\$ 8,221</b>	<b>\$ 10,078</b>

**17. Related party and subsidiary transactions:**

The following are components of related party and subsidiary transactions:

	December 31, 2020	December 31, 2019
Accounts receivables due from associated companies	\$ 2,632	\$ 951
Accounts payable due to associated companies	51	664
Shareholder loan payable	-	303
Royalty payable to Royalties LP	4,870	2,989
Distributions payable to Holdings LP	1,543	940
	<b>2020</b>	<b>2019</b>
Revenues from a company under common control	\$ 2,393	\$ 3,187
Management fees paid for services rendered to companies under common control	409	1,965
Management fees paid to companies under common control, included in compensation expense	216	1,035
Key management personnel compensation	2,912	3,125
Royalty expense to the Fund	24,528	34,149
Distribution expense to the Fund	8,114	11,246

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**18. Supplemental cash flow information:**

(a) Change in non-cash operating items:

	2020	2019
Accounts receivable	\$ (2,741)	\$ 413
Prepaid expenses and other current assets	(225)	178
Advertising fund restricted assets	(1,842)	867
Accounts payable and accrued liabilities	(1,244)	(3,180)
Royalty and distributions payable to Fund	2,484	(404)
Advertising fund restricted liabilities	82	(624)
Deferred revenue	(1,155)	3,673
	<b>\$ (4,641)</b>	<b>\$ 923</b>

(b) Supplementary information:

	2020	2019
<b>Non-cash transactions:</b>		
Property & equipment additions included in accounts payable	\$ (101)	\$ (180)
Intangible asset additions included in accounts payable	(682)	(650)
Amortization of deferred financing fees, net against debt	(243)	(224)
IFRS 16 non-cash adjustments	-	1,096
Class B Additional Entitlements received from Royalties LP	359	3,552

**19. 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.

**20. Subsequent events:**

- (a) On January 1, 2021, two new Boston Pizza Restaurants that opened across Canada between January 1, 2020 and December 31, 2020 were added to the Royalty Pool and the eleven restaurants that permanently closed during 2020 were removed from the Royalty Pool. In addition, one seasonal Boston Pizza Restaurant that was believed to have permanently closed in 2019, and accordingly was removed from the Royalty Pool on January 1, 2020, re-opened in 2020. The Fund and BPI agreed to make adjustments to place the parties in the position they would have been had that seasonal Boston Pizza Restaurant not been removed from the Royalty Pool on January 1, 2020. Accordingly, the total number of restaurants in the Royalty Pool decreased to 387 from 395. The estimated net Franchise Sales from the two new Boston Pizza Restaurants less the eleven Boston Pizza Restaurants that permanently closed is negative \$15.2 million. This resulted in negative estimated Royalty and Distribution to the Fund of \$0.8 million (the "**Deficiency**"). As a result of the Deficiency, BPI did not receive any Additional Entitlements on January 1, 2021. However, BPI did not lose any of the Additional Entitlements it received in respect of previous years. Instead, BPI will be required to make-up the Deficiency on future Adjustment Dates by first adding Royalty and Distribution in an amount equal to the Deficiency before receiving any further Additional Entitlements.
- (b) In the first quarter of 2021, adjustments to Royalty and Distribution payments and Class B Additional Entitlements and Class 2 Additional Entitlements were made based on the actual performance of five new Boston Pizza Restaurants that were added to the Royalty Pool on January 1, 2020 and the six restaurants that permanently closed and were removed from the Royalty Pool on January 1, 2020, the actual effective tax rate paid by the Fund in 2020 and the adjustment for the seasonal Boston Pizza Restaurant that re-opened in 2020. Based on these adjustments, BPI received 6,937 Class B Additional Entitlements and 2,601 Class 2 Additional Entitlements.

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**BOSTON PIZZA ROYALTIES INCOME FUND**

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**Paulina Hiebert**

Director\*

**Jordan Holm**

Director

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**Michael Harbinson**

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**Jordan Holm**

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**Michael Harbinson**

Chief Financial Officer

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