stability growth results

BOSTON PIZZA ROYALTIES INCOME FUND **2005** ANNUAL REPORT

glossary

FUND	Boston Pizza Royalties Income Fund.
PARTNERSHIP	Boston Pizza Royalties Limited Partnership.
BPI	Boston Pizza International Inc.
IPO	Initial Public Offering – date July 17, 2002.
GROSS SALES/SYSTEM SALES	Gross revenue generated from Boston Pizza restaurants across Canada.
FRANCHISE SALES	Gross revenue generated from Boston Pizza restaurants across Canada, less sales generated from alcohol, tobacco and Boston Pizza International Inc. approved national promotions and discounts.
SALES GROWTH	The increase in gross revenue generated from Boston Pizza restaurants across Canada over a previous period.
SSSG	Same store sales growth – refers to the overall increase in gross sales of Boston Pizza restaurants that have been opened for a minimum of 24 months.
FULL SERVICE RESTAURANTS	Establishments that may sell alcoholic beverages, provide take-out services, operate a bar, or present live entertainment in addition to serving food and non-alcoholic beverages. This industry includes full-service establishments known as fine-dining restaurants, family restaurants and restaurant-bars. Source: Statistics Canada.
CASUAL DINING	$10-$20 average cheque, full table service, themed atmosphere, generally little take-out service.
CRFA	Canadian Restaurant and Foodservices Association.
FISCAL YEAR	January 1 to December 31 for both the Fund and BPI.
ROYALTY POOL	In any period, those Boston Pizza restaurants on which royalty equating to 4% of franchise sales/revenue is to be paid to the Fund.
NON-CONTROLLING INTEREST	BPI's indirect interest in the Fund.
20-DAY WEIGHTED AVERAGE UNIT PRICE	As at any date or for any period, the weighted average price at which the Units have traded on a Stock Exchange during the period of 20 consecutive trading days ending on the fifth trading day before such date or the end of the period. The weighed average price is defined as the amount obtained by dividing the aggregate sale price of all of the Units traded on the relevant Stock Exchange during such period divided by the total number of Units so traded.
BP RIGHTS	(a) All rights in Canada to certain registered trademarks and pending applications for trademarks, including “Boston Pizza”, “BP & Design”, “BP's Lounge”, “BP's Bistro”, “Boston's The Gourmet Pizza”, “Boston Pizza Quick Express”, “Boston Pizza Restaurant & Sports Bar” (b) All rights in Canada in certain unregistered trademarks and trade names used in the business of BPI; and (c) Certain goodwill associated with the items referenced in (a) and (b) above.

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LETTER FROM THE CHAIRMAN OF BOSTON PIZZA ROYALTIES INCOME FUND

On behalf of the Trustees of the Boston Pizza Royalties Income Fund (the "Fund"[1]), I am pleased to present our 2005 Annual Report. The Annual Report covers the fiscal period ending December 31, 2005 (the "Period"). Results are also available on the Fund's website at www.bpincomefund.com and we encourage you to visit our website to follow new developments on Fund activities.

HIGHLIGHTS

2005 was another positive year for the Fund. As a result of excellent same store sales growth ("SSSG") of 8.0% achieved by Boston Pizza restaurants, we were able to provide Unitholders with two increases in monthly distributions for 2005. The monthly distributions at the beginning of 2005 were $0.0967 per month ($1.1604 annualized) and by the end of 2005 Unitholders were receiving distributions of $0.1010 per month ($1.212 annualized), an increase of 4.45%. In 2005 the unit price of the Fund increased by 8.82%, from a closing price of $14.51 on January 4 to a closing price of $15.79 on December 30.

Boston Pizza continued to expand its presence across Canada opening 31 new restaurants during the Period with zero closures. During the Period the first Boston Pizza restaurant opened in the province of Quebec. As of December 31, 2005 there are now four Boston Pizza restaurants open in Quebec. Initial months sales indicate that the brand is being well received in Quebec as the average weekly sales volumes of each of these four new restaurants are exceeding the national average. The combination of SSSG, new store openings, Boston Pizza International's ("BPI") unique renovation program, and relocated restaurants contributed to overall system-wide franchise sales growth in 2005 of 18.5%.

For the Period, Boston Pizza Royalties Limited Partnership (the "Partnership") received Royalty income of $15,728,498 from BPI. Interest income earned by the Fund was $1,800,059 and by the Partnership was $7,678. The Partnership's operating expenses were $898,624: $257,329 of interest expense, $21,700 for amortization and $619,595 for general and administrative expense. The Fund's net earnings were $11,465,930 or $1.20 per Unit. The Fund declared aggregate distributions of $11,401,508 or $1.19 per Unit.

CHANGES IN ACCOUNTING POLICY

Based on review and discussion with external auditors, the Fund adopted a new guideline of the Canadian Institute of Chartered Accountants referred to as AcG-15, Consolidation of Variable Interest Entities ("AcG-15") effective January 1, 2005. As a result of this new guideline, the Fund no longer consolidates the results of the Partnership, which owns the Boston Pizza trade marks and trade names but instead accounts for its investment in the Partnership on an equity basis.

Based on this same guideline, Boston Pizza International Inc., ("BPI") the operating company that pays the royalty to the Partnership, will now be consolidated with the Partnership. Previously, BPI accounted for its investment in the Partnership on an equity basis. As required under the new guideline, AcG-15 has been applied retroactively to reporting periods from July 17, 2002, the date of formation of the Partnership, with restatement of prior periods.

While adoption of this new guideline is required in accordance with generally accepted accounting principles, please note that this is a change in the basis of accounting only. There is no change in the underlying business of the Fund or its ownership or any of the contractual arrangements between the entities that comprise the Fund.

Earnings and distributable cash attributable per Fund unit are not impacted by these presentation changes in any way and future business of the Fund will be conducted in exactly the same manner as in the past. Governance of Fund activities will also carry on as before with an independent Board of Trustees continuing to oversee Fund activities.

OUTLOOK

BPI management continues to focus on opening new restaurants and delivering industry-leading SSSG. SSSG, the primary driver of distribution yield growth for individual Unitholders, will continue to be achieved through executing effective national and local marketing promotions, superior customer service, and Boston Pizza's unique renovation program, which requires that each Boston Pizza location conduct a full renovation every seven years. In 2006, 24-29 renovations are planned. Historically SSSG for renovated locations has been between 10-15% in the year following the renovation.

BPI management believes that they will continue to successfully develop the Boston Pizza brand in new markets and strengthen Boston Pizza's position as Canada's number one casual dining brand. In 2006, BPI estimates that it will open approximately 40 new locations across Canada. With over 230 restaurants stretching from Victoria to Halifax, Boston Pizza has more locations and serves more customers annually than any other casual dining brand in Canada.

The Board of Trustees will periodically review distribution levels and our criteria will continue to be to distribute all available cash in order to maximize returns to Unitholders. Any changes to distributions will be implemented, to the extent possible, in a manner that will allow the Fund to maintain the uniformity of distributions.

In closing, I would like to thank each Unitholder for your continued support and for the confidence you have demonstrated by investing in the Fund.

On behalf of the Board of Trustees,

JOHN COWPERTHWAITE, FCA
Chairman, Boston Pizza Royalties Income Fund

1 Any further references to the Fund refer to the Fund and its subsidiaries, as the financial results are presented on a consolidated basis.

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

On behalf of Boston Pizza International Inc. ("BPI"), its board of directors, management team and employees, I am pleased to present our 2005 Annual Report. This report covers the fiscal period of January 1, 2005 to December 31, 2005 (the "Period").

HIGHLIGHTS

2005 was a record breaking year for us. More restaurants opened during the year than any other time in our history. We opened 31 new restaurants, relocated three restaurants to improved sites and renovated 24 restaurants. This resulted in an impressive overall system-wide franchise sales growth of 18.5%. Overall sales growth is achieved through new store openings and same store sales growth ("SSSG"). SSSG, a key performance indicator of the ongoing growth of our brand, was 8.0% for the Period. BPI's earnings before income taxes for the Period were $5,706,915 up 89% from 2004.

BUSINESS STRATEGY

Boston Pizza continued to increase its market share and remains Canada's number one casual dining brand. This was accomplished by continuing to focus on three strategic priorities that are the foundation for all strategic decision-making. They are what we refer to as our "Three Pillars" strategy.

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

OUTLOOK

We anticipate that 2006 will be another strong year for our organization. We will continue our aggressive expansion into Eastern Canada and Québec, while continuing to infill markets in Western Canada. Approximately 40 new Boston Pizza restaurants will open across Canada in 2006. Boston Pizza will continue its successful renovation program that requires each location to renovate every seven years. In 2006, 24-29 renovations are planned.

In 2006, we believe that the organization can continue to deliver on the most important metric to Unitholders of the Fund, namely SSSG. Through strong television and radio advertising, national and local promotions, and superior customer service, it is management's objective to deliver industry-leading SSSG.

We will continue to successfully develop the Boston Pizza brand in new markets and strengthen Boston Pizza's position as Canada's number one casual dining brand. With over 230 restaurants stretching from Victoria to Halifax, Boston Pizza has more locations and serves more customers annually than any other casual dining brand in Canada.

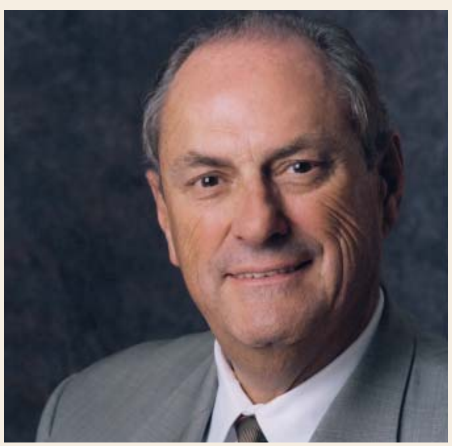
On behalf of Boston Pizza International Inc.,

MIKE CORDOBA
Chief Executive Officer
Boston Pizza International Inc.

TO BE STABLE YOU NEED A SOLID STRUCTURE

"The tremendous success we achieved in 2005 is a true testament to our way of doing business. We've seen exceptional growth in sales and new store openings, expansion into new markets, and same store sales growth of eight per cent."

JIM TRELIVING
Chairman & Owner
Boston Pizza International Inc.



A TOP-LINE FUND

The structure of the Fund provides Unitholders with top-line royalty from Boston Pizza restaurants. The Fund has no capital expenditures.

A FRANCHISED CONCEPT

Boston Pizza is a franchised concept. Of the **233 locations from Coast to Coast**, 230 locations are franchised. Expansion is exclusively achieved by the company's ability to sell franchises.

LOW CLOSURE RATE

Boston Pizza's low closure rate is indicative of the strong unit economics at the franchise level. Only two closures/non-renewal of franchise agreements in the last seven years. **No locations were closed in 2005**, and in fact BPI has not closed a location in the last five years, a rate well below the industry average.

A UNIQUE RENOVATION PROGRAM

Boston Pizza franchisees are required to renovate the interior and exterior of their restaurants and bring them up to current Boston Pizza prototype standards every seven years. This ensures each location stays competitive. **In 2005 there were 24 renovations completed and three relocations.** The average increase in same store sales post-renovation is 10-15%.

STAFF RETENTION

Average length of senior management tenure is **10+ years.**

BP TIPS – STAFF AND UNITHOLDERS OF THE FUND ARE ALIGNED

BPI has a long-term incentive plan in place titled BP TIPS (Boston Pizza Team Incentive Plan System) that closely aligns the interests of all BPI employees and Fund Unitholders. The incentive rewards are based on two criteria:

- Same Store Sales Growth
- New Store Openings

LOW AVERAGE GUEST CHEQUE

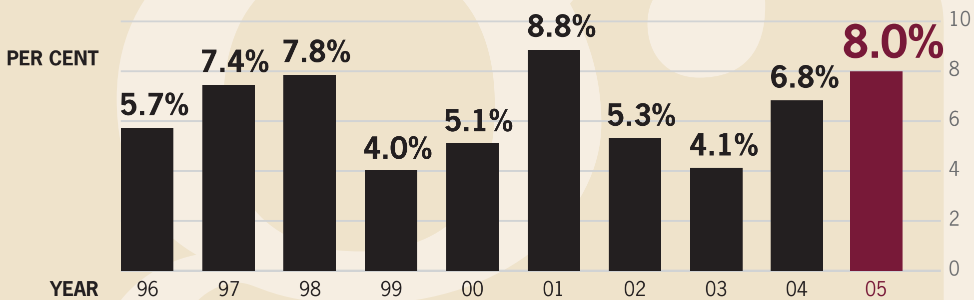
The Boston Pizza average guest cheque is on the low end of Casual Dining which means the Boston Pizza experience is good value for guests. **In 2005 the average guest cheque was $14.46.**

TO SUSTAIN GROWTH YOU NEED A PROVEN MODEL

SAME STORE SALES GROWTH (SSSG)

The primary driver for yield growth of the Fund is SSSG. In the last 10 years Boston Pizza restaurants nationwide have averaged over 6% SSSG and have not experienced a negative SSSG year.

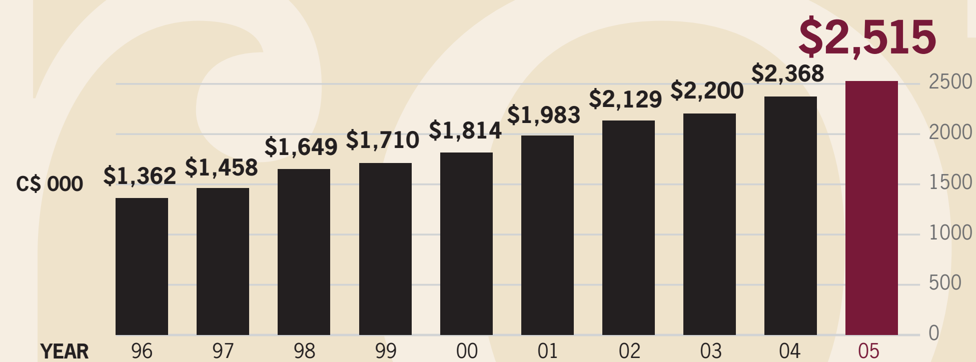
In 2005 SSSG was: **8.0%.**



SAME STORE SALES GROWTH

AVERAGE UNIT VOLUME GROWTH (AUV)

AUV growth is the cumulative effect of SSSG. As AUV increases so does the financial strength of Boston Pizza franchisees.



AVERAGE UNIT VOLUME GROWTH

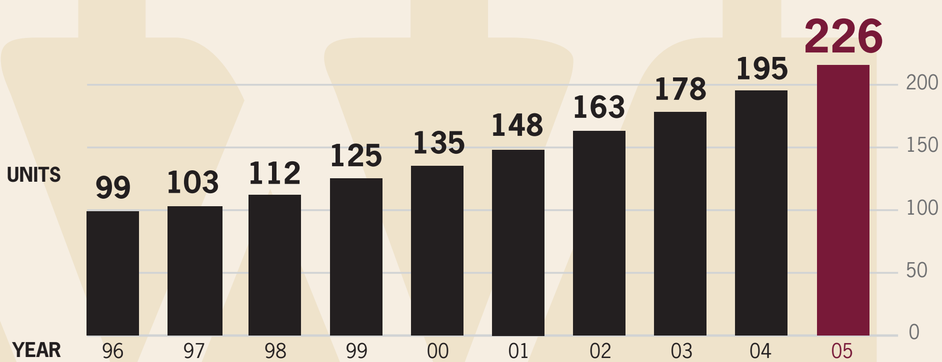
"From the beginning, our strategy for success has been to keep a solid focus on franchising. It's what we know and do best. It's the reason we've become Canada's No. 1 casual dining brand."

GEORGE MELVILLE, Chairman & Owner
Boston Pizza International Inc.

RESTAURANT GROWTH

Store Openings in 2005 **31**

Store Closures in 2005 **0**



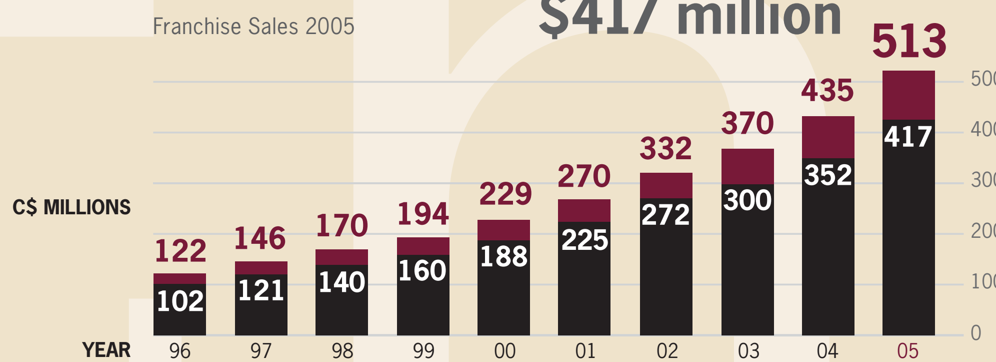
RESTAURANT GROWTH

SYSTEM GROWTH

Overall annual growth of system wide gross sales over the last 10 years **15.4%**

System Wide Gross Sales 2005 **$513 million**

Franchise Sales 2005 **$417 million**



SYSTEM WIDE GROSS SALES & FRANCHISE SALES

TO BE CANADA'S #1 CASUAL DINING BRAND

"2005 was Boston Pizza's most successful year in our 41 year history with the opening of 31 new stores and our highly successful entry into the Quebec market. As we expand across Canada, our restaurants continue to produce industry leading same store sales growth and we're very optimistic about 2006."

MIKE CORDOBA
Chief Executive Officer
Boston Pizza International Inc.

BOSTON PIZZA HAS MORE LOCATIONS AND SERVES MORE CUSTOMERS EACH YEAR THAN ANY OTHER CONCEPT IN CANADA

30 million customers in 2005

226 locations as of December 31, 2005

A SINGLE BRAND FOCUS WITH TWO DISTINCT DEMOGRAPHICS

Families

Young adults

YOU NEED TO BE THE BEST

A PROVEN STRATEGY

"Three Pillars" Strategy – the backdrop of all decision making that has underpinned the development and success of the Boston Pizza system.

A COMMITMENT TO FRANCHISEE PROFITABILITY

The best way to ensure the success of the Fund, the Company, and the Brand is to ensure the success of the franchisees.

A COMMITMENT TO BUILDING THE BOSTON PIZZA BRAND

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

A COMMITMENT TO CONTINUALLY IMPROVING THE CUSTOMER EXPERIENCE

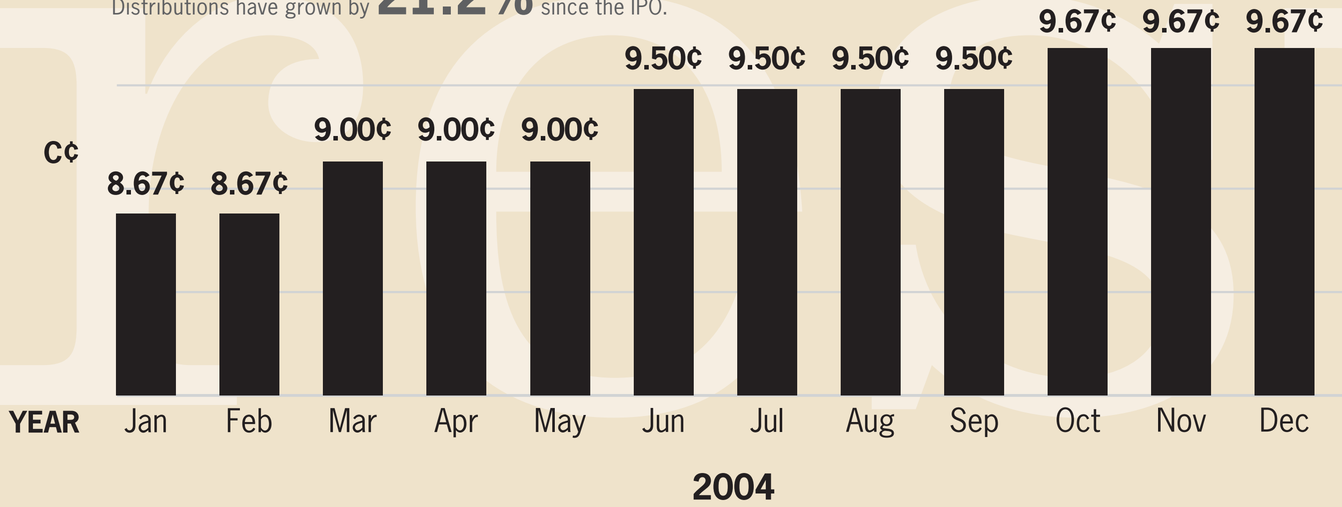
40 years of focus and effort towards improving the Boston Pizza experience. A vibrant, colourful design in a casual and comfortable dining atmosphere, combined with a menu that features old favourites and new taste sensations, keeps guests coming back for more.

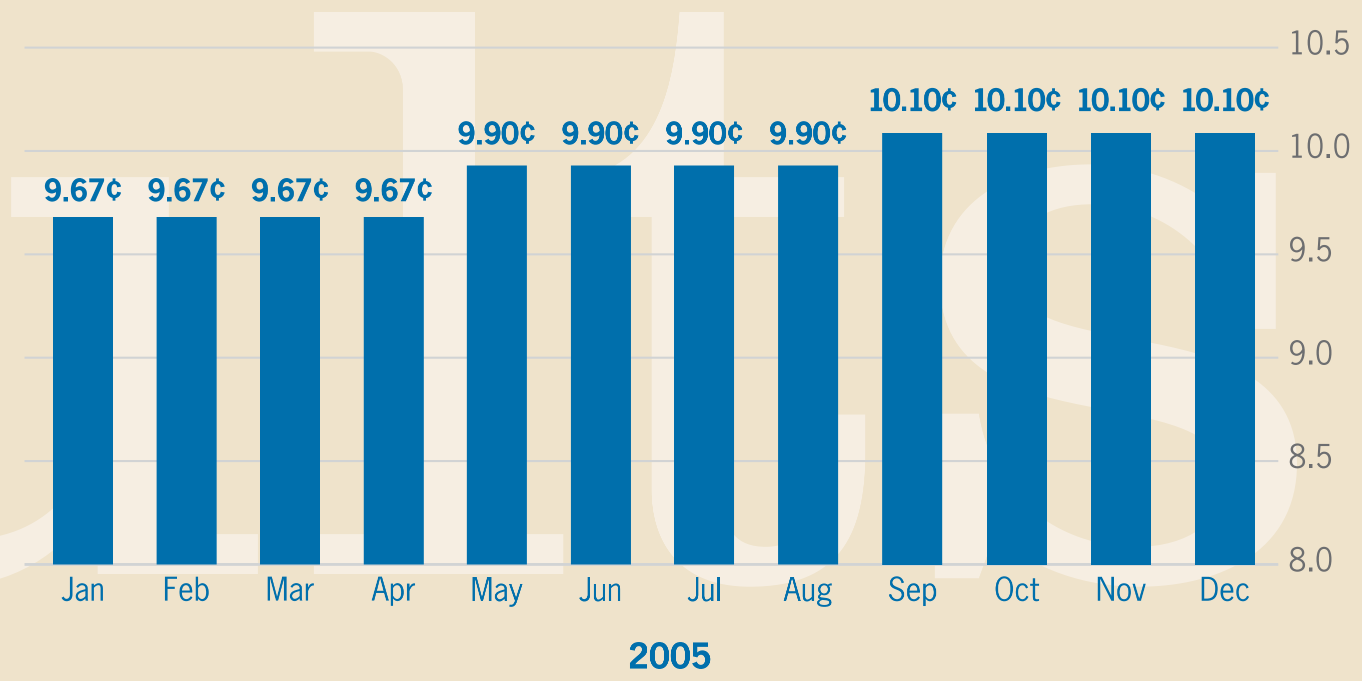
WHAT DOES IT ALL MEAN FOR UNITHOLDERS?...RESULTS

GROWING DISTRIBUTIONS

In 2005 the Fund delivered two increases in distributions to Unitholders.

Distributions have grown by **21.2%** since the IPO.





"It's all about Same Store Sales Growth and our long history of producing sector-leading SSSG. SSSG translates directly into increased Royalty to the Fund. And within the structure, there are no capital expenditures and just a modest amount of general and administrative cost. The Fund is very effective in passing the increased Royalty right through to the Unitholders. The eight distribution increases since inception of the fund provide ample evidence of just how well this process works."

MARK POWELL
Chief Financial Officer
Boston Pizza International Inc.

BOSTON PIZZA ROYALTIES INCOME FUND

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE PERIOD ENDED DECEMBER 31, 2005

FINANCIAL HIGHLIGHTS

The tables below set out selected historical information and other data from the financial statements of the "Fund" [1] and the Partnership, which should be read in conjunction with the attached consolidated financial statements of the Fund.

Equity and interest income earned by the Fund through its interest in the Partnership has been derived as shown in the tables below.

Changes in Accounting Policies

In accordance with CICA guideline AcG-15, Consolidation of Variable Interest Entities which is applicable effective January 1, 2005, the Partnership is now consolidated with Boston Pizza International Inc. ("BPI") and the Fund now accounts for the Partnership on an equity basis. For a more detailed explanation of the effects of AcG-15, refer to Note 1, Basis of Presentation in the attached financial statements.

Readers should note that this is a change in the basis of accounting only with no impact on the conduct of the business of BPI or the Fund in any way.

	January 1, 2005 to December 31, 2005	January 1, 2004 to December 31, 2004	January 1, 2003 to December 31, 2003
(in thousands of dollars – except restaurants and per unit items)			
Number of restaurants in Royalty Pool	195	177	162
Franchise Revenues reported by restaurants in Royalty Pool	$ 393,212	$ 329,893	$ 286,364
Royalty Income – 4% of Franchise Sales of Royalty Pool Restaurants	$ 15,728	$ 13,196	$ 11,455
Partnership administrative and interest expenses	$ 891	$ 733	$ 872
Partnership earnings for the period before undernoted	$ 14,837	$ 12,463	$ 10,583
BPI's interest	$ 5,171	$ 4,587	$ 4,209
Equity income related to BPI royalties earned by the Fund	$ 9,666	$ 7,876	$ 6,374
Interest income	$ 1,800	$ 1,800	$ 1,800
Net earnings	$ 11,466	$ 9,676	$ 8,174
Earnings per Fund unit	$ 1.20	$ 1.13	$ 1.04
Diluted earnings per Fund unit	$ 1.20	$ 1.13	$ 1.04
Distributions declared per Fund unit	$ 1.19	$ 1.11	$ 1.02
Same store sales growth	8.0%	6.8%	4.1%
Number of restaurants opened during Period	31	17	15
Number of restaurants closed during Period	0	0	0

	December 31, 2005	December 31, 2004	December 31, 2003
Total assets	$ 102,080	$ 87,644	$ 79,592
Total liabilities	$ 978	$ 844	$ 700

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

(in thousands of dollars – except restaurants and per unit items)

	Q4 2005	Q3 2005	Q2 2005	Q1 2005
Restaurants in the Royalty Pool	195	195	195	195
Franchise Sales reported by restaurants in the Royalty Pool	$ 102,205	$ 104,544	$ 97,683	$ 88,780
Royalty income – 4% of Franchise Sales of Royalty Pool Restaurants	$ 4,088	$ 4,182	$ 3,907	$ 3,551
Partnership administrative and interest expenses	(204)	(199)	(292)	(196)
Partnership earnings for the period before undernoted	$ 3,884	$ 3,983	$ 3,615	$ 3,355
BPI's interest	(1,295)	(1,312)	(1,232)	(1,332)
Equity income related to BPI royalties earned by Fund	$ 2,589	$ 2,671	$ 2,383	$ 2,023
Interest income	$ 450	$ 450	$ 450	$ 450
Net earnings	$ 3,039	$ 3,121	$ 2,833	$ 2,473
Basic earnings per Fund unit	$ 0.32	$ 0.32	$ 0.29	$ 0.27
Diluted earnings per Fund unit	$ 0.32	$ 0.32	$ 0.29	$ 0.27
Distributions declared per Fund unit	$ 0.40	$ 0.30	$ 0.29	$ 0.19

	Q4 2004	Q3 2004	Q2 2004	Q1 2004
(in thousands of dollars – except restaurants and per unit items)				
Restaurants in the Royalty Pool	177	177	177	177
Franchise Sales reported by restaurants in the Royalty Pool	$ 82,541	$ 87,692	$ 82,519	$ 77,140
Royalty income – 4% of Franchise Sales of Royalty Pool Restaurants	$ 3,302	$ 3,508	$ 3,301	$ 3,086
Partnership administrative and interest expenses	(213)	(179)	(191)	(157)
Partnership earnings for the period before undernoted	$ 3,091	$ 3,330	$ 3,111	$ 2,931
BPI's interest	(1,109)	(1,160)	(1,114)	(1,204)
Equity income related to BPI royalties earned by Fund	$ 1,982	$ 2,170	$ 1,997	$ 1,727
Interest income	$ 450	$ 450	$ 450	$ 450
Net earnings	$ 2,432	$ 2,620	$ 2,447	$ 2,177
Basic earnings per Fund unit	$ 0.29	$ 0.30	$ 0.28	$ 0.26
Diluted earnings per Fund unit	$ 0.29	$ 0.30	$ 0.28	$ 0.26
Distributions declared per Fund unit	$ 0.38	$ 0.29	$ 0.27	$ 0.17

OVERVIEW

This Management Discussion and Analysis covers the period of January 1, 2005 to December 31, 2005 (the "Period"). The Management Discussion and Analysis of the results for this Period is dated March 15, 2006.

The Partnership owns the Canadian trademarks for Boston Pizza (the "BP Rights"), Canada's number one casual dining brand. The Partnership licensed the BP Rights to Boston Pizza International Inc. ("BPI") in return for a 4% royalty of Franchise Sales of those Boston Pizza restaurants included in the specific royalty pool (the "Royalty Pool"). There were 195 restaurants in the Royalty Pool for the Period.

On January 1 of each year ("Adjustment Date"), an adjustment is made to add to the Royalty Pool new Boston Pizza restaurants that opened prior to that Adjustment Date. In return for adding this additional royalty revenue, BPI receives the right to indirectly acquire additional Fund units (the "Additional Entitlements"). The adjustment for new Franchise Sales added to the Royalty Pool is designed to be accretive for Unitholders. The Additional Entitlements are calculated at 92.5% of the royalty revenue added to the Royalty Pool, divided by the yield of the Fund, divided by the Weighted Average Unit Price. BPI receives 80% of the Additional Entitlements initially, with the balance received when the actual full year performance of the new restaurants is known with certainty. BPI receives 100% of distributions from the Additional Entitlements throughout the year. Once these new restaurants have been part of the Royalty Pool for a full year, an audit of the royalty revenues of these restaurants received from BPI will be performed. At such time an adjustment will be made to reconcile distributions paid to BPI and the Additional Entitlements received by BPI. On January 1, 2005, 18 new restaurants were added to the Royalty Pool and BPI received the right to acquire an additional 1,033,746 units of the Fund. The 1,033,746 units represented 80% of the Additional Entitlements.

A key attribute of the Fund structure is that it is a "top-line" fund. Royalty income of the Fund is based on top-line revenue of Royalty Pool restaurants and is not determined by the profitability of either BPI or the Boston Pizza restaurants in the Royalty Pool. Given this structure, the success of the Fund depends primarily on the ability of BPI to maintain and increase Franchise Sales of the Royalty Pool.

Increases in Franchise Sales are derived from both new Boston Pizza restaurants and same store sales growth ("SSSG"). The key metric for yield growth of the Fund is SSSG. SSSG from existing restaurants is dependent on maintaining operational excellence within each Boston Pizza restaurant, general market conditions, pricing, and marketing programs undertaken by BPI. One of BPI's competitive strengths in increasing Franchise Sales of existing locations is that BPI's Franchise Agreement requires that each Boston Pizza restaurant undergo a complete store renovation every seven years as well as complete any equipment upgrades as required by BPI. Following a complete store renovation, Franchise Sales for renovated locations have historically increased by an average of 10-15%.

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 BPI has agreed with the franchisee to terminate the Franchise Agreement. BPI has a very low restaurant closure rate. There were zero closures for the Period and zero Boston Pizza restaurants have closed in the last four years, a statistic significantly below the industry average. In the event that a location closes, the Fund has a make-whole provision agreement with BPI whereby BPI will replenish the royalties that would have been paid to the Fund. BPI will not be obligated to pay the Make-whole Payment after the date on which 275 Boston Pizza restaurants are first included in the Royalty Pool. BPI estimates that it will open its 275th restaurant in either late 2006 or 2007.

The following information provides additional analysis of the operations and financial position of the Fund and should be read in conjunction with the consolidated financial statements and accompanying notes. The consolidated financial statements are in Canadian dollars and have been prepared in accordance with Canadian Generally Accepted Accounting Principles. Readers should note that the 2005 results are not directly comparable with the 2004 results due to the fact that there were 195 restaurants in the Royalty Pool for the 2005 Period and 177 restaurants in the Royalty Pool for the 2004 period.

Operating Results

For the Period Boston Pizza continued to post positive growth. Franchise Sales growth of royalty pool restaurants was 19.2% for the Period. This was achieved through SSSG and the addition of 18 new restaurants to the royalty pool on January 1, 2005.

SSSG

SSSG, the key driver of yield growth for individual Unitholders of the Fund, was 8.0% for the Period. SSSG is the combined result of increased customer traffic and increased average guest check.

BOSTON PIZZA ROYALTIES INCOME FUND

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE PERIOD ENDED DECEMBER 31, 2005

New Store Openings, Renovations and Relocations

During the Period, 31 new Boston Pizza restaurants were opened and there were zero closures. During the Period the first Boston Pizza restaurant opened in the province of Québec. As of December 31, 2005 there are now four Boston Pizza restaurants open in the province of Québec. Preliminary sales indicate that the brand is being well received in Québec as the average weekly sales volumes of each of these four new restaurants are exceeding the national average. As well, during the Period 24 Boston Pizza restaurants were renovated and three restaurants were relocated to superior locations. Typically, locations are closed for two to three weeks for renovation. BPI's unique renovation program is a proven sales builder. Newly renovated locations typically experience a sales increase of 10–15% in the year following the renovation. Relocated restaurants historically have produced much higher sales at the new location. Unitholders benefit from relocations because the significant increase in sales translates directly into an increase in Royalty to the Fund. Boston Pizza relocations are not treated as a closure because the restaurant continues to operate with the same franchisee, under the same franchise agreement, in the same territory, but with superior real estate. The treatment described produces the most favorable outcome for Unitholders because the Partnership receives significant additional Royalty without increasing the Additional Entitlements to BPI.

Revenues

For the Period Royalty income received by the Partnership was $15,728,498. Interest income earned by the Fund was $1,800,059 and by the Partnership was $7,678. The Royalty income was based on the Royalty Pool of 195 Boston Pizza restaurants in Canada reporting Franchise Sales of $393,212,490. For the 2004 Period Royalty income received by the Partnership was $13,195,706 and interest income received by the Fund was $1,800,059 and by the Partnership was $7,801. The 2004 royalty income was based on the Royalty Pool of 177 full-service Boston Pizza restaurants in Canada reporting Franchise Sales of $329,892,643. Interest income is primarily derived from a $24.0 million loan from the Fund to BPI. The interest on this loan is paid monthly by BPI at a rate of 7.5% per annum.

Operating Expenses

The Partnership's operating expenses for the Period were $898,624: $257,329 of interest expense on its $5 million Term Loan, $21,700 for amortization of deferred financing charges on its credit facilities, and $619,595 for general and administrative expense. For the 2004 Period operating expenses were $740,492: $238,390 of interest expense on its $5 million Term Loan, $31,750 for amortization of deferred financing charges on its credit facilities, and $470,352 for general and administrative expense. The general and administrative expenses are comprised mainly of professional fees, insurance premiums, transfer agent costs, and trustee fees.

Distributions

Net earnings of the Fund were $11,465,930 or $1.20 per Unit with the Fund declaring distributions of $11,401,508 or $1.19 per Unit for the Period. During 2004 net earnings were $9,675,737 or $1.13 per Unit and distributions of $9,662,090 or $1.11 per Unit declared. In June, Unitholders received the first distribution increase of the year as distributions were raised by 2.0% from $0.0967 per Unit to $0.0990 per Unit. Four months later in October, Unitholders received the second increase in distributions of the year as the Fund raised distributions again by 2.0%, from $0.0990 per Unit to $0.1010 per Unit. Since the inception of the Fund, Unitholders have received eight distribution increases. At the time of the IPO the monthly distributions were set at $0.0833 per Unit and by the end of 2005 distributions were $0.1010 per Unit, an increase of 21.25%. Distributions for the Period were as follows:

CASH DISTRIBUTIONS 2005

PERIOD	PAYMENT DATE	AMOUNT/UNIT
January 1-31, 2005	February 28, 2005	9.67¢
February 1-28, 2005	March 31, 2005	9.67¢
March 1-31, 2005	April 29, 2005	9.67¢
April 1-30, 2005	May 31, 2005	9.67¢
May 1-31, 2005	June 30, 2005	9.90¢
June 1-30, 2005	July 31, 2005	9.90¢
July 1-31, 2005	August 31, 2005	9.90¢
August 1-31, 2005	September 30, 2005	9.90¢
September 1-30, 2005	October 31, 2005	10.10¢
October 1-31, 2005	November 30, 2005	10.10¢
November 1-30, 2005	December 31, 2005	10.10¢
December 1-31, 2005	January 31, 2006	10.10¢

Units Outstanding

On February 22, 2005, BPI exchanged 566,616 Class A Units and 13,859,268 Class B Units for 956,167 Units. BPI then sold these Fund units to the public. At December 31, 2005 there were 9,684,841 public Fund Units issued, 12,106,052 on a fully diluted basis, and BPI had a 20% indirect interest in the Fund.

Tax Treatment of Distributions

Of the $1.19 in distributions declared per Unit during the Period, 19.4% or $0.23 per Unit represents a tax deferred return of capital and 80.6% or $0.96 per Unit is taxable as income from property.

FOURTH QUARTER OPERATING RESULTS

SSSG

SSSG, the key metric for growth of the Fund, was 10.54% for the fourth quarter.

Revenues

For the fourth quarter Royalty income received by the Partnership was $4,088,183. Interest income earned by the Fund was $450,015 and by the Partnership was $3,191. The Royalty income was based on the Royalty Pool of 195 Boston Pizza restaurants in Canada reporting Franchise Sales of $102,204,575.

Operating Expenses

Partnership expenses for the fourth quarter were $212,160: $69,555 of interest expense on its $5 million Term Loan, $1,050 for amortization of deferred financing charges on its credit facilities, and $141,555 for general and administrative expense.

Subsequent Events

Subsequent to December 31, 2005, Boston Pizza opened five new restaurants bringing the total number of locations open as of March 15, 2006, to 231.

On January 1, 2006, 31 new Boston Pizza restaurants were added to the Royalty Pool; the locations opened during the period January 2, 2005 to December 31, 2005. In return for adding the royalty revenue from these 31 new restaurants to the Royalty Pool, BPI received the right to acquire an additional 1,523,846 Units. The 1,523,846 represents 80% of the Additional Entitlements with the balance received when the actual full year performance of the new restaurants is known with certainty. The 1,523,846 Additional Entitlements represented 11.18% of the Units on a fully diluted basis. BPI also receives an increase in monthly distributions based on 100% of the Additional Entitlements. The calculation for the number of Additional Entitlements received by BPI is designed to be accretive to existing Unitholders as the additional royalty revenues from the new restaurants are licensed to the Fund at a 7.5% discount. The estimated royalty revenue the Fund will receive in 2006 from these additional 31 restaurants is $2,443,920. The royalty revenue for the purposes of calculating the Additional Entitlements, therefore, is $2,260,626 or 92.5% of $2,443,920. Once the actual performance of these 31 restaurants for 2006 is known, the number of Additional Entitlements will be adjusted in 2007 to reflect the actual royalty revenue received by the Fund in 2006. As of January 1, 2006 there were 226 restaurants in the Royalty Pool.

In January 2006 an audit of the royalty revenues of the 18 locations that were added to the Royalty Pool on January 1, 2005 was completed. The purpose of this audit was to compare actual royalty revenue from these 18 locations to the estimated amount of royalty revenue the Fund expected to receive. The original royalty revenue the Fund expected to receive was $1,555,508 and the actual royalty revenue that the Fund received was $1,384,018. As a result of this adjustment and distributions that were paid on the excess units, BPI made a cash payment to the Fund of $169,071 to reconcile distributions received by BPI for the difference between estimated and actual royalty revenue for the 18 locations. Since BPI only received the right to acquire 80% of the Additional Entitlements at the Adjustment Date in 2005, BPI received the right to acquire 115,977 Additional Entitlements following this audit.

On February 22, 2006 BPI exchanged 27,826,531 Class B Units for 1,311,859 Units. BPI then sold these Units to the public. As of March 15, 2006 there were 10,996,700 Units issued, 13,745,875 on a fully diluted basis, and BPI had a 20% indirect interest in the Fund. BPI has committed to maintain a minimum 20% indirect interest in the Fund until there are 275 restaurants in the Royalty Pool.

BOSTON PIZZA ROYALTIES INCOME FUND

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE PERIOD ENDED DECEMBER 31, 2005

LIQUIDITY & CAPITAL RESOURCES

The Fund's distribution policy is to distribute all available cash in order to maximize returns to Unitholders. In light of small 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 increase 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 of December 31, 2005, working capital of the Fund taken together with working capital of the Partnership totalled $838,080. In addition, the $1 million operating line of credit in the Partnership remains 100% available.

CONTROLS & PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that relevant information is gathered and reported to senior management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") of Boston Pizza GP Inc., managing general partner of the Partnership and administrator of the Fund, on a timely basis so that the appropriate decisions can be made regarding public disclosure.

As of December 31, 2005, an evaluation of the effectiveness of the Fund's disclosure controls and procedures, as defined under Multilateral Instrument 52-109 issued by the Canadian Securities Administrators, was carried out under the supervision of and with the participation of management, including the CEO and the CFO. Based on that evaluation, the CEO and the CFO concluded that the design and operation of these disclosure controls and procedures were effective.

CRITICAL ACCOUNTING ESTIMATES

The Partnership annually reviews the book value of the intangible assets for impairment. The intangible assets are comprised primarily of the BP Rights and at year-end were reported at $138,138,545. The review is based on the Unit price throughout the fiscal year compared to the IPO Unit price, distributable cash throughout the fiscal year compared to the level set out in the prospectus, and any legal issues that may have a significant impact on the Partnership. The Partnership reviewed the intangible assets as at December 31, 2005 and concluded there was no impairment.

ADOPTION OF NEW ACCOUNTING POLICIES

In June 2003, the CICA issued Accounting Guideline 15, "Consolidation of Variable Interest Entities" ("AcG-15"), requiring the consolidation of variable interest entities ("VIEs"). A VIE is an type of legal structure in which consolidation is required due to contractual or other financial arrangements, as opposed to traditional voting rights, if certain conditions exist. AcG-15 is effective for the Fund starting January 1, 2005 with retroactive application to its comparative results for the prior year.

The Partnership is considered to be a VIE and BPI is a primary beneficiary of the Partnership accordingly, BPI is now required to consolidate the Partnership. In the past, the Partnership was consolidated with the Fund based on its voting rights. The Partnership has been established to acquire and hold the Boston Pizza trademarks and trade names which were previously owned by BPI and used in connection with the operation of Boston Pizza restaurants in Canada (collectively the "BP Rights"). The Partnership, and BPI also entered into a License and Royalty agreement to allow BPI the use of BP Rights for a term of 99 years, for which BPI pays 4% of the Franchise Revenues (as defined) of certain restaurants located in Canada.

The following changes to the consolidated carrying values of the assets and liabilities of the Fund and the results of its operations have arisen as a result of changing the Fund's method of accounting for the Partnership to the equity basis from the consolidation basis. The application of the equity method has resulted in the inclusion of the Partnership's assets and liabilities as a one line item on the balance sheet, and results of the Partnership's operations as one line item on the statement of earnings. Previously, under the consolidation method, the assets, liabilities and operations of the Partnership were consolidated with those of the Fund in the Fund's financial statements.

	2005	2004
BALANCE SHEET:		
Changes in assets:		
Decrease in working capital	$ 1,941,458	$ 140,920
Decrease in intangible assets (BP Rights)	138,138,545	122,904,145
Decrease in deferred financing charges	6,550	28,250
Increase in investment in Partnership	77,100,557	62,798,866
	$ 62,985,996	$ 60,274,449
Changes in liabilities and unitholders' equity:		
Decrease in term loan	$ 5,000,000	$ 5,000,000
Decrease in non-controlling interest	24,150,000	24,000,000
Decrease in Unitholders' equity	33,835,996	31,274,449
	$ 62,985,996	$ 60,274,449

Earnings per Fund Unit:

Earnings per Fund unit are unchanged as a result of this accounting change.

During the fourth quarter of the year ended December 31, 2004, the Fund adopted the Canadian Institute of Chartered Accountants recommendations of the Emerging Issues Committee (EIC 151) relating to the presentation of exchangeable securities issued by subsidiaries of income funds. The adoption of EIC 151 during the fourth quarter of 2004 resulted in the inclusion of certain exchangeable shares of the Partnership as part of the Fund's unitholders' equity together with the inclusion of earnings attributable to these interests. As a result of the application of AcG-15, the Partnership is no longer considered, for accounting purposes, to be a subsidiary of the Fund.

The change in accounting for the Fund's investment in Partnership and changes resulting from the application of AcG-15 has not resulted in any change to basic or fully diluted earnings per Fund unit since exchangeable Partnership units and earnings related to these units are no longer included in the Fund's financial statements.

OUTLOOK

The information contained in "Outlook" is forward-looking information. Please see "Forward Looking Statements" below for a discussion of the risks and uncertainties in connection with forward-looking information.

Boston Pizza is well positioned for future growth and should continue to strengthen its position as the number one casual dining brand in Canada. In 2006 BPI Management anticipates that 40 new locations will open across Canada. In addition, BPI Management believes that in 2006 the organization can continue to deliver industry-leading SSSG from national and local marketing programs and BPI's unique renovation program that requires each location to renovate every seven years. BPI anticipates 24 – 29 locations will conduct major renovations, which will help facilitate the ongoing effort to deliver industry-leading SSSG. Management will continue to pursue further development in Western Canada, Ontario, and the Maritimes while aggressively pursuing additional opportunities in Québec.

RISKS & UNCERTAINTIES

The Restaurant Industry

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

Boston Chicken / Boston Market Litigation

Since 1995, BPI has been challenging Boston Chicken Inc.'s and Global Restaurant Operations of Ireland Limited's registration of the "Boston Chicken" trademark in Canada. In March 2003, the Federal Court of Appeal unanimously ordered the expungement of "Boston Chicken" from the trademark registry. The expungement of the "Boston Chicken" trademark is a significant victory because there is now only one owner, the Partnership, of registered trademarks using "Boston" in connection with restaurant foodservices in Canada. Additionally, since 1995, BPI has opposed the registration of the "Boston Market" trademark. As a result, "Boston Market" is not yet a registered trademark. BPI and/or the Partnership intend to oppose the registration of this and any other trademark by Boston Market and/or any other parties if the proposed trademark is one which BPI and/or the Partnership consider to infringe the Partnership's trademarks. In 2002, BPI and the Partnership commenced legal action against Global Restaurant Operations of Ireland Limited, Boston Market Canada Company, Boston Market Corporation and McDonald's Restaurants of Canada Limited (the "McDonald's Group") for trademark infringement over the McDonald's Group's use of "Boston Market". In the fall of 2002, the McDonald's Group commenced legal actions challenging the validity of the Boston Pizza trademarks owned by the Partnership, some of which have been registered, and in use for over 30 years. BPI management believes that this is a tactical maneuver by the McDonald's Group and is unlikely to succeed. However in the unlikely event that the challenge to the Boston Pizza trademarks is successful, the Partnership would lose the benefits of registration of its trademarks under the Trade-Marks Act (Canada), which may mean losing the ability to prevent others from using the registered trademarks for the goods and services for which they are registered and to prevent others from using similar or confusing trademarks or names. However the loss of the registration under the Trade-Marks Act (Canada) would not prevent the Partnership from continuing to license and use the "Boston Pizza" and related trademarks in the existing operations and geographic territories where they are presently used and from taking other measures to protect their rights in respect of, and their ability to use, the "Boston Pizza" and related trademarks in new areas where BPI and its sub-licensees do not presently operate Boston Pizza restaurants. The parties are waiting for trial dates, none of which have been set. BPI management does not expect the infringement trial to commence before 2007. BPI management believes that ultimately, BPI and the Partnership will succeed in its litigation with the McDonald's Group. However, there are no assurances or certainty as to the eventual outcome of these legal proceedings.

RISKS RELATED TO THE STRUCTURE OF THE FUND

Dependence of the Fund on the Trust and BPI

The cash distributions to the Unitholders will be entirely dependent on the ability of the Trust to pay its interest obligations under the Trust Notes, and to make distributions on the Trust Units and upon the ability of BPI to pay the interest on the BP Loan and the ability of the Trust to meet its obligations to assume payment of the BP Loan as consideration for the purchase of Class C Units.

Dependence on BPI

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

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

Leverage: Restrictive Covenants

The Partnership has third-party debt service obligations under the Operating Loan and the Term Loan. The degree to which the Partnership is leveraged could have important consequences to the holders of the Units, including: (i) a portion of the Partnership's cash flow from operations could be dedicated to the payment of the principal of and interest on its indebtedness, thereby reducing funds available for distribution to the Fund; and (ii) certain of the Partnership's borrowings will be at variable rates of interest, which exposes the Partnership to the risk of increased interest rates.

The Term and Operating Loans contain numerous restrictive covenants that limit the discretion of the Partnership's management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of the Partnership to incur additional indebtedness, to create liens or other encumbrances, to pay distributions or make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity. A failure to comply with the obligations in the Term and Operating Loans could result in an event of default which, if not cured or waived, could permit acceleration of the relevant indebtedness and acceleration. If the indebtedness under the Term Loan and Operating Loan were to be accelerated, there can be no assurance that the Trust's assets would be sufficient to repay in full that indebtedness.

Leverage: Restrictive Covenants (continued)

Borrowings by BPI could adversely affect BPI's ability to pay the Royalty, the Make-whole Payments and interest on the BP Loan.

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

Although the Fund intends to distribute the income earned by the Fund less expenses of the Fund and amounts, if any, paid by the Fund in connection with the redemption of Units, there can be no assurance regarding the amounts of income to be generated by the Fund or the Partnership. The actual amount distributed in respect of the Units will depend upon numerous factors, including payment of the Royalty and interest on the BP Loan by BPI.

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 or the Partnership and should not be viewed by investors as units in the Trust or the Partnership. As holders of Units, 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 will be Series 1 Trust Notes and Trust Units, the BP Loan and Common Shares of Boston Pizza GP Inc. The price per Unit is a function of anticipated distributable cash.

Possible Unitholder Liability

The Declaration of Trust provides that no Unitholder will be subject to any liability whatsoever to any person in connection with a 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.

Distribution of Securities on Redemption or Termination of the Fund

Upon a redemption of Units or termination of the Fund, the Trustees may distribute Series 2 Trust Notes and Series 3 Trust Notes directly to the Unitholders, subject to obtaining all required regulatory approvals. There is currently no market for the Series 2 Trust Notes and 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 and registered education savings plans, depending upon the circumstances at the time.

The Fund May Issue Additional Units Diluting Existing Unitholders' Interests

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

Income Tax Matters

Although the Fund and the Partnership are of the view that all expenses to be claimed by them in the determination of their respective incomes under the Tax Act will be reasonable and deductible in accordance with the applicable provisions of the Tax Act and that the allocation of income for purposes of the Tax Act between BPI and the Trust is reasonable, there can be no assurance that the Tax Act or the interpretation of the Tax Act will not change, or that Canada Revenue Agency (the "CRA") will agree with the expenses claimed. If the CRA successfully challenges the deductibility of such expenses or the allocation of such income, the Partnership's allocation of taxable income to the Trust, and indirectly the Fund and the Unitholders, will increase or change.

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

Interest on the BP Loan accrues at the Fund level for income tax purposes whether or not actually paid. Similarly, the Royalty may accrue at the Partnership level for income tax purposes whether or not actually paid. As a result, the income of the Partnership allocated to the Fund (through the Trust), in respect of a particular fiscal year may exceed the cash distributed by the Partnership to the Fund (through the Trust) in such year. The Declaration of Trust provides that an amount equal to the taxable income of the Fund will be distributed each year to Unitholders in order to reduce the Fund's taxable income to zero. Where, in a particular year, the Fund does not have sufficient available cash to distribute such an amount to Unitholders (for instance, where interest payments on the BP Loan or payments of the Royalty are due but not paid in whole or in part), the Declaration of Trust provides that additional Units must 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 Units into their taxable income, in circumstances when they do not directly receive a cash distribution.

In addition, pursuant to the Acquisition Agreement under which BPI transferred the BP Rights to the Partnership, BPI and the Partnership made elections under the Tax Act to transfer the BP Rights on a partially tax-deferred basis. The cost to the Partnership of the BP Rights subject to those elections is less than fair market value of the BP Rights at the time of the transfer, such that the Partnership may realize taxable income on the future disposition of these marks.

Investment Eligibility

There can be no assurance that the Units will continue to be qualified investments for Deferred Income Plans and registered education savings plans under the Tax Act. The Tax Act imposes penalties for the acquisition or holding of non-qualified or ineligible investments.

ADDITIONAL INFORMATION

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

- this Annual Information Form, together with one copy of any document, or the pertinent pages of any document, incorporated by reference in this Annual Information Form;
- the Fund's audited financial statements for its most recently completed financial year for which financial statements have been filed, together with the accompanying report of the auditor and a copy of the most recent interim financial statements of the Fund that have been filed, if any, for any period after the end of its most recently completed financial year;
- the Fund's information circular in respect of its most recent annual meeting of Unitholders that involved the appointment of Trustees;
- a copy of the prospectus dated July 9, 2002; and
- a copy of the audited financial statements of Boston Pizza International Inc. for its most recently completed financial year and a copy of the most recent interim unaudited financial statements for Boston Pizza International Inc.

A person who is not a Unitholder of the Fund may be required to pay a reasonable charge for such copies. Additional information, including Trustees' remuneration and indebtedness, principal holders of the Fund's securities and interests of insiders in material transactions, where applicable, is contained in the Fund's information circular for its most recent annual meeting of Unitholders that involved the appointment of Trustees. Additional financial information is provided in the Fund's audited financial statements for its most recently completed financial year.

NOTE REGARDING FORWARD LOOKING STATEMENTS

Certain statements in this Management Discussion and Analysis may constitute "forward looking" statements that involve known and unknown risks, uncertainties, future expectations and other factors which may cause the actual results, performance or achievements of the Fund, the Trust, the Partnership, BPI, Boston Pizza restaurants, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. When used in this Management Discussion and Analysis, such statements use such words as "may", "will", "expect", "believe", "plan" and other similar terminology. These statements reflect current expectations regarding future events and operating performance and speak only as of the date of this Management Discussion and Analysis. These forward looking statements involve a number of risks, uncertainties and future expectations. This Management Discussion and Analysis discusses some of the factors that could cause actual results to differ materially from those expressed in or underlying such forward looking statements. Forward looking statements are made as of the date hereof and we assume no obligation to update or revise them to reflect new events or circumstances.

AUDITORS' REPORT TO THE UNITHOLDERS OF BOSTON PIZZA ROYALTIES INCOME FUND

YEARS ENDED DECEMBER 31, 2005 AND 2004

We have audited the consolidated balance sheets of Boston Pizza Royalties Income Fund as at December 31, 2005 and 2004 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Vancouver, Canada

February 6, 2006, except as to note 10(c),
which is as of February 17, 2006

BOSTON PIZZA ROYALTIES INCOME FUND

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2005 AND 2004

		2005		2004
				(change in basis of presentation note 2(a))
ASSETS				
Current assets:				
Cash	$	1,415	$	1,356
Interest receivable from Boston Pizza International Inc. *(note 4)*		150,000		150,000
Distributions receivable		828,173		694,068
		979,588		845,424
Note receivable from Boston Pizza International Inc. *(note 4)*		24,000,000		24,000,000
Investment in Boston Pizza Royalties Limited Partnership *(note 5)*		77,100,557		62,798,866
	$	102,080,145	$	87,644,290
LIABILITIES AND UNITHOLDERS' EQUITY				
Current liabilities:				
Accounts payable and accrued liabilities	$	50	$	50
Distributions payable to fund unitholders		978,169		844,063
		978,219		844,113
Unitholders' equity:				
Fund units *(note 6(a))*		100,829,377		86,592,050
Retained earnings		272,549		208,127
		101,101,926		86,800,177
	$	102,080,145	$	87,644,290

Organization and nature of operations *(note 1)*

Contingency *(note 8)*

Subsequent events *(note 10)*

See accompanying notes to consolidated financial statements.

Approved by the Trustees:

John Cowperthwaite William Brown Robert Phillips

BOSTON PIZZA
ROYALTIES INCOME FUND

CONSOLIDATED STATEMENTS OF EARNINGS

YEARS ENDED DECEMBER 31, 2005 AND 2004

		2005		2004
				(change in basis of presentation note 2(a))
Revenue *(note 3)*:				
Equity income related to BPI royalties	$	9,665,871	$	7,875,678
Interest income		1,800,059		1,800,059
Net earnings	$	11,465,930	$	9,675,737
Weighted average units outstanding *(note 6(b))*		9,540,761		8,607,409
Basic and diluted earnings per Fund unit	$	1.20	$	1.13

See accompanying notes to consolidated financial statements.

BOSTON PIZZA ROYALTIES INCOME FUND

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005	2004 (change in basis of presentation note 2(a))
Retained earnings, beginning of year	$ 208,127	$ 194,480
Net earnings	11,465,930	9,675,737
Distributions declared	(11,401,508)	(9,662,090)
Retained earnings, end of year	$ 272,549	$ 208,127

See accompanying notes to consolidated financial statements.

BOSTON PIZZA
ROYALTIES INCOME FUND

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005	2004
		(change in basis of presentation note 2(a))
Cash provided by (used in):		
Operations:		
Net earnings	$ 11,465,930	$ 9,675,737
Equity income, an item not involving cash	(9,665,871)	(7,875,678)
Distributions received	9,601,508	7,862,090
	11,401,567	9,662,149
Financing:		
Distributions paid to unitholders	(11,401,508)	(9,662,090)
Increase in cash	59	59
Cash, beginning of year	1,356	1,297
Cash, end of year	$ 1,415	$ 1,356

Supplementary cash flow information *(note 9)*

See accompanying notes to consolidated financial statements.

1. ORGANIZATION AND NATURE OF OPERATIONS:

(a) Organization:

Boston Pizza Royalties Income Fund (the “Fund”) is an unincorporated open-ended limited purpose trust established under the laws of the Province of British Columbia. Pursuant to the Declaration of Trust signed July 8, 2002, an amount equal to all of the income of the Fund together with the non-taxable portion of any net capital gain realized by the Fund will be distributed by the Fund to its unitholders each month. As a result, the Fund will not be liable for income taxes. Income tax obligations related to the distributions by the Fund are obligations of the unitholders.

The Fund was established to indirectly, through the Boston Pizza Royalties Limited Partnership (the “Partnership”), acquire the trademarks and trade names owned by Boston Pizza International Inc. (“BPI”) and used in connection with the operation of Boston Pizza restaurants in Canada (collectively, the “BP Rights”). The BP Rights do not include the rights outside of Canada to any trademarks or trade names used by BPI or any affiliated entities in its business, and in particular do not include the rights outside of Canada to the trademarks registered or pending registration under the Trademarks Act (Canada). The BP Rights also exclude certain restaurant locations in Canada, primarily those locations that were opened subsequent to the formation of the Fund and have not been rolled into the Royalty Pool of the Fund (note 10(b)).

The Fund was also established to acquire, directly from a bank, the BPI loan (the “BP Loan”) in the principal amount of $24 million.

(b) Nature of operations:

BPI carries on business as a franchisor of casual dining pizza and pasta restaurants and operates only in Canada. The rights to operations outside of Canada, which are owned by an affiliated company, and certain restaurants in Canada, as noted above, are not included in the Royalty Pool of the Fund.

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

2. SIGNIFICANT ACCOUNTING POLICIES:

(a) Basis of presentation:

These consolidated financial statements include the accounts of the Fund, its wholly-owned subsidiary Boston Pizza Holdings Trust (the “Trust”), and its 80%-owned subsidiary Boston Pizza GP Inc. (“BPGP”) (collectively the “Companies” or “Fund”). BPGP is the managing general partner and BPI is a general partner of the Partnership. All residual ownership of BPGP is either directly or indirectly controlled by BPI.

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

All significant intercompany transactions have been eliminated.

In June 2003, the CICA issued Accounting Guideline 15, “Consolidation of Variable Interest Entities” (“AcG-15”), requiring the consolidation of variable interest entities (“VIEs”). A VIE is an type of legal structure in which consolidation is required due to contractual or other financial arrangements, as opposed to traditional voting rights, if certain conditions exist. AcG-15 is effective for the Fund starting January 1, 2005 with retroactive application to its comparative results for the prior year.

Boston Pizza Royalties Limited Partnership (the “Partnership”) is considered to be a VIE and Boston Pizza International Inc. (“BPI”) is a primary beneficiary of the Partnership accordingly, BPI is now required to consolidate the Partnership. In the past, the Partnership was consolidated with the Fund based on its voting rights. The Partnership has been established to acquire and hold the Boston Pizza trademarks and trade names which were previously owned by BPI and used in connection with the operation of Boston Pizza restaurants in Canada (collectively the “BP Rights”). The Partnership, and BPI also entered into a License and Royalty agreement to allow BPI the use of BP Rights for a term of 99 years, for which BPI pays 4% of the Franchise Revenues (as defined) of certain restaurants located in Canada (the “Royalty Pool”).

The following changes to the consolidated carrying values of the assets and liabilities of the Fund and the results of its operations have arisen as a result of changing the Fund’s method of accounting for the Partnership to the equity basis from the consolidation basis. The application of the equity method has resulted in the inclusion of the Partnership’s assets and liabilities as a one line item on the balance sheet, and results of the Partnership’s operations as one line item on the statement of earnings.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(a) Basis of presentation (continued):

Previously, under the consolidation method, the assets, liabilities and operations of the Partnership were consolidated with those of the Fund in the Fund's financial statements.

		2005		2004
BALANCE SHEET:				
Changes in assets:				
Decrease in working capital	$	1,941,458	$	140,920
Decrease in intangible assets (BP Rights)		138,138,545		122,904,145
Decrease in deferred financing charges		6,550		28,250
Increase in investment in Partnership		77,100,557		62,798,866
		62,985,996		60,274,449
Changes in liabilities and unitholders' equity:				
Decrease in term loan		5,000,000		5,000,000
Decrease in non-controlling interest		24,150,000		24,000,000
Decrease in Unitholders' equity		33,835,996		31,274,449
	$	62,985,996	$	60,274,449

Earnings per Fund unit:

Earnings per Fund unit are unchanged as a result of this accounting change.

During the fourth quarter of the year ended December 31, 2004, the Fund adopted the Canadian Institute of Chartered Accountants recommendations of the Emerging Issues Committee (EIC 151) relating to the presentation of exchangeable securities issued by subsidiaries of income funds. The adoption of EIC 151 during the fourth quarter of 2004 resulted in the inclusion of certain exchangeable shares of the Partnership as part of the Fund's unitholders' equity together with the inclusion of earnings attributable to these interests. As a result of the application of AcG-15, the Partnership is no longer considered, for accounting purposes, to be a subsidiary of the Fund.

The change in accounting for the Fund's investment in Partnership and changes resulting from the application of AcG-15 has not resulted in any change to basic or fully diluted earnings per Fund unit since exchangeable Partnership units and earnings related to these units are no longer included in the Fund's financial statements.

(b) Revenue recognition:

Interest revenue is recognized and accrued when earned.

(c) Investment in Boston Pizza Royalties Limited Partnership:

The investment in the Partnership is accounted for using the equity method. Under the equity method, the original cost of the investment is adjusted for the Fund's share of post-acquisition earnings or losses and is reduced for distributions or advances received. The statement of earnings includes the Fund's share of the Partnership's earnings or losses for the year. The investment in the Partnership is also adjusted to record the fair value of Fund units issued by the Fund in exchange for Partnership units held by BPI.

(d) Distributions:

The amount of cash to be distributed to Fund unitholders is determined with reference to net earnings adjusted for amortization, other non-cash charges and interest on the term loan. Distributions to Fund unitholders are recorded when declared, made monthly and are subject to the Fund retaining such reasonable working capital reserves as may be considered appropriate by the trustees of the Fund.

(e) Earnings per Fund unit:

The earnings per Fund unit are based on the weighted average number of Fund units outstanding during the period.

(f) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of impairment in the value of investments and provisions for contingencies. Actual results could differ from those estimates.

(g) Financial instruments:

The Fund's financial instruments consist of cash, accounts receivable, note receivable from Boston Pizza International Inc., accounts payable and accrued liabilities, and distributions payable. Management estimates that the fair values of these financial instruments approximate their carrying values. It is management's opinion that the Fund is not exposed to significant interest rate or credit risk from these financial instruments. Due to the interrelationship between the note receivable from BPI and the Class C Partnership units held by BPI (described in note 4), the fair value of the note cannot be reasonably estimated.

3. OPERATIONS:

(a) Equity and interest income earned by the Fund has been derived as follows:

		2005		2004
(in thousands of dollars, except number of restaurants in the Royalty Pool)				
Restaurants in the Royalty Pool		195		177
Franchise revenue reported by restaurants in the Royalty Pool	$	393,212	$	329,893
Royalty income – 4% of Franchise revenue	$	15,728	$	13,196
Partnership administrative and interest expenses		891		733
Partnership earnings for the period before undernoted		14,837		12,463
BPI's interest		(5,171)		(4,587)
Equity income related to BPI royalties earned by Fund		9,666		7,876
Interest income		1,800		1,800
Net earnings	$	11,466	$	9,676

(b) On January 1 of each year, the number of restaurants in the Royalty Pool on which BPI pays a royalty to the Fund are adjusted to include franchise revenue from new Boston Pizza restaurants opened less franchise revenue from any Boston Pizza restaurants that have permanently closed during the year. Effective January 1, 2006, restaurants opened on or before December 31 of the prior year are added to the Royalty Pool. The 2006 additions include all restaurants opened between November 2, 2004 and December 31, 2005 (2004 –November 2, 2003 and November 1, 2004) (note10(b)). In return for adding this net franchise revenue to the Royalty Pool, BPI receives the right to indirectly acquire additional Fund units (the "Additional Entitlement"). The Additional Entitlement is calculated as 92.5% of the royalty revenue added to the Royalty Pool, divided by the yield of the Fund Units. BPI initially receives 80% of the Additional Entitlement with the balance received when the actual full year performance of the new restaurants is known with certainty.

On January 1, 2005, 18 (2004 – 15) new Boston Pizza restaurants opened during the period from November 2, 2003 to November 1, 2004, and were added to the Royalty Pool. The Franchise revenue of these 18 new restaurants has been estimated at $38.9 million. The total number of restaurants in the Royalty Pool increased to 195. The yield of the Fund units was determined to be 7.58% calculated using a weighted average unit price of $14.69. As a result of the contribution of the additional net sales to the Royalty Pool, and assuming 100% of the Additional Entitlement, BPI's Additional Entitlement is equivalent to 1,292,182 (2004 – 922,932) Fund units. BPI also received a proportionate increase in monthly distributions from the Partnership. Of the Additional Entitlement, 20% (2005 – 258,436 units; 2004 – 184,587 units), remain unissued and are not eligible for conversion to Fund units until January 1, 2006 (2004 units – January 1, 2005) based on the actual performance of the new stores.

(c) On January 1, 2005, adjustments to royalty payments and Additional Entitlement were made based on the actual performance of fifteen restaurants added to the Royalty Pool on January 1, 2004. Based on these adjustments, BPI received its pro rata portion of the remaining Additional Entitlement, 161,463 Fund units. BPI also repaid an amount of $25,747 for monthly distributions to the Partnership.

3. OPERATIONS (CONTINUED):

(d) On February 22, 2005, BPI exchanged 566,616 Class A and 13,859,268 Class B Partnership units for 956,167 Fund units. These Fund units were recorded at the market price of the units at the date of issue, being $14.89 per unit. BPI then sold these Fund units to the public. As of December 31, 2005, there were 9,684,841 (December 31, 2004 – 8,728,674) Fund units issued and BPI had a 20% (2004 – 20%) indirect interest in the Fund.

BPI has committed to maintain a minimum of 20% indirect interest in the Fund until there are 275 restaurants in the Royalty Pool.

4. NOTE RECEIVABLE FROM BOSTON PIZZA INTERNATIONAL INC.:

	2005	2004
Note receivable with interest payable monthly at 7.5% per annum, due July 17, 2042	$ 24,000,000	$ 24,000,000

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

BPI, as the holder of 2,400,000 Class C Partnership units, has the right to transfer such Class C Partnership units to the Trust in consideration for the assumption by the Trust of, and the concurrent release of BPI of its obligations with respect to, an amount of the indebtedness under the BP loan equal to $10.00 for each Class C Partnership unit transferred.

5. INVESTMENT IN BOSTON PIZZA ROYALTIES LIMITED PARTNERSHIP:

Balance as at December 31, 2003	$ 54,890,846
Acquisition of additional Partnership units by issuing Fund units	7,894,433
Equity income	7,875,677
Distributions received from the Partnership	(7,862,090)
Balance as at December 31, 2004	62,798,866
Acquisition of additional Partnership units by issuing Fund units	14,237,327
Equity income	9,665,871
Distributions received from the Partnership	(9,601,507)
Balance as at December 31, 2005	$ 77,100,557

6. FUND UNITS:

(a) The Declaration of Trust of the Fund 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 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 whole 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 Partnership units and Class B Partnership 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 Partnership units and Class B Partnership units were exchanged into Fund units as 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 holder at a price based on market value as defined in the trust agreement, subject to a maximum of $50,000 in cash redemptions by the Fund in any one month. The limitation may be waived at the discretion of the Trustees of the Fund. Redemption 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) Weighted average units outstanding:

	2005	2004
Fund units	9,540,761	8,607,409

(c) Exchangeable units of the Partnership:

	2005	2004
Class A Partnership units (i)	-	566,616
Class B Partnership units (ii)	2,679,647	1,800,139
	2,679,647	2,366,755

(i) Class A Partnership units:

BPI has the right to exchange each Class A Partnership unit it holds for one unit of the Fund ("Units") by delivering such Class A Partnership units to the Trust. Class A Partnership units carry voting rights equal to the number of units into which such Class A Partnership units are exchangeable at the time. Subject to the prior rights of the holders of the Class C Partnership units, the holders of the Class A Partnership units are entitled to receive a cumulative preferential cash distribution in an amount equal to the total distribution in respect of Class C Partnership units multiplied by the number of issued Class A Partnership units divided by the number of issued Partnership units. Class A Partnership units are also entitled to a pro rata share of residual distributions of the Partnership.

(ii) Class B Partnership units:

BPI has the right to exchange each Class B Partnership unit it holds for a number of Fund Units based, at any time, on a defined calculation which is based in part on the net franchise revenues from restaurants opened subsequent to July 17, 2002 ("Equivalent units"). Class B Partnership units held by BPI carry voting rights equivalent to the number of units into which such Class B Partnership units are exchangeable at that time. Subject to the prior rights of the holders of Class C Partnership units, the holders of the Class B Partnership units are entitled to receive a cumulative preferential cash distribution equal to the distribution on Class C Partnership units multiplied by the number of Class B Partnership units issued, multiplied by a defined ratio which is based in part on the net franchise revenues from restaurants opened subsequent to July 17, 2002, and divided by the number of issued LP units. Class B Partnership units are also entitled to a pro rata share of residual distributions of the Partnership.

As described in note 3(b), on January 1, 2005, Class B Partnership units received Additional Entitlement (note 3(b)) equivalent to 1,292,182 units (2004 – 922,932 units), upon adding new stores to the Royalty Pool.

7. RELATED PARTY TRANSACTIONS:

The Fund has engaged BPI to provide certain administrative services on behalf of the Fund. These services were provided by BPI for no charge.

BPI is a related party by virtue of holding certain Partnership units.

8. CONTINGENCY:

Boston Pizza International Inc. ("BPI") and the Fund are involved in trademark litigation with entities affiliated with McDonald's Restaurant of Canada (the "McDonalds' Group"), opposing the registration by the McDonald's Group in Canada of the Boston Market trademark. Management of BPI believes that there is a likelihood that the trademark will not be registered. Additionally, BPI and the Fund have commenced an action against the McDonald's Group to prevent them from infringing BPI's and the Fund's respective interests in the Boston Pizza trademarks by operating Boston Market in Canada. The McDonald's Group has filed a counterclaim and a separate action challenging the validity of the registered trademark "Boston Pizza" and related trademarks under the Trade-Marks Act (Canada). Management does not believe that this action will succeed.

8. CONTINGENCY (CONTINUED):

However, in the event that the challenge to the Boston Pizza trademarks is successful, the Fund would lose the benefits of registration of its trademarks under the Trade-Marks Act (Canada), which may mean losing the ability to prevent others from using the registered trademarks for the goods and services for which they are registered and to prevent others from using similar or confusing trademarks or names. However, the loss of the registration under the Trade-Marks Act (Canada), would not prevent the Fund from continuing to license and use the “Boston Pizza” and related trademarks in the existing operations and geographic territories where they are presently used and from taking other measures to protect their rights in respect of, and their ability to use, the “Boston Pizza” and related trademarks, in new areas where BPI and its sub-licensees do not presently operate Boston Pizza restaurants.

9. SUPPLEMENTARY CASH FLOW INFORMATION:

	2005	2004
Supplementary information:		
Interest received	$ 1,800,059	$ 1,800,059
Non-cash financing and investing activities:		
Acquisition of additional Partnership units by issuing Fund units	14,237,327	7,894,433

10. SUBSEQUENT EVENTS:

(a) On January 1, 2006, adjustments to royalty payments and Additional Entitlement were made based on the actual performance of eighteen restaurants added to the Royalty Pool on January 1, 2005. Based on these adjustments, BPI will receive its pro rata portion of the remaining Additional Entitlement, 115,977 Fund units. BPI will also repay an amount of $169,071 for monthly distributions to the Partnership.

(b) On January 1, 2006, 31 new Boston Pizza restaurants opened during the period from November 2, 2004 to December 31, 2005 were added to the Royalty Pool. The Franchise revenue of these 31 new restaurants has been estimated at $61.1 million. The total number of restaurants in the Royalty Pool has increased to 226. The yield of the Fund units was determined to be 7.61% calculated using a weighted average unit price of $15.59. Weighted average unit price is calculated based on the market price of the unit traded on the TSX Stock Exchange during the period of twenty consecutive days ending on the fifth trading day before January 1, 2006. As a result of the contribution of the additional net sales to the Royalty Pool, and assuming 100% of the Additional Entitlement, BPI Additional Entitlement is equivalent to 1,904,808 (2004 – 1,292,182) Fund units. BPI will also receive a proportionate increase in monthly distributions from the Partnership. Of the Additional Entitlement, 20% (2006 – 380,962 units; 2005 – 258,436 units), remain unissued and are not eligible for conversion to Fund units until January 1, 2007 (2005 units – January 1, 2006) based on the actual performance of the new stores.

(c) On February 17, 2006, BPI exchanged Class B Partnership units for 1,311,859 Fund units, resulting in an increase in the Fund’s investment in the Partnership and unitholders’ equity of approximately $21,775,000. BPI then sold these Fund units to the public. Subsequent to the exchange and sale, BPI holds exchangeable Partnership units equivalent to 2,749,175 Fund units, or 20% of the issued and outstanding units on a fully diluted basis.

boston pizza
international
inc.

BOSTON PIZZA INTERNATIONAL INC.

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE PERIOD ENDED DECEMBER 31, 2005

FINANCIAL HIGHLIGHTS

The tables below set out selected historical information and other data from the consolidated financial statements of Boston Pizza International Inc. ("BPI"), which should be read in conjunction with the attached year-end consolidated financial statements of BPI.

Changes in Accounting Policies

In accordance with CICA guideline AcG-15, Consolidation of Variable Interest Entities which is applicable effective January 1, 2005, Boston Pizza Royalties Limited Partnership (the "Partnership") is now consolidated with BPI and Boston Pizza Royalties Income Fund (the "Fund") now accounts for the Partnership on an equity basis. For a more detailed explanation of the effects of AcG-15, refer to Note 2, Basis of Presentation in the attached financial statements.

Readers should note that this is a change in the basis of accounting only with no impact on the conduct of the business of BPI or the Fund in any way.

	Jan. 1, 2005 to Dec. 31, 2005	Jan. 1, 2004 to Dec. 31, 2004	Jan. 1, 2003 to Dec. 31, 2003
	(in thousands of dollars)		
Restaurant System Franchise Sales[1]	$ 417,385	$ 352,015	$ 300,513
Income Statement Data			
Total Revenue	$ 45,397	$ 36,164	$ 26,409
Non-controlling interest related to royalty expense	$ 9,666	$ 7,876	$ 6,375
Net Income (Loss) Before Taxes	$ 5,707	$ 3,020	$ 1,616

	December 31, 2005	December 31, 2004	December 31, 2003
	(in thousands of dollars)		
Total Assets	$ 64,831	$ 50,767	$ 46,829
Total Long-term Liabilities	$ 45,178	$ 34,976	$ 31,664
Deferred Gain and Other	$ 55,130	$ 50,598	$ 47,668

	Q4 2005	Q3 2005	Q2 2005	Q1 2005
	(in thousands of dollars)			
Restaurant System Franchise Sales[1]	$ 115,695	$ 111,585	$ 101,073	$ 89,032
Income Statement Data				
Total Revenue	$ 13,254	$ 12,340	$ 10,178	$ 9,625
Non-controlling interest related to royalty expense	$ 2,589	$ 2,671	$ 2,383	$ 2,023
Net Income Before Taxes	$ 542	$ 1,021	$ (336)	$ 4,480

1 Represents the Franchise Sales of the three restaurants owned by BPI and the Franchise Sales reported to BPI by franchised Boston Pizza restaurants without audit. Franchise Sales are Gross Sales after deducting revenue from the sale of liquor, beer, wine and tobacco and revenue from BPI approved national promotions & discounts.

	Q4 2004	Q3 2004	Q2 2004	Q1 2004
	(in thousands of dollars)			
Restaurant System Franchise Sales[1]	$ 91,519	$ 95,409	$ 86,335	$ 78,752
Income Statement Data				
Total Revenue	$ 9,447	$ 9,667	$ 8,723	$ 8,327
Non-controlling interest related to royalty expense	$ 1,981	$ 2,170	$ 1,998	$ 1,727
Net Income Before Taxes	$ 256	$ 968	$ (167)	$ 1,963

BOSTON PIZZA INTERNATIONAL INC.

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE PERIOD ENDED DECEMBER 31, 2005

OVERVIEW

This Management Discussion and Analysis covers the period of January 1, 2005 to December 31, 2005 (the "Period"). The Management Discussion and Analysis of the results for this Period is dated March 15, 2006. A copy of the Annual Report and additional information about BPI and the Fund is available at www.sedar.com or www.bpincomefund.com.

Boston Pizza International Inc. ("BPI" or the "Company") is the franchisor of the Boston Pizza concept in Canada. The Company competes in the casual dining sector of the restaurant industry and is the number one casual dining brand in Canada. With over 230 restaurants stretching from Victoria to Halifax, Boston Pizza has more locations and serves more customers annually than any other casual dining concept in Canada.

The Company charges a 7% royalty fee on Franchise Sales for all full-service Boston Pizza restaurants open in Canada and a 5% royalty fee on Franchise Sales for the four Boston Pizza Quick Express restaurants that are open in Canada. BPI pays the Fund a 4% royalty fee based on Franchise Sales of the specific royalty pool for the use of the Boston Pizza trademarks (the "BP Rights"[2]). There were 195 restaurants in the royalty pool (the "Royalty Pool") for this Period.

On January 1 of each year ("Adjustment Date"), an adjustment is made to add to the Royalty Pool new Boston Pizza restaurants that opened prior to that Adjustment Date. In return for adding this additional royalty revenue, BPI receives the right to indirectly acquire additional Fund units (the "Additional Entitlements"). The adjustment for new Franchise Sales added to the Royalty Pool is designed to be accretive for Unitholders. The Additional Entitlements are calculated at 92.5% of the royalty revenue added to the Royalty Pool, divided by the yield of the Fund, divided by the Weighted Average Unit Price. BPI receives 80% of the Additional Entitlements initially, with the balance received when the actual full year performance of the new restaurants is known with certainty. BPI receives 100% of distributions from the Additional Entitlements throughout the year. Once these new restaurants have been part of the Royalty Pool for a full year, an audit of the royalty revenues of these restaurants received from BPI will be performed. At such time an adjustment will be made to reconcile distributions paid to BPI and the Additional Entitlements received by BPI. On January 1, 2005, 18 new restaurants were added to the Royalty Pool and BPI received the right to acquire an additional 1,033,746 Class B Partnership units of the Fund. The 1,033,746 represents 80% of the Additional Entitlements.

BUSINESS STRATEGY

The success of Boston Pizza can be attributed to three simple underlying principles that are the foundation for all strategic decision-making – the "Three Pillars" strategy.

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

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

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

2 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 the trade names which are confusing with the registered or pending trademarks. The BP Rights purchased do not include the rights outside of Canada to any trademarks or trade names used by BPI or any affiliated entities in its business, and in particular do not include the rights outside of Canada to the trademarks registered or pending registration under the Trademarks Act (Canada).

Operating Results

For the Period Boston Pizza continued to post positive growth. Overall system-wide Franchise Sales growth for the Period was 18.5%. Overall sales growth is achieved through new store openings and same store sales growth.

Same Store Sales Growth

Same store sales growth, the key driver of yield growth for individual Unitholders of the Fund, is the increase in annual gross revenue of a particular Boston Pizza restaurant as compared to sales for the same period in the previous year, where the restaurant was open for a full 12 months in each year ("SSSG"). SSSG was 8.0% for the Period. SSSG is the combined result of increased customer traffic and increased average guest check.

New Store Openings and Renovations

During the Period, 31 new Boston Pizza restaurants were opened and there were zero closures. During the Period the first Boston Pizza restaurant opened in the province of Québec. As of December 31, 2005 there were four Boston Pizza restaurants open in the province of Québec. Preliminary sales indicate that the brand is being well received in Québec as the average weekly sales volumes of each of these four new restaurants are exceeding the national average. As well, during the Period 24 Boston Pizza restaurants were renovated. Typically, locations are closed for two to three weeks for renovation. BPI's unique renovation program is a proven sales builder. Newly renovated locations typically experience a sales increase of 10% – 15% in the year following the renovation. This unique renovation program is another positive contributor to the SSSG results that Boston Pizza achieves.

Revenues

BPI's revenues for the Period were $45,397,408 and $36,164,366 in 2004. The increase in revenues is primarily attributed to royalties from new store openings and positive SSSG. BPI's revenue is mainly derived from royalty income from franchised Boston Pizza restaurants, sales in corporately owned restaurants, initial franchise fees, and franchise renewal fees.

Expenses

Non-controlling interest related to royalty expense for the Period was $9,665,822 compared to $7,875,679 in 2004. This represents the royalty expense for the use of the BP rights net of amounts due to BPI with respect to its interest in the Partnership.

Administrative expenses and restaurant operating costs for the Period were $28,696,893 and $22,402,332 in 2004. These expenses include salary and administrative costs associated with the services provided to franchised Boston Pizza restaurants, the operation of the three corporately owned restaurants, and development activities in established territories. Operating expenses increased during the Period primarily due to the hiring of additional employees to support continued expansion, franchisee meetings and training and support materials.

BPI presents the revenue and costs of developing territories separately until the operational break-even is achieved. BPI's entry into the Québec market is currently presented as a developing territory. During the Period, development and administrative expenses for Québec totaled $1,591,679 and $888,512 in 2004. The development and administrative expense for Québec were substantially lower in 2004 compared to 2005 due to the fact that BPI's Québec office opened during the second quarter of 2004.

Other Income & Expenses

Before taking into account depreciation and amortization, management fee, amortization of deferred gain associated with the sale of the BP Rights, interest on the loan from the Fund, interest on long-term debt, and gain on the sale of Partnership units and income tax, earnings were $5,442,994 for the Period and $4,997,843 in 2004.

Depreciation and amortization for the Period was $874,190 and $600,770 in 2004.

Management fees for the Period were $1,153,416 and $1,170,489 in 2004.

Interest expense on the $24 million loan acquired by the Fund at the time of IPO was $1,800,000 for the Period and $1,800,000 in 2004.

Interest on long-term debt for the Period was $296,657 and $278,143 in 2004. Due to the consolidation of the Partnership with BPI pursuant to AcG-15, interest expense on the $5 million term loan held by Partnership of $257,329 (2004 – $238,390) is included with this amount.

Other Income & Expenses (contnued)

The amortization of the deferred gain from the IPO was $648,405 for the Period and $715,273 in 2004. The deferred gain arose from the sale of BP Rights to the Fund and is amortized over 99 years, the term of the License and Royalty Agreement. The net deferred gain as at December 31, 2005 was $55,129,592.

As a result of the declaration of dividends during the Period, BPI's current income taxes were reduced by a recovery of refundable dividend tax on hand.

On February 22, 2005, BPI exchanged 566,616 Class A Partnership units and 13,859,268 Class B Partnership units for 956,167 units of the Fund. Following this exchange, BPI sold their units of the Fund at $14.95 per unit to the public for total proceeds of $14,294,842. The gain on sale of units was $3,739,779, net of transaction costs of $28,685. This resulted in a reduction of Class A Partnership units from 566,616 units to zero units and a reduction of Class B Partnership units from 100,000,000 to 86,140,732. As at December 31, 2005 there were 9,684,841 public Fund units issued – 12,106,052 on a fully diluted basis – and BPI has a 20% indirect interest in the Fund.

Given the combined effects of the above-noted factors, BPI produced earnings before income taxes of $5,706,915 for the Period and after tax earnings of $3,812,545. In 2004 BPI produced earnings before tax of $3,019,803 for the same period and after tax earnings were $2,556,211.

FOURTH QUARTER OPERATING RESULTS

SSSG

SSSG was 10.54% for the fourth quarter.

Revenues

BPI's revenues during the fourth quarter were $13,254,091 and $9,447,473 for the same period in 2004. The increase in revenues is primarily attributed to royalties from new store openings and positive SSSG. BPI's revenue is mainly derived from royalty income from franchised Boston Pizza restaurants, sales in corporately owned restaurants, initial franchise fees, and franchise renewal fees.

Expenses

During the fourth quarter, non-controlling interest related to royalty expense was $2,588,505 compared to $1,980,577 for the same period in 2004. This represents the royalty expense for the use of the BP Rights net of amounts due to BPI with respect to its interest in the Partnership.

Administrative expenses and restaurant operating costs were $8,605,242 during the fourth quarter and $5,970,304 for the same period in 2004. These expenses include salary and administrative costs associated with the services provided to franchised Boston Pizza restaurants, the operation of the three corporately owned restaurants, and development activities in established territories. Operating expenses increased during the Period primarily due to franchisee meetings and the hiring of additional employees to support continued expansion.

BPI presents the revenue and costs of developing territories separately until the operational break-even is achieved. BPI's entry into the Québec market is currently presented as a developing territory. The development and administrative expenses for Québec totaled $449,475 during the fourth quarter and $356,264 for the same period in 2004. The development and administrative expense for Québec were substantially lower in 2004 compared to 2005 due to the fact that BPI's Québec office opened during the second quarter of 2004.

Other Expenses

Before taking into account depreciation and amortization, management fee, amortization of deferred gain associated with the sale of the BP Rights, interest on the loan from the Fund, interest on long-term debt, and gain on the sale of Partnership units and income tax, earnings were $1,611,869 during the fourth quarter and $1,140,128 for the same period in 2004.

Depreciation and amortization was $330,774 for the fourth quarter and $242,876 for the same period in 2004.

Management fees were $358,683 during the fourth quarter and $300,909 for the same period in 2004.

Interest expense on the $24 million loan acquired by the Fund at the time of IPO was $450,000 during the fourth quarter and $450,000 for the same period in 2004.

Interest on long-term debt for the Period was $87,108 during the fourth quarter and $69,943 for the same period in 2004. Due to the consolidation of the Partnership with BPI pursuant to AcG-15, interest expense on the $5 million term loan held by the Partnership of $69,555 (2004 – $62,363) is included with this amount.

The amortization of the deferred gain from the IPO was $156,474 during the fourth quarter and $178,818 for the same period in 2004. The deferred gain arose from the sale of BP Rights to the Fund and is amortized over 99 years, the term of the License and Royalty Agreement. The net deferred gain as at December 31, 2005 was $55,129,592.

Given the combined effects of the above-noted factors, BPI produced earnings before income taxes of $5,706,915 and after tax earnings of $3,812,545. Earnings before tax was $3,019,803 for the same period in 2004 and after tax earnings was $2,556,211.

Subsequent Events

As of December 31, 2005 there were 9,684,841 Fund units issued – 12,106,052 on a fully diluted basis – and BPI had a 20% indirect interest in the Fund. BPI has committed to maintain a minimum 20% indirect interest in the Fund until there are 275 restaurants in the Royalty Pool.

On January 1, 2006, 31 new Boston Pizza restaurants were added to the Royalty Pool. These locations opened during November 2, 2004 to December 31, 2005. In return for adding the royalty revenue from these 31 new restaurants to the Royalty Pool, BPI received the right to acquire an additional 1,523,846 Class B Partnership units. The 1,523,846 represents 80% of the Additional Entitlements with the balance received when the actual full year performance of the new restaurants is known with certainty. The 1,523,846 Additional Entitlements represents 11.18% of the Fund units on a fully diluted basis. BPI also receives a proportionate increase in monthly distributions based on 100% of the Additional Entitlements. The calculation for the number of Additional Entitlements received by BPI is designed to be accretive to existing Fund Unitholders as the additional royalty revenues from the new restaurants are licensed to the Fund at a 7.5% discount. The estimated royalty revenue the Partnership will receive in 2006 from these additional 31 restaurants is $2,443,920. The royalty revenue for the purposes of calculating the Additional Entitlements, therefore, is $2,260,626 or 92.5%. Once the actual performance of these 31 restaurants for 2006 is known, the number of Additional Entitlements will be adjusted in 2007 to reflect the actual royalty revenue received by the Fund in 2006. As of January 1, 2006, there were 226 restaurants in the Royalty Pool.

In January 2006 an audit of the royalty revenues of the 18 restaurants added to the Royalty Pool on January 1, 2005 was completed. The purpose of this audit was to compare actual royalty revenue from these 18 locations to the estimated amount of royalty revenue the Fund expected to receive. The original royalty revenue the Fund expected to receive was $1,555,508 and the actual royalty revenue that the Fund received was $1,384,018. As a result of this adjustment and distributions that were paid on the excess units, BPI made a cash payment to the Fund of $169,071 to reconcile distributions received by BPI for the difference between estimated and actual royalty revenue for the 18 locations. Since BPI only received the right to acquire 80% of the Additional Entitlements at the Adjustment Date in 2005, BPI received the right to acquire 115,977 Additional Entitlements following this audit.

Subsequent to December 31, 2005, Boston Pizza opened five new restaurants bringing the total number of locations open as of March 15, 2006 to 231.

On February 20, 2006, BPI exchanged 27,826,531 Class B Partnership Units for 1,311,859 units of the Fund. Following this exchange, BPI sold their units of Fund at $16.60 per unit to the public for total proceeds of $21,777,646. The proceeds from the sale of units were $21,738,291, net of transaction costs of $39,355. This resulted in a reduction in the number of Class B Partnership units from 86,140,732 to 58,314,201. BPI has a 20% indirect interest in the Fund.

BPI declared dividends in the amount of $9.1 million to its shareholders of record on March 20, 2006.

LIQUIDITY & CAPITAL RESOURCES

BPI is an entirely franchised business except for three corporate restaurants. For 2006, BPI has forecasted capital requirements of $2,500,000 which will consist mainly of the renovation of two corporate locations and the purchase of office and computer equipment. Approximately $1,000,000 of this amount will be provided through new bank financing.

On February 22, 2006 BPI received net proceeds of $21,738,291 from the sale of 1,311,859 Fund units. BPI has sufficient working capital to meet its current and upcoming requirements.

LIQUIDITY & CAPITAL RESOURCES (CONTINUED)

The Partnership has a $1 million revolving operating line of credit with a 364-day term to allow for any seasonal variations that could result in mismatches between royalty revenue inflows and distributions to Unitholders of the Fund. Since inception in July, 2002, the credit line has been maintained with a nil balance.

LONG-TERM DEBT OBLIGATIONS

The Partnership has a $5 million non-revolving term loan facility, with a current maturity date of July 5, 2007, that was arranged during the IPO to partially finance the purchase of the BP Rights from BPI and to provide term debt as part of the capital structure. It is anticipated that the Partnership will not have difficulty renewing the term loan in 2007.

BPI has long-term debt obligations for equipment financing that are secured by specific assets of the Company. These term loans are secured by a general assignment of book debts and certain guarantees from the Company, shareholders and related companies.

Principal repayments on BPI's long-term debt and capital lease obligations, excluding the Partnership's $5 million term loan, for the next five years ending December 31 are as follows:

2006	$	710,554
2007		561,803
2008		831,211
2009		153,118
2010		532,111

During the Period, BPI arranged term financing for the construction of the corporate restaurant in Laval, Québec. BPI also arranged capital lease financing for restaurant equipment acquired during the Period. These two financings combined explain the increase in long-term debt to $7,788,797 from $5,319,907 at the end of 2004.

OTHER LONG-TERM COMMITMENTS

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

2006	$	2,026,501
2007		1,349,964
2008		1,007,489
2009		891,322
2010		885,366

OUTLOOK

Boston Pizza is well positioned for future growth and continues to strengthen its position as the number one casual dining brand in Canada. In 2006, BPI estimates that it will open approximately 40 new locations across Canada. Opening these new locations will support the continuing enhancement of the Boston Pizza brand as well being beneficial to Unitholders, as adding new restaurants to the Royalty Pool is designed to be accretive for Unitholders. In addition, BPI Management anticipates that the organization can continue to deliver industry-leading SSSG from national and local marketing programs and BPI's unique renovation program that requires each location to renovate every seven years. BPI anticipates 24–29 renovations in 2006. Management will continue to pursue further development in Western Canada, Ontario, the Maritimes and Québec.

As with all forward-looking statements, due care and caution should be employed to ensure that appropriate interpretation is made.[3]

3 Certain statements in this Management Discussion and Analysis may constitute "forward-looking" statements which involve known and unknown risks, uncertainties, future expectations and other factors which may cause the actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this annual report such statements are such words as "may", "will", "expect", "believe", "plan", "anticipate" and other similar terminology. These statements reflect management's current expectations regarding future events and operating performance and speak only as of the date of this annual report. These forward-looking statements involve a number of risks, uncertainties and future expectations. The following are some factors that could cause actual results to differ materially from those expressed in or underlying such forward-looking statements: competition; changes in demographic trends; changing consumer preferences and discretionary spending patterns; changes in national and local business and economic conditions; legislation and governmental regulation; accounting policies and practices; and the results of operations and financial condition of BPI. The foregoing list of factors is not exhaustive. Forward looking statements are made as of the date hereof and we assume no obligation to update or revise them to reflect new events or circumstances.

RISKS & UNCERTAINTIES

The Restaurant Industry

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

Boston Chicken / Boston Market Litigation

Since 1995, BPI has been challenging Boston Chicken Inc.'s and Global Restaurant Operations of Ireland Limited's registration of the "Boston Chicken" trademark in Canada. In March 2003, the Federal Court of Appeal unanimously ordered the expungement of "Boston Chicken" from the trademark registry. The expungement of the "Boston Chicken" trademark is a significant victory because there is now only one owner, the Partnership, of registered trademarks using "Boston" in connection with restaurant foodservices in Canada. Additionally, since 1995, BPI has opposed the registration of the "Boston Market" trademark. As a result, "Boston Market" is not yet a registered trademark. BPI and/or the Partnership intend to oppose the registration of this and any other trademark by Boston Market and/or any other parties if the proposed trademark is one which BPI and/or the Partnership consider to infringe the Partnership's trademarks. In 2002, BPI and the Partnership commenced legal action against Global Restaurant Operations of Ireland Limited, Boston Market Canada Company, Boston Market Corporation and McDonald's Restaurants of Canada Limited (the "McDonald's Group") for trademark infringement over the McDonald's Group's use of "Boston Market". In the fall of 2002, the McDonald's Group commenced legal actions challenging the validity of the Boston Pizza trademarks owned by the Partnership, some of which have been registered, and in use for over 30 years. BPI management believes that this is a tactical maneuver by the McDonald's Group and is unlikely to succeed. However in the unlikely event that the challenge to the Boston Pizza trademarks is successful, the Partnership would lose the benefits of registration of its trademarks under the Trade-Marks Act (Canada), which may mean losing the ability to prevent others from using the registered trademarks for the goods and services for which they are registered and to prevent others from using similar or confusing trademarks or names. However the loss of the registration under the Trade-Marks Act (Canada) would not prevent the Partnership from continuing to license and use the "Boston Pizza" and related trademarks in the existing operations and geographic territories where they are presently used and from taking other measures to protect their rights in respect of, and their ability to use, the "Boston Pizza" and related trademarks in new areas where BPI and its sub-licensees do not presently operate Boston Pizza restaurants. The parties are waiting for trial dates, none of which have been set. BPI management does not expect the infringement trial to commence before 2007. BPI management believes that ultimately, BPI and the Partnership will succeed in its litigation with the McDonald's Group. However, there are no assurances or certainty as to the eventual outcome of these legal proceedings.

For a more detailed list of risks and uncertainties please refer to the Fund's Annual Information Form which is available at www.sedar.com.

ADDITIONAL INFORMATION

Additional Information relating to BPI, the Partnership and the Fund is available on SEDAR at www.sedar.com, including the Fund's Annual Information Form for fiscal year ended December 31, 2005.

AUDITORS' REPORT TO THE SHAREHOLDERS OF BOSTON PIZZA INTERNATIONAL INC.

YEARS ENDED DECEMBER 31, 2005 AND 2004

We have audited the consolidated balance sheets of Boston Pizza International Inc. as at December 31, 2005 and 2004 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004, the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Vancouver, Canada

March 20, 2006

BOSTON PIZZA INTERNATIONAL INC.

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2005 AND 2004

	2005	2004 (change in basis of presentation – note 2)
ASSETS		
Current assets:		
Cash	$ 3,790,932	$ 3,637,759
Accounts receivable *(note 16)*	7,888,819	5,017,102
Prepaid expenses	656,065	535,836
Current portion of long-term receivables	-	28,674
Future income taxes *(note 12)*	228,814	294,667
	12,564,630	9,514,038
Long-term receivables *(note 6)*	32,478,189	25,699,810
Long-term investments *(note 5)*	74,476	74,476
Capital assets *(note 7)*	6,465,996	2,538,445
Deferred charges and intangible assets *(note 8)*	334,299	365,999
Future income taxes *(note 12)*	12,912,980	12,574,168
	$ 64,830,570	$ 50,766,936
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
Current liabilities:		
Accounts payable and accrued liabilities *(note 16)*	$ 8,648,635	$ 5,517,922
Income taxes payable	580,354	697,582
Current portion of deferred revenue	2,706,061	1,887,417
Current portion of long-term debt	710,554	180,096
	12,645,604	8,283,017
Long-term debt *(note 9)*	7,078,243	5,139,811
Deferred revenue	4,243,877	4,130,736
Notes payable *(note 10)*	30,300,000	24,000,000
Other long-term liabilities *(note 11)*	3,555,860	1,705,685
Deferred gain *(note 4)*	55,129,592	50,598,098
Shareholders' deficiency:		
Share capital *(note 13)*	100	100
Deficit	(48,122,706)	(43,090,511)
	(48,122,606)	(43,090,411)
	$ 64,830,570	$ 50,766,936

Commitments *(note 14)*
Contingencies *(note 15)*
Subsequent events *(note 20)*

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board: George Melville, Director James Treliving, Director

BOSTON PIZZA INTERNATIONAL INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICITS

YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005	2004 (change in basis of presentation – note 2)
Franchise, restaurant – established territories and other revenues *(note 16)*	$ 45,397,408	$ 36,164,366
Administrative expenses, expenses of established territories and restaurant operating costs *(note 16)*	28,696,863	22,402,332
Development and administrative expenses – Quebec *(note 3(e))*	1,591,679	888,512
Non-controlling interest related to royalty expense	9,665,872	7,875,679
Earnings before undernoted	5,442,994	4,997,843
Depreciation and amortization	874,190	600,770
Management fee *(note 16)*	1,153,416	1,170,489
Interest on note payable to Boston Pizza Royalties Income Fund *(note 16)*	1,800,000	1,800,000
Interest on long-term debt	296,657	278,143
Amortization of deferred gain *(note 4)*	(648,405)	(715,273)
Gain on sale of Fund units	(3,739,779)	(1,156,089)
Earnings before income taxes	5,706,915	3,019,803
Income tax expense (recovery) *(note 12)*:		
Current	785,500	1,374,201
Future	1,108,870	(910,609)
	1,894,370	463,592
Net earnings	3,812,545	2,556,211
Deficit, beginning of year	(43,090,511)	(39,730,408)
Dividends declared	(10,300,000)	(6,500,000)
Refundable dividend tax	1,455,260	583,686
Deficit, end of year	$ (48,122,706)	$ (43,090,511)

See accompanying notes to consolidated financial statements.

BOSTON PIZZA INTERNATIONAL INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005	2004 (change in basis of presentation – note 2)
Cash provided by (used in):		
Operations:		
Net earnings	$ 3,812,545	$ 2,556,211
Items not affecting cash:		
Depreciation and amortization	874,190	600,770
Future income taxes	1,108,870	(910,609)
Amortization of deferred gain	(648,405)	(715,273)
Gain on sale of Boston Pizza Royalties Limited Partnership units	(3,739,779)	(1,156,089)
Change in non-cash operating items *(note 19(a))*	(2,471,027)	2,687,153
	(1,063,606)	3,062,163
Investments:		
Long-term receivables	(6,749,705)	(8,655,740)
Sale of Fund Units, net of transaction costs	14,266,157	7,762,309
Purchase of capital assets, net	(4,768,563)	(1,186,352)
	2,747,889	(2,079,783)
Financing:		
Repayment of long-term debt	(241,930)	(295,871)
Proceeds from long-term debt	2,710,820	-
Payment of dividends	(4,000,000)	(6,500,000)
	(1,531,110)	(6,795,871)
Increase (decrease) in cash	153,173	(5,813,491)
Cash, beginning of period	3,637,759	9,451,250
Cash, end of period	$ 3,790,932	$ 3,637,759

See supplementary cash flow information *(note 19(b))*

See accompanying notes to consolidated financial statements.

BOSTON PIZZA INTERNATIONAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2005 AND 2004

1. NATURE OF OPERATIONS:

Boston Pizza International Inc. (the "Company") was incorporated on May 26, 1982 under the laws of British Columbia and continued under the Canada Business Corporations Act on August 26, 2002. Its principal business activity is the operation and franchising of Boston Pizza restaurants in Canada. The Company initially focused on the growth of its business in Western Canada and is currently in the process of developing its Eastern Canada market.

2. BASIS OF PRESENTATION:

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, and include the accounts of the following entities, after elimination of all material intercompany balances and transactions:

Boston Pizza International Inc. and subsidiaries:	
Lansdowne Holdings Ltd.	100.00%
Boston's the Gourmet Pizza, Inc.	100.00%
Winston Churchill Pizza Ltd.	100.00%
Laval Corporate Training Centre Inc.	100.00%
Boston Pizza (Asia) Ltd.	75.00%
Boston Pizza Royalties Limited Partnership	20.00%

In June 2003, the CICA issued Accounting Guideline 15, "Consolidation of Variable Interest Entities" ("AcG-15"), requiring the consolidation of variable interest entities ("VIEs") by the primary beneficiary of the expected residual returns or losses or both of the VIE. A VIE is any type of legal structure in which consolidation is required due to contractual or other financial arrangements, as opposed to traditional voting rights, if certain conditions exist. AcG-15 became effective for the Company on January 1, 2005 with retroactive application to its comparative results for the prior year.

Boston Pizza Royalties Limited Partnership (the "Partnership") is considered to be a VIE and the Company is the primary beneficiary of the Partnership, accordingly the Company now consolidates the Partnership. Previously, the Partnership was consolidated by Boston Pizza Royalties Income Fund (the "Fund") based on its voting rights and the Company accounted for its investment in the Partnership on an equity basis. The Partnership was established to hold the trademarks and trade names used in connection with the operation of Boston Pizza restaurants in Canada. The Partnership and the Company also entered into a License and Royalty agreement to allow the Company the use of the BP Rights for a term of 99 years, for which the Company pays the Partnership 4% of the Franchise Revenues (as defined) of certain restaurants located in Canada (the "Royalty Pool").

The following changes to the consolidated carrying values of the assets and liabilities of the Company and the results of its operations have arisen as a result of changing the Company's method of accounting for its investment in the Partnership to the consolidation basis from the equity basis:

	2005	2004
BALANCE SHEET		
Change in assets:		
Increase in working capital	$ 593,500	$ 301,005
Decrease in long-term investment	57,929,661	49,713,293
Increase in deferred charges and intangible asset	256,551	278,251
Decrease in future income taxes	1,209,000	1,209,000
	$ 58,288,610	$ 50,343,037
Change in liabilities and shareholders' deficiency:		
Decrease in deferred gain	$ 62,079,610	$ 54,134,037
Increase in long-term debt	5,000,000	5,000,000
Increase in deficit	1,209,000	1,209,000
	$ 58,288,610	$ 50,343,037
STATEMENT OF OPERATIONS		
Change in revenues and expenses:		
Decrease in equity income	$ 5,171,680	$ 4,587,336
Decrease in royalty expense	15,728,498	13,195,706
Increase in non-controlling interest related to royalty expense	9,665,872	7,875,679
Increase in administrative and other expenses	890,946	732,691
Net change in earnings	$ -	$ -

Net earnings of the Company have not changed as a result of the adoption of this new accounting standard.

3. SIGNIFICANT ACCOUNTING POLICIES:

(a) Inventory:

Inventory of supplies is valued at the lower of cost and replacement cost.

(b) Capital assets:

Capital assets are recorded at cost less accumulated depreciation.

(c) Depreciation and amortization:

The Company provides for depreciation of capital assets over their estimated useful lives as follows:

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

(d) Revenue recognition and deferred revenue:

(i) Franchise revenues:

Area franchise fees:

Area franchise fee deposits are deferred until the agreed number of franchisee-owned restaurants is opened. The area franchise fee is expected to match costs incurred by the Company during the pre-opening period and is amortized into income as restaurants are opened. In the event that the required number of restaurants is not opened during the specified time period, the deposit becomes non-refundable and is recognized as income.

Monthly franchise fee:

Monthly franchise fees are recorded as they are earned, net of any allowance for doubtful accounts.

Franchise fee deposits:

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

(ii) Restaurant revenues:

Revenue from corporately owned restaurant operations is recorded when services are rendered.

(iii) Supplier contributions:

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

(e) Established and developing territories:

The Company develops a territorial business plan, when establishing new markets, but initially requires an infrastructure that will identify appropriate locations, attract franchise candidates and develop operating procedures applicable to the new territory.

As part of the business plan, the Company estimates the minimum number of franchise locations required to be opened that would generate sufficient franchise revenues to meet the incremental costs of operating the new territory. The costs of developing territories are separately presented in the financial statements until the minimum number of franchise locations have been opened, at which time the costs of operating the territory are included in administrative expenses – established territories.

(f) Income taxes:

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

The refundable portion of taxes on investment income is charged to retained earnings. The recovery of refundable taxes previously charged to retained earnings is credited to retained earnings in the period it becomes receivable.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(g) Cash:

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

(h) Restaurant locations – Canada:

	2005	2004
Corporately owned restaurants included in the Royalty Pool	2	2
Franchised restaurants included in the Royalty Pool	193	175
	195	177
Corporately owned restaurants excluded from the Royalty Pool *(notes 4 and 20(b))*	1	-
Franchised restaurants excluded from the Royalty Pool *(notes 4 and 20(b))*	30	18
	226	195

(i) Investment in BP International Rights Holdings Inc.:

As part of the sale of intangible assets (note 8), the Company transferred to BP International Rights Holdings Inc. ("IP Co") (a company controlled by the ultimate shareholders of the Company) certain intellectual property ("the Operating Systems") in exchange for preferred shares of IP Co.

The Operating Systems consist of processes, procedures, and all other intellectual property inherent to the Operating Systems for use outside of Canada.

(j) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the valuation of accounts receivable and long-term receivables, capital assets, future income tax benefits, deferred charges, deferred revenue and estimated income taxes payable.

(k) Goodwill:

Goodwill represents the excess of the purchase price over the fair value of net assets acquired. On an ongoing basis, management reviews the valuation and amortization of goodwill, taking into consideration any events and circumstances which might have impaired its carrying value.

(l) Tenant inducements:

Tenant inducements received either in the form of cash or rent free periods are deferred and amortized as a reduction in rent over the period of the lease term.

(m) Deferred gain:

The gain realized on sale of the BP Rights is being deferred and amortized over the 99 year term of the License and Royalty Agreement (note 8).

(n) Financial instruments:

(i) Fair values:

The carrying values of cash and bank indebtedness, accounts receivable and accounts payable and accrued liabilities approximate their fair values due to the relatively short periods to maturity of the instruments. The interest bearing portion of the long-term receivables, long-term debt and note payable to the Boston Pizza Royalties Income Fund bear interest at rates that, in management's opinion, approximate the current interest rates and therefore carrying values approximate their fair values. Included in long-term receivables are non-interest bearing advances to related companies totaling $7,467,835 (2004 – $6,313,159), accordingly management has not determined the fair value of these advances due to their related party nature and the absence of a secondary market for such instruments.

(ii) Credit risk:

The distribution of the Company's franchisees and suppliers and the business risk management procedures have the effect of avoiding any significant concentration of credit risk.

4. DEFERRED GAIN:

	2005	2004
Balance, beginning of year	$ 50,598,098	$ 47,713,701
Fund units received on exchange of Partnership units	10,527,756	6,594,504
Long-term incentive plan *(note 11)*	(5,347,857)	(2,994,834)
Amortization of deferred gain	(648,405)	(715,273)
	$ 55,129,592	$ 50,598,098

Annually, on January 1, the Boston Pizza restaurants in the Royalty Pool on which the Company pays a royalty to the Fund are adjusted to include the adjusted franchise revenue from new Boston Pizza restaurants opened on or before December 31 of the prior year, less franchise revenue from any Boston Pizza restaurants that have permanently closed during the year. In return for adding this net franchise revenue to the Royalty Pool, Boston Pizza receives the right to indirectly acquire additional Fund units (the "Additional Entitlement"). The Additional Entitlement is calculated as 92.5% of the royalty revenue added to the Royalty Pool, divided by the yield of the Fund Units.

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

On January 1, 2005, 18 new Boston Pizza restaurants (2004 – 15) opened during the period from November 2, 2003 to November 1, 2004 were added to the Royalty Pool of the Fund. In accordance with the terms of the Partnership agreements, the Fund provided the Company an Additional Entitlement (note 20(a)) to receive distributions on 1,292,182 (2004 – 922,932) Class B Partnership units in exchange for the addition of these new restaurants to the Royalty Pool. 20% of the Additional Entitlement, 258,436 units (2004 – 184,587) is not entitled to conversion to Fund units until January 1, 2006 (2004 units – January 1, 2005) based on the actual performance of the new stores.

On January 1, 2005, adjustments to royalty payments and Additional Entitlement were made based on the full year performance of fifteen restaurants added to the Royalty Pool on January 1, 2004. Based on these adjustments, the Company received its pro rata portion of the remaining Additional Entitlement of 161,463 Fund units. The Company also repaid an amount of $25,747 for monthly distributions to the Fund.

On February 22, 2005, the Company exchanged Class A and Class B Partnership units for 956,167 Fund units. Following this exchange, the Company sold these Fund units to the public for proceeds net of transaction costs of $14,266,157 and recognized a gain on sale of $3,739,779.

5. LONG-TERM INVESTMENTS:

	2005	2004
Investment in BP Limited Partnership Holding Inc.	$ 74,456	$ 74,456
Investment in BP GP	20	20
	$ 74,476	$ 74,476

6. LONG-TERM RECEIVABLES:

Long-term receivables consist of the following:

	2005	2004
Debentures receivable, bearing interest between prime plus 2% and 11% per annum, receivable in blended monthly payments of approximately $ 2,800	$ -	$ 28,674
Advances to companies owned by shareholders of the Company, non-interest bearing, unsecured with no specified terms of repayment	7,467,836	6,481,251
Promissory notes to companies owned by the shareholders of the Company, bearing interest at 7.6%, unsecured with no specific terms of repayment	25,010,353	19,218,559
	32,478,189	25,728,484
Current portion	-	28,674
	$ 32,478,189	$ 25,699,810

7. CAPITAL ASSETS:

2005	Cost	Accumulated amortization	Net book value
Office furniture and equipment	$ 5,208,210	$ 2,983,189	$ 2,225,021
Office furniture and equipment under capital lease	1,814,886	347,195	1,467,691
Leasehold improvements	4,154,700	1,387,761	2,766,939
Auto	24,176	17,831	6,345
	$ 11,201,972	$ 4,735,976	$ 6,465,996

2004	Cost	Accumulated amortization	Net book value
Office furniture and equipment	$ 4,192,605	$ 2,586,574	$ 1,606,031
Office furniture and equipment under capital lease	222,408	162,748	59,660
Leasehold improvements	2,029,743	1,166,053	863,690
Auto	24,176	15,112	9,064
	$ 6,468,932	$ 3,930,487	$ 2,538,445

8. DEFERRED CHARGES AND INTANGIBLE ASSETS:

2005	Cost	Accumulated amortization	Net book value
Deferred finance charges	$ 162,500	$ 134,950	$ 27,550
Intangible assets ("BP Rights")	250,001	-	250,001
Goodwill and other	56,748	-	56,748
	$ 469,249	$ 134,950	$ 334,299

2004	Cost	Accumulated amortization	Net book value
			(change in basis of presentation – note 2)
Deferred finance charges	$ 162,500	$ 103,250	$ 59,250
Intangible assets ("BP Rights")	250,001	-	250,001
Goodwill and other	56,748	-	56,748
	$ 469,249	$ 103,250	$ 365,999

On July 17, 2002, the Boston Pizza Royalties Income Fund (the "Fund") successfully completed an offering of units. A portion of the net proceeds of the offering were used by the Fund to indirectly acquire through an interest in Boston Pizza Royalties Limited Partnership (the "Partnership") all rights in Canada and to certain trademarks, pending trademark applications, unregistered trademarks used in the business of the Company, trade names and in all goodwill associated with those trade names, owned by the Company (collectively, the "BP Rights"). The Partnership acquired the BP Rights from the Company in exchange for cash and by issuing partnership interests. The Partnership and the Company entered into a Licence and Royalty agreement (the "Licence and Royalty Agreement") to allow the Company the Canadian use of the BP Rights for a term of 99 years, for which the Company pays a royalty equal to 4% of the franchise revenues (as defined) of certain restaurants located in Canada (the "Royalty Pool").

As a result of the consolidation of the Partnership as required by the adoption of AcG-15 (note 2), the BP Rights are now recorded at their historical cost.

BOSTON PIZZA INTERNATIONAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2005 AND 2004

9. LONG-TERM DEBT:

Long-term debt consists of:

	2005	2004 (change in basis of presentation – note 2)
Term loans:		
The Bank of Nova Scotia term loan bearing interest at the bank prime plus 0.75% per annum, renewed with a maturity date of July 5, 2007.	$ 5,000,000	$ 5,000,000
GE Capital Canada Equipment Financing Inc. term loan bearing interest at 8.2% per annum, due September 3, 2006, repayable in blended monthly instalments of $16,070, secured by a first charge on leaseholds and equipment	139,807	313,372
GE Capital Canada Equipment Financing Inc. term loan bearing interest at the bank prime plus 2.75% per annum, repayable in blended monthly payments of $14,672, due October 4, 2012, secured by restaurant equipment	998,094	-
GE Capital Canada Equipment Financing Inc. term loan bearing interest at the bank prime plus 2.75% per annum, repayable in blended monthly payments of $1,129 due October 4, 2015, secured by restaurant equipment	137,010	-
Obligations under capital lease:		
The Bank of Nova Scotia lease bearing interest at the bank prime plus 2.35% per annum, repayable in blended monthly payments of $37,403, secured by restaurant equipment with a final purchase price of $282,300 due December 1, 2008	1,448,385	-
Other obligations under capital lease bearing interest at 2.86% per annum, secured by specific assets of the Company	65,501	6,535
	7,788,797	5,319,907
Current portion	710,554	180,096
	$ 7,078,243	$ 5,139,811

9. LONG-TERM DEBT (CONTINUED):

Term loans are secured by a general assignment of book debts and certain guarantees from the Company, shareholders and related companies.

Principal repayments on long-term debt and capital lease obligations for years ending December 31 are as follows:

2006	$ 710,554
2007	5,561,803
2008	831,211
2009	153,118
2010 and thereafter	532,111
	$ 7,788,797

10. NOTES PAYABLE:

	2005	2004
Note payable to the Boston Pizza Royalties Income Fund with interest payable monthly at 7.5% per annum, due July 17, 2042 (a)	$ 24,000,000	$ 24,000,000
Note payable to the parent company, non-interest bearing and due on demand (b)	6,300,000	-
	$ 30,300,000	$ 24,000,000

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

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

(b) The note payable to the parent company was issued in the current year as settlement of dividends payable, is non-interest bearing and is due on demand. Payment cannot be demanded prior to January 1, 2007.

11. OTHER LONG-TERM LIABILITIES:

	2005	2004
Long-term portion of incentive plan	$ 3,267,118	$ 1,641,003
Tenant inducements	288,742	64,682
	$ 3,555,860	$ 1,705,685

During the year, the Company accrued $5,347,857 for a long-term incentive plan ("LTIP") for its employees of which $3,267,118 is included in other long-term liabilities. The incentive pool is determined based on the number of restaurants added to the Royalty Pool of the Fund. Adjustments are made to the incentive pool based on certain performance criteria. The awards to executive employees are paid over a three year period and awards to other employees are paid over a two-year period. These LTIP awards are recorded as a reduction of deferred gain as they are directly related to the process of earning Additional Entitlement on Class B Partnership units which are also recorded as deferred gain upon exchange (note 4).

12. 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:

	2005	2004
Earnings before income taxes	$ 5,706,915	$ 3,019,803
Combined Canadian federal and provincial tax rates	35.00%	35.70%
	1,997,420	1,078,070
Increased (reduced) by:		
Permanent differences	(903,485)	(85,133)
Refundable tax charged to retained earnings	499,984	(249,639)
Change in statutory tax rates	300,451	(279,706)
Income tax expense	$ 1,894,370	$ 463,592

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

	2005	2004 (change in basis of presentation – note 2)
Future income tax assets (liabilities):		
Deferred gain	$ 12,303,535	$ 11,666,166
Losses carried forward	26,784	56,151
Capital assets	(68,564)	(30,998)
Deferred revenue	704,024	981,274
Goodwill and other intangibles	176,015	196,242
	13,141,794	12,868,835
Current future income tax assets	228,814	294,667
	$ 12,912,980	$ 12,574,168

13. SHARE CAPITAL:

Authorized:

10,000 common shares of no par value

	2005	2004
Issued:		
100 common shares	$ 100	$ 100

14. COMMITMENTS:

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

2006	$ 2,026,501
2007	1,349,964
2008	1,007,489
2009	891,322
2010	885,366

15. CONTINGENCIES:

(a) The Company guarantees lease payments totaling $310,000 for one of its franchisees.

(b) BPI and the Fund (as indirect owner of the Boston Pizza trademarks through its administrator Boston Pizza Royalties Limited Partnership, collectively, the "Boston Pizza Group") are involved in trademark litigation with entities affiliated with McDonald's Restaurant of Canada (the "McDonalds' Group"), opposing the registration by the McDonald's Group in Canada of the Boston Market trademark. To date, the Boston Pizza Group has successfully opposed such registration. Management of BPI believes that there is likelihood that the Boston Market trademark will not be registered. Additionally, the Boston Pizza Group has commenced an action against the McDonald's Group to prevent it from infringing the Boston Pizza trademarks by operating Boston Market in Canada. The McDonald's

Group has filed a counterclaim and a separate action challenging the validity of the registered trademark "Boston Pizza" and related trademarks under the Trade-Marks Act (Canada). Management does not believe that this action will succeed. However, in the event that the challenge to the Boston Pizza trademarks is successful, the Boston Pizza Group would lose the benefits of registration of the Boston Pizza trademarks under the Trade-Marks Act (Canada), which may mean losing the ability to prevent others from using the registered trademarks for the goods and services for which they are registered and to prevent others from using similar or confusing trademarks or names. However, the loss of the registration under the Trade-Marks Act (Canada), would not prevent the Boston Pizza Royalties Limited Partnership, administrator to the Fund from continuing to license and use the "Boston Pizza" and related trademarks in the existing operations and geographic territories where they are presently used and from taking other measures to protect their rights in respect of, and their ability to use, the "Boston Pizza" and related trademarks, in new areas where BPI and its sublicensees do not presently operate Boston Pizza restaurants.

16. RELATED PARTY TRANSACTIONS:

Included in accounts payable and accrued liabilities is nil (2004 – $469,499) payable to the Company's parent company in respect of outstanding trade payables. Included in accounts receivable is $735,934 and nil (2004 – $634,971 and nil) due from associated companies and the Fund, respectively. Also included in accounts receivable is $75,000 (2004 – $130,000) for administrative services provided to a related party.

The Company earned revenues of $353,805 from a company under common control of which $96,000 is included in accounts receivable as at December 31, 2005.

Included in administrative expenses and restaurant operating costs are amounts paid by the Company relating to rent and management fees and bonuses to companies under common control totaling $468,900 (2004 – $394,796) and $2,659,584 (2004 – $2,761,119), respectively. Additionally, included in management fees is $970,416 (2004 – $730,489) paid to the Company's parent for services rendered.

The Company paid interest on a note payable to the Fund of $1,800,000 (2004 – $1,800,000).

The Company earned $1,488,937 (2004 – $1,211,305) of interest and management fees from companies under common control. Interest and management fees are included in revenues.

17. SEGMENT REPORTING:

Management has determined the Company operates in one segment, which involves franchise fee income, sales from company restaurants and rental income. Substantially all of the Company's assets and revenues are located or earned in Canada, the Company's U.S. territorial development expense is incurred substantially in the U.S. and these operations were transferred to a related party.

18. COMPARATIVE FIGURES:

Certain of the comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year.

19. SUPPLEMENTARY CASH FLOW INFORMATION:

(a) Change in non-cash operating items:

	2005	2004
		(change in basis of presentation – note 2)
Accounts receivable	$ (2,871,717)	$ (114,415)
Prepaid expenses	(120,229)	131,104
Accounts payable and accrued liabilities	3,130,713	(560,821)
Income taxes payable	(43,897)	405,105
Deferred revenue	931,785	2,769,501
Long-term liabilities	(3,497,682)	56,679
	$ (2,471,027)	$ 2,687,153

19. SUPPLEMENTARY CASH FLOW INFORMATION (CONTINUED):

(b) Supplementary information:

		2005		2004
Interest received	$	77,640	$	73,575
Interest paid		2,096,657		2,078,143
Income taxes paid		1,135,318		957,100
Non-cash transactions:				
Increase in refundable dividend tax and future income taxes		1,381,932		583,686
Settlement of dividends payable through issuance of notes payable		6,300,000		-

20. SUBSEQUENT EVENTS:

(a) On January 1, 2006, adjustments to royalty payments and Additional Entitlement were made based on the actual performance of eighteen restaurants added to the Royalty Pool on January 1, 2005. Based on these adjustments, BPI will receive its pro rata portion of the remaining Additional Entitlement, 115,977 Fund units. BPI will also repay an amount of $169,071 for monthly distributions to the Partnership.

(b) On January 1, 2006, 31 new Boston Pizza restaurants opened during the period from November 2, 2004 to December 31, 2005 were added to the Royalty Pool. The Franchise revenue of these 31 new restaurants has been estimated at $61.1 million. The total number of restaurants in the Royalty Pool has increased to 226. The yield of the Fund units was determined to be 7.61% calculated using a weighted average unit price of $15.59. Weighted average unit price is calculated based on the market price of the unit traded on the TSX Stock Exchange during the period of twenty consecutive days ending on the fifth trading day before January 1, 2006. As a result of the contribution of the additional net sales to the Royalty Pool, and assuming 100% of the Additional Entitlement, BPI Additional Entitlement is equivalent to 1,904,808 (2004 – 1,292,182) Fund units. BPI will also receive a proportionate increase in monthly distributions from the Partnership. Of the Additional Entitlement, 20% (2006 – 380,962 units; 2005 – 258,436 units), remain un-issued and are not eligible for conversion to Fund units until January 1, 2007 (2005 units – January 1, 2006) based on the actual performance of the new stores.

(c) On February 17, 2006, the Company exchanged Class B Partnership units for 1,311,859 Fund units. Following this exchange, the Company sold these Fund units to the public for gross proceeds of approximately $21,775,000 and recognized a gain on sale of approximately $3,750,000 net of transaction costs. Subsequent to the exchange and sale of Fund units, the Company holds exchangeable Partnership units equivalent to 2,749,175 Fund units, or 20% of the issued and outstanding units on a fully diluted basis.

(d) Subsequent to year-end, the Company declared $9,100,000 of dividends to its shareholders.

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Mark Pacinda
PRESIDENT

Al Cave
EXECUTIVE VICE-PRESIDENT – CORPORATE SERVICES

Doug MacDonald
EXECUTIVE VICE-PRESIDENT – WESTERN CANADA

Ken Otto
EXECUTIVE VICE-PRESIDENT – ONTARIO & MARITIMES

Wayne Shanahan
EXECUTIVE VICE-PRESIDENT – QUEBEC

boston pizza international inc.

CLOSING THOUGHTS FROM THE PRESIDENT:

"Our highly successful entry into the Quebec market in 2005 was a key milestone for our business. Not only did we tap into a significant market, but Boston Pizza now has a strong presence in every region across the country."

MARK PACINDA
President
Boston Pizza International Inc.

The Boston Pizza International Inc. Corporate Mission Statement

TO BE A WORLD CLASS FRANCHISOR THROUGH SELECTING AND TRAINING PEOPLE TO PROFITABLY MANAGE AN OUTSTANDING FOODSERVICE BUSINESS.

TO ACHIEVE THIS GOAL WE ARE INNOVATIVE AND RESPONSIVE IN OUR APPROACH IN BUSINESS. WE WORK AS A TEAM PROVIDING ATTENTION TO DETAIL BUT NEVER LOSING SIGHT OF THE LARGER PICTURE. WE RECOGNIZE THE NEED TO PROVIDE LEADERSHIP IN ALL AREAS OF THE OPERATIONS, MARKETING AND RESTAURANT DEVELOPMENT.

ROYALTIES INCOME FUND

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