

Boston Pizza Royalties Income Fund Annual Report 2009





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PROFILE

Founded in Alberta in 1964, Boston Pizza has grown to become Canada's #1 casual dining brand by continually improving our restaurant design, our menu offering and our customer experience. Boston Pizza's success has allowed the concept to grow and prosper in new markets across Canada. There are now more than 340 Boston Pizza locations in Canada, stretching from Victoria to St. John's, with all but three of the restaurants owned and operated by independent franchisees. In every Boston Pizza location, customers enjoy a friendly atmosphere, professional service and an appealing and diverse menu. Whether it's a business lunch, a family dinner or watching the game with friends, Boston Pizza provides our customers the opportunity to enjoy good food in a relaxed, comfortable atmosphere. It is this combination of key ingredients that has enabled Boston Pizza to serve more customers in more locations than any other full service restaurant in Canada.



2009 HIGHLIGHTS

- Record system-wide gross sales of \$848 million
- 18 new stores opened, bringing the total at year end to 340
- 16 existing restaurants renovated to the latest Boston Pizza design standards
- Number of restaurants in the Royalty Pool has more than doubled since the IPO in 2002 from 154 to 340 locations at January 1, 2010
- Boston Pizza Foundation surpasses \$10 million in total funds raised and donated to Canadian charities
- Boston Pizza International Inc. named to the Platinum Club of "Canada's 50 Best Managed Companies."



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Boston Pizza Royalties Income Fund

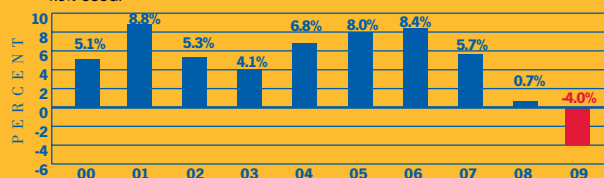
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Boston Pizza International Inc.

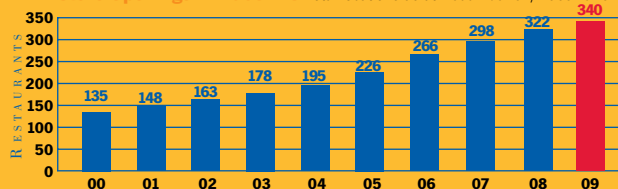
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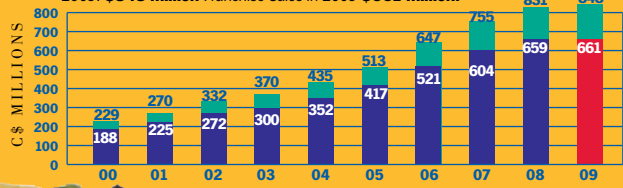
In 2009 SSSG was negative 4.0% A key driver for yield growth of the Fund is SSSG. In the last 10 years Boston Pizza restaurants nationwide have averaged over 4.9% SSSG.



Store Openings in 2009: 18 Total locations as at December 31, 2009: 340



System-wide Gross Sales & Franchise Sales Compound annual growth of system-wide gross sales over the last 10 years 14.0% System-Wide Gross Sales in 2009: **\$848 million** Franchise Sales in 2009 **\$661 million.**



STABILITY

An Experienced Franchisor

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

1. A Commitment to Franchisee Profitability

The best way to ensure the success of the Fund, BPI, and the Boston Pizza brand is to ensure the success of the franchisees.

2. A Commitment to Building the Boston Pizza Brand

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

3. A Commitment to Continually Improving the Guest Experience

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

A Proven Restaurant Concept

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

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

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

A Successful Income Fund

On July 17th, 2002, Boston Pizza International Inc. sold the BP Rights to the Fund. The BP Rights include trademarks used in connection with the operation of Boston Pizza restaurants in Canada. BPI then entered into an agreement with the Fund which gives BPI the exclusive license to use the BP Rights for a period of 99 years, beginning in 2002, in exchange for a monthly royalty payment of 4% of the Franchise Sales of Boston Pizza Restaurants in the Royalty Pool. BPI remains a private company which continues to operate as the franchisor for Boston Pizza Restaurants and provides marketing, purchasing, and administrative support to existing franchisees. In addition, BPI seeks out new restaurant locations and potential franchisees in order to expand the chain and enter new markets. Any new stores opened during a calendar year are added to the Royalty Pool on January 1st of the following year. Since 2002, the Royalty Pool has expanded from 154 to 340 restaurants.

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

Demonstrated Consistency — The Fund has provided cash distributions to Unitholders in each month since the IPO in July 2002 and as at December 31, 2009, together with distributions paid by the Partnership to BPI, had paid out total cash distributions of \$129 million or \$9.06 per Unit.

Demonstrated Growth — Monthly cash distributions have been increased thirteen times since the IPO for a total increase of 38%.



Boston Pizza Royalties Income Fund Annual Report 2009

GROWTH



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

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



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

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



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



1993 – Boston Pizza receives 25-Year Award from The International Franchise Association – a triumph of longevity in the franchising business. It's only the second time the award has been presented to a Canadian company.



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

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



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



As of January 1, 2010, there are 340 Boston Pizza Restaurants in the Royalty Pool, stretching from Victoria to St. John's



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



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

2003 – On Remembrance Day, Boston Pizza sends 2,200 pizzas to Canadian troops stationed in Afghanistan to boost morale.



2003 – Boston Pizza is named as a Platinum Club Member of “Canada’s 50 Best Managed Companies” after winning the award for the previous nine consecutive years and has re-qualified for Platinum status every subsequent year.



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



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

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



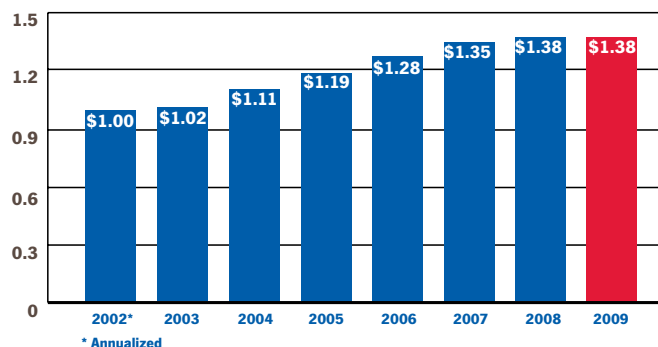
2008 – The 300th Boston Pizza location opens in Mississauga, Ontario.

2010 – Boston Pizza Foundation surpasses \$10 million in total funds raised and donated to Canadian charities.



RESULTS

On an annual basis, distributions to unitholders have increased by a total of 38% since the IPO.





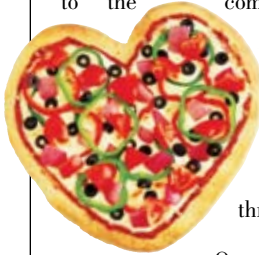
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COMMUNITY



BOSTON PIZZA FOUNDATION

As Boston Pizza continues to grow so does our ability to play a positive role in the communities where we live and work. Since Boston Pizza first opened its doors in Edmonton, Alberta in 1964 a spirit of giving back to the communities in which we operate has been a philosophy and value we hold dear. To formalize the first 25 years of charitable activity, Boston Pizza in 1990 established the Boston Pizza Foundation, a public foundation focused on raising funds to help people of all ages living with difficult circumstances throughout Canada.



Our commitment to local and national charities has always been a top priority through both franchisee and corporate initiatives. This dedication is reflected in a variety of programs and promotions from corporate golf tournaments and charity walks to national marketing programs such as our Valentine's Day Heart Shaped Pizza promotion.

Since its inception, the Boston Pizza Foundation has raised more than \$10.5 million for three national charities: Kids Help Phone, Juvenile Diabetes Research Foundation and the Heart & Stroke Foundation of Canada, as well as a host of other local and national charities.



LETTER FROM THE CHAIRMAN BOSTON PIZZA ROYALTIES INCOME FUND

On behalf of the Trustees, I am pleased to present the fourth quarter and annual report for the Boston Pizza Royalties Income Fund (the "Fund"). This report covers the period from October 1, 2009 to December 31, 2009 (the "Period") and the period from January 1, 2009 to December 31, 2009 (the "Year"). These 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 the activities of the Fund.

Highlights

The Fund's earnings before non-cash items including future income taxes and dilution gains or losses¹ were \$4.7 million or \$0.329 per unit of the Fund ("Unit") for the Period and \$19.5 million or \$1.347 per Unit for the Year compared to the same periods in 2008 in which earnings before future income taxes and dilution gains or losses¹ were \$5.0 million or \$0.321 per Unit and \$20.2 million or \$1.338 per Unit, respectively. The Fund's earnings before non-cash items including future income taxes and dilution gains or losses¹ on a per Unit basis increased by 2.5% for the Period and 0.7% for the Year compared to the same periods in 2008 largely due to the lower number of Units outstanding during the Period and Year versus the same periods one year ago as a result of the Fund's acquisition of Units pursuant to normal course issuer bids during 2008 and 2009.

Franchise sales reported by restaurants in the royalty pool were \$156.3 million for the Period and \$644.1 million for the Year, compared to \$158.9 million and \$646.3 million, respectively, in the same periods one year ago. Same store sales growth ("SSSG"), a key driver of distribution growth for Unitholders, is the change in gross revenues of Boston Pizza restaurants as compared to the gross revenues for the same period in the previous year, where restaurants were open for the full period in each year. SSSG was negative 4.4% for the Period and negative 4.0% for the Year, compared to positive 0.1% and positive 0.7% respectively versus the same periods one year ago. Franchise sales, the basis upon which royalties are paid to the Fund, exclude revenue from the sale of liquor, beer, wine and tobacco and approved national promotions and discounts. On a franchise sales basis, SSSG was negative 5.8% for the Period and negative 5.4% for the Year, compared to negative 0.3% and positive 0.3% respectively during the same periods last year. Sales for the Period and Year were negatively impacted by weaker economic conditions compared to the same periods one year ago.

The Trustees have announced a monthly cash distribution to Unitholders of 11.5 cents per unit for January 2010. The January distribution will be payable to Unitholders of record at the close of business on February 21, 2010 and will be paid on February 26, 2010. The Fund periodically reviews distribution levels based on its policy of stable and sustainable distribution flow to Unitholders.

Over the past ten years ended December 31, 2009, annual SSSG at Boston Pizza restaurants across Canada has averaged positive 4.9%, a figure that compares favourably against the Canadian restaurant industry as a whole. This consistent sales growth is the reason that the Trustees of the Fund have been able to increase monthly cash distributions to Unitholders 13 times since the Fund's initial public offering ("IPO") in 2002. At the time of the IPO the monthly distributions were set at \$0.0833 per Unit and at the end of the Period, monthly distributions were \$0.1150 per Unit, an increase of 38%. As at December 31, 2009, the Fund, including distributions paid by Boston Pizza Royalties Limited Partnership to Boston Pizza International Inc. ("BPI"), had paid out total cash distributions of \$129.3 million or \$9.06 per Unit. Distributions for the Period and Year were funded entirely by cash flows from operations. No debt was incurred at any point during the Period or Year to fund distributions.

Outlook

The information contained in "Outlook" is forward-looking information. Please see "Note Regarding Forward-Looking Information" in the Fund's Management's Discussion and Analysis for the Period for a discussion of the risks and uncertainties in connection with forward-looking information.

¹ This is a non-GAAP financial measure that does not have a standardized meaning prescribed by GAAP and therefore is unlikely to be comparable to similar measures presented by other issuers. This non-GAAP financial measure provides useful information to investors and management by providing an indication of operating earnings. Investors are cautioned that this should not be construed as an alternative net income measure of profitability. The Fund's financial statements provide reconciliation from this non-GAAP financial measure to the most directly comparable GAAP measure.

LETTER FROM THE CHAIRMAN (continued)

BPI's management believes that the prevailing weaker economic conditions will persist in 2010 resulting in continued pressure on SSSG and franchise sales at Boston Pizza Restaurants in Canada. However, Boston Pizza is well positioned to attract a wide variety of guests into the restaurant, sports bar and take-out/delivery parts of each location and offer a compelling value proposition to Canadians in these challenging economic times. BPI's strategies to drive guest traffic and higher average cheque levels include a larger marketing budget versus the previous year, national and local store promotions, and menu re-pricing as part of the new menu launched each year in June. In addition, BPI's management anticipates that 15 to 25 restaurants will complete renovations in 2010. Renovated restaurants typically experience an incremental sales increase in the year following the re-opening.

BPI's management has determined that 10 to 15 new locations will open across Canada in 2010. Boston Pizza remains well positioned for future expansion and will continue to strengthen its position as the number one casual dining brand in Canada by pursuing further restaurant development opportunities across the country.

Under the Specified Investment Flow Through tax legislation, which was substantively enacted into law on June 12, 2007, the Fund will be subject to a tax at the prevailing corporate rate beginning on January 1, 2011. This tax will reduce net earnings and will affect cash distributions to Unitholders by approximately the same amount. Monthly cash distributions to Unitholders will be reclassified for tax purposes as eligible dividends and Canadian residents who hold their Units in a non-tax deferred account may claim the dividend tax credit for eligible dividends, thereby reducing the after-tax impact of this legislative change. Since the announcement of this change in tax legislation, management and the Trustees have monitored the changes in the income trust environment and capital markets and continue to review potential impacts on the Fund's current strategies and the alternatives available to the Fund, consistent with protecting and enhancing Unitholder value. No determination regarding a change to the current trust structure has been made by the Trustees at this time.

On behalf of the Board of Trustees,



John Cowperthwaite, FCA

Chairman, Boston Pizza Royalties Income Fund

MANAGEMENT'S DISCUSSION & ANALYSIS

For the Period and Year ended December 31, 2009

FINANCIAL HIGHLIGHTS

The tables below set out selected historical information and other data from the financial statements of Boston Pizza Royalties Income Fund (the "**Fund**"¹) and Boston Pizza Royalties Limited Partnership (the "**Partnership**"), which should be read in conjunction with the consolidated financial statements of the Fund for the three month and twelve month periods ended December 31, 2009.

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

(in thousands of dollars – except restaurants, SSSG and per unit items)	Jan 1, 2009 to Dec 31, 2009	Jan 1, 2008 to Dec 31, 2008	Jan 1, 2007 to Dec 31, 2007
Number of restaurants in Royalty Pool	322	298	266
Franchise Sales ² reported by restaurants in the Royalty Pool	644,091	646,275	583,775
Royalty Income – 4% of Franchise Sales of Restaurants	25,764	25,851	23,351
Administrative and interest expenses	1,449	1,587	1,101
Partnership earnings for the period before undernoted ³	24,315	24,264	22,250
BPI's interest in the earnings of the Partnership	6,627	5,902	7,018
Equity income related to BPI royalties earned by the Fund	17,688	18,362	15,232
Net interest income	1,783	1,794	1,800
Earnings before undernoted ^{3 4}	19,471	20,156	17,032
Dilution loss	326	—	—
Future income tax expense	1	428	2,881
Net earnings	19,144	19,728	14,151
Earnings before undernoted per Fund unit ^{3 4}	1.347	1.338	1.361
Basic and diluted earnings per Fund unit ⁵	1.325	1.309	1.131
Distributions declared per Fund unit	1.380	1.380	1.354
Same store sales growth (SSSG)	(4.0%)	0.7%	5.7%
Number of restaurants opened during the period	18	25	34
Number of restaurants closed during the period	1	2	—
	Dec 31, 2009	Dec 31, 2008	Dec 31, 2007
Total assets	171,046	182,427	150,665
Total liabilities	5,157	5,327	4,347

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

² Franchise sales is the basis on which the royalty is payable; it means the gross revenues of Boston Pizza Restaurants (as defined herein) in respect of which the royalty is payable ("**Franchise Sales**"). The term "gross revenue" refers to the gross revenue: (i) of the corporate Boston Pizza Restaurants in Canada owned by BPI; and (ii) reported to BPI by franchised Boston Pizza Restaurants in Canada, without audit or other form of independent assurance, and in the case of both (i) and (ii), after deducting revenue from the sale of liquor, beer, wine and tobacco and revenue from BPI approved national promotions and discounts and excluding applicable sales and similar taxes. Nevertheless, BPI periodically conducts audits of the Franchise Sales reported to it by its franchisees, and the Franchise Sales reported herein include results from sales audits of earlier periods conducted during the Year and the proceeds from insurance claims as the result of the fire damage to two stores in the first quarter of 2008.

³ This is a non-GAAP financial measure that does not have a standardized meaning prescribed by GAAP and therefore is unlikely to be comparable to similar measures presented by other issuers. This non-GAAP financial measure provides useful information to investors and management by providing an indication of operating earnings. Investors are cautioned that this should not be construed as an alternative net income measure of profitability. The table above provides a reconciliation from this non-GAAP financial measure to the most directly comparable GAAP measure.

⁴ Earnings before dilution loss and future income tax expense.

⁵ Earnings per Fund unit and diluted earnings per Fund unit are shown here on an after-tax basis. These per Fund unit calculations include the impact of future income taxes and dilution loss which have no impact on cash flow in the Period or the Year (see "Income Taxes"). For a description of earnings per unit before dilution loss and tax, please refer to the "Distributions" section of this Management's Discussion and Analysis.

MANAGEMENT'S DISCUSSION & ANALYSIS (continued)

	Q4	Q3	Q2	Q1
(in thousands of dollars – except restaurants and per unit items)	2009	2009	2009	2009
Restaurants in the Royalty Pool	322	323	323	323
Franchise Sales reported by restaurants in the Royalty Pool	156,254	164,396	162,709	160,732
Royalty income – 4% of Franchise Sales	6,250	6,576	6,508	6,429
Administrative and interest expenses	(385)	(320)	(387)	(357)
Partnership earnings for the period before undernoted ³	5,865	6,256	6,121	6,072
BPI's interest in the earnings of the Partnership	(1,627)	(1,694)	(1,667)	(1,638)
Equity income related to BPI royalties earned by the Fund	4,238	4,562	4,454	4,434
Net interest income	445	450	451	436
Earnings before undernoted ^{3 4}	4,687	5,012	4,905	4,870
Dilution gain (loss)	38	—	—	(364)
Future income tax recovery (expense)	(537)	(75)	(74)	685
Net earnings	4,185	4,937	4,831	5,191
Earnings before undernoted per Fund unit ^{3 4}	0.329	0.349	0.342	0.328
Basic and diluted earnings per Fund unit ⁵	0.294	0.344	0.336	0.350
Distributions declared per Fund unit	0.460	0.345	0.345	0.230
	Q4	Q3	Q2	Q1
(in thousands of dollars – except restaurants and per unit items)	2008	2008	2008	2008
Restaurants in the Royalty Pool	298	298	299	300
Franchise Sales reported by restaurants in the Royalty Pool	158,913	170,768	163,955	152,638
Royalty income – 4% of Franchise Sales	6,357	6,831	6,558	6,106
Administrative and interest expenses	(546)	(267)	(387)	(388)
Partnership earnings for the period before undernoted ³	5,811	6,564	6,171	5,718
BPI's interest in the earnings of the Partnership	(1,264)	(1,494)	(1,303)	(1,841)
Equity income related to BPI royalties earned by the Fund	4,547	5,070	4,868	3,877
Net interest income	444	450	450	450
Earnings before undernoted ^{3 4}	4,991	5,520	5,318	4,327
Future income tax recovery (expense)	(312)	—	—	(116)
Net earnings	4,679	5,520	5,318	4,211
Earnings before undernoted per Fund unit ^{3 4}	0.321	0.352	0.339	0.324
Basic and diluted earnings per Fund unit ⁵	0.301	0.352	0.339	0.316
Distributions declared per Fund unit	0.460	0.345	0.345	0.230

OVERVIEW

This Management's Discussion and Analysis covers the three month period from October 1, 2009 to December 31, 2009 (the "**Period**"), the twelve month period from January 1, 2009 to December 31, 2009 ("**Year**"), and is dated February 9, 2010.

The Fund is a limited purpose open-ended trust established in July 2002, and the units of the Fund (the "**Units**") trade on the Toronto Stock Exchange under the symbol BPF.UN. The Fund was created to acquire, indirectly through the Partnership and Boston Pizza Holdings Trust (the "**Trust**"), the Canadian trademarks owned by Boston Pizza International Inc. ("**BPI**") and used in connection with the operation of the Boston Pizza restaurants in Canada (collectively the "**BP Rights**"⁶) and the business of BPI, its affiliated entities and franchisees (herein referred to as "**Boston Pizza**"). The Partnership licenses the BP Rights to BPI in return for a 4% royalty of Franchise

Sales of those restaurants ("**Boston Pizza Restaurants**") included in the specific royalty pool (the "**Royalty Pool**"). At the end of the Year, there were 322 restaurants in the Royalty Pool.

During 2005, the Partnership was determined to be a Variable Interest Entity in accordance with the criteria established in the Canadian Institute of Chartered Accountants' Guideline, Consolidation of Variable Interest Entities (AcG-15). As a result of this guideline, the Fund accounts for its investment in the Partnership on an equity basis and BPI consolidates the Partnership in its financial statements. Readers are advised that this is an accounting basis of presentation only and that earnings and distributions attributable to Fund unitholders ("**Unitholders**") are not impacted nor does this impact the contractual obligations between the Fund, the Partnership, and BPI. The consolidated financial statements of the Fund therefore include the accounts

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

of the Fund, its wholly-owned subsidiaries the Trust, Boston Pizza Holdings GP Inc. ("**Holdings GP**"), Boston Pizza Holdings Limited Partnership ("**Holdings LP**") and its 80% owned subsidiary Boston Pizza GP Inc. ("**BPGP**") (collectively, the "**Companies**"). BPGP is the managing general partner of the Partnership. All residual ownership of the Companies is either directly or indirectly controlled by BPI.

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

Increases in Franchise Sales are derived from both new Boston Pizza Restaurants added to the Royalty Pool and same store sales growth ("**SSSG**"). SSSG, a key driver of distribution growth for individual Unitholders, is the change in gross revenues of Boston Pizza Restaurants as compared to the gross revenues for the same period in the previous year. 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 and complete any equipment upgrades as required by BPI. Locations typically close for two to three weeks to complete the renovation and experience an incremental sales increase in the year following the re-opening.

Franchise Sales are also affected by the permanent closures of Boston Pizza Restaurants. A Boston Pizza Restaurant is closed when it ceases to be viable or when the franchise agreement has expired or been terminated. BPI has a very low restaurant closure rate and has permanently closed only four restaurants in the past four years. These are the only closures since the inception of the Fund in 2002.

On January 1 of each year (the "**Adjustment Date**"), an adjustment is made to add to the Royalty Pool new Boston Pizza Restaurants that opened and to remove any Boston Pizza Restaurants that permanently closed since the last Adjustment Date. In return for adding this additional royalty revenue, BPI receives the right to indirectly acquire additional Units (the "**Additional Entitlements**"). The adjustment for new Franchise Sales added to the Royalty Pool is designed to be accretive to Unitholders. The Additional Entitlements are calculated at 92.5% of the estimated royalty revenue added to the Royalty Pool, divided by the yield of the Fund, divided by the weighted average Unit price. BPI 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 is performed. At such time an adjustment is made to reconcile distributions paid to BPI and the Additional Entitlements received by BPI.

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 ("**GAAP**"). *Readers should note that the 2009 results are not directly comparable with the 2008 results due to the fact that there were 322 restaurants in the Royalty Pool for the Period and Year and 298 restaurants in the Royalty Pool for the same periods in 2008.*

OPERATING RESULTS

Same Store Sales Growth

SSSG, a key driver of distribution growth for individual Unitholders, is the change in gross revenues of Boston Pizza Restaurants as compared to the gross revenues for the same period in the previous year, where restaurants were open for the full period in each year. SSSG is the combined result of changes in customer traffic and changes in average guest cheque. SSSG was negative 4.4% for the Period and negative 4.0% for the Year, compared to positive 0.1% SSSG reported for the fourth quarter of 2008 and positive 0.7% for 2008. SSSG is based on gross sales, including approved national promotions and discounts, of Boston Pizza Restaurants that have been opened for a minimum of 24 months. Franchise Sales, the basis upon which royalties are paid by the franchisees to BPI, exclude revenue from the sale of liquor, beer, wine and tobacco and approved national promotions and discounts. On a Franchise Sales basis, SSSG for the Period was negative 5.8% (2008 – negative 0.3%) and negative 5.4% for the Year (2008 – positive 0.3%). Sales for the Period were negatively impacted by weaker economic conditions partially offset by a national promotion in October 2009. Sales for the Year were negatively impacted by weaker economic conditions offset by a successful new national promotion which ran during the first quarter of 2009. The SSSG reported for the Period and Year include results from sales audits conducted during 2009. Over the past decade ended December 31, 2009, annual SSSG has averaged positive 4.9%, a figure that compares favourably against the Canadian restaurant industry as a whole.

New Store Openings, Renovations and Relocations

During the Period, seven new Boston Pizza Restaurants were opened, six of which are full service restaurants and one of which is a Quick Express location. Also, during the Period, one Boston

MANAGEMENT'S DISCUSSION & ANALYSIS (continued)

Pizza Restaurant permanently closed. A total of 18 new Boston Pizza Restaurants opened during the Year and one Boston Pizza Restaurant permanently closed during the Year. As well during the Period five Boston Pizza Restaurants were renovated, bringing the total to 16 completed renovations during the Year. Locations typically close for two to three weeks to complete the renovation and experience an incremental sales increase in the year following the re-opening. Subsequent to December 31, 2009, Boston Pizza opened one new restaurant and completed two additional restaurant renovations bringing the total number of locations opened as of February 9, 2010 to 341, 340 of which are in the Royalty Pool.

Seasonality

Boston Pizza Restaurants experience seasonal fluctuations in Franchise Sales, which are inherent in the full service restaurant industry in Canada. Seasonal factors such as better weather allow Boston Pizza Restaurants to open their patios and generally increase Franchise Sales in the second and third fiscal quarters compared to the first and fourth fiscal quarters. Tourism is also a seasonal factor positively impacting the same time frame. However, weaker economic conditions experienced during the Period and the Year together with poor weather conditions in parts of Canada negated the positive effect that these seasonal factors typically have on Franchise Sales.

Revenues

Royalty income received by the Partnership was \$6.3 million for the Period compared to \$6.4 million for the same period in 2008. Royalty income received by the Partnership was \$25.8 million for the Year compared to \$25.9 million received for the same period in 2008. Royalty income was based on the Royalty Pool of 322 Boston Pizza Restaurants reporting Franchise Sales of \$156.3 million for the Period and \$644.1 million for the Year. In the fourth quarter of 2008, royalty income was based on the Royalty Pool of 298 Boston Pizza Restaurants reporting Franchise Sales of \$158.9 million and \$646.3 million for the year 2008. The decrease in royalty income received by the Partnership and Franchise Sales of Boston Pizza Restaurants in the Royalty Pool during the Period compared to the same period in 2008 was due to weaker economic conditions. The weaker economic conditions had a negative impact on customer traffic and average guest cheque at Boston Pizza Restaurants which was partially offset by the addition of 23 net new restaurants in the Royalty Pool on January 1, 2009. The decrease in Franchise Sales by Boston Pizza Restaurants in the Royalty Pool for the Year was principally due to the weaker economic conditions partially offset by the higher number of restaurants in the Royalty Pool for the Year.

Net interest income earned by the Fund was \$0.4 million for the Period (2008 – \$0.4 million) and \$1.8 million for the Year (2008 – \$1.8 million). Interest income to the Fund is principally derived from the \$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.

Expenses

Partnership expenses for the Period were \$0.4 million consisting of \$0.1 million for interest expense on the Term Loan (defined later) and NCIB Credit Facility (defined later), and \$0.3 million for general and administrative expenses. The general and administrative expenses are comprised mainly of professional fees, insurance premiums, transfer agent costs, and trustee fees. For the same period in 2008, Partnership expenses were \$0.5 million consisting of \$0.1 million for interest expense and \$0.4 million for general and administrative expenses. Partnership expenses for the Year were \$1.4 million consisting of \$0.5 million for interest expense on the Term Loan and NCIB Credit Facility and \$0.9 million for general and administrative expenses. For the same period in 2008, Partnership expenses were \$1.6 million consisting of \$0.3 million for interest expense and \$1.3 million for general and administrative expenses.

The Fund recognized a nominal dilution gain during the Period (2008 – nil) and a dilution loss of \$0.3 million during the Year (2008 – nil). GAAP requires the Fund to recognize the accounting gain or loss related to the Partnership returning capital to the Fund in connection with the Fund's normal course issuer bids. The return of capital by the Partnership indirectly to the Fund results in a decrease in the Fund's entitlement of the Partnership's income and assets. Therefore, the return of capital is treated as a sale of equity interest in the Partnership by the Fund for accounting purposes resulting in the \$0.3 million dilution loss for the Year. The dilution gain (loss) is a non-cash item that does not impact the Fund's cash flow for the Period or the Year.

Distributions

The Fund's earnings before dilution gain (loss) and future income taxes³ during the Period were \$4.7 million or \$0.329 per Unit, with the Fund declaring distributions of \$6.5 million or \$0.460 per Unit. During the same period in 2008, earnings before dilution loss and future income taxes³ were \$5.0 million or \$0.321 per Unit with the Fund declaring distributions of \$7.1 million or \$0.460 per Unit. The Fund's earnings for the Year before dilution loss and future income taxes³ were \$19.5 million or \$1.347 per Unit with the Fund declaring distributions of \$19.8 million or \$1.380 per Unit. During the same period in 2008, earnings before dilution loss and future income taxes³ were \$20.2 million or \$1.338 per Unit with the Fund declaring distributions of \$21.2 million or \$1.380 per Unit. The decrease in distribution totals during the Period and the Year are a direct result of fewer Units outstanding as a result of the 2008 NCIB (defined later) and 2009 NCIB (defined later).

Since the Fund's initial public offering ("IPO"), Unitholders have received 13 distribution increases. At the time of the IPO the monthly distributions were set at \$0.0833 per Unit and by the end of the Period, monthly distributions were \$0.1150 per Unit, an increase of 38%. As at December 31, 2009, the Fund, together with distributions paid by the Partnership to BPI, had paid out total cash distributions of \$129.3 million or \$9.06 per Unit.

Distributions for the Year were as follows:

Period	Payment Date	Amount/Unit
January 1 – 31, 2009	February 27, 2009	11.50¢
February 1 – 28, 2009	March 31, 2009	11.50¢
March 1 – 31, 2009	April 30, 2009	11.50¢
April 1 – 30, 2009	May 29, 2009	11.50¢
May 1 – 31, 2009	June 30, 2009	11.50¢
June 1 – 30, 2009	July 31, 2009	11.50¢
July 1 – 31, 2009	August 31, 2009	11.50¢
August 1 – 31, 2009	September 30, 2009	11.50¢
September 1 – 30, 2009	October 30, 2009	11.50¢
October 1 – 31, 2009	November 30, 2009	11.50¢
November 1 – 30, 2009	December 31, 2009	11.50¢
December 1 – 31, 2009	January 29, 2010*	11.50¢

* Paid subsequent to the Period.

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

Normal Course Issuer Bids

On September 21, 2009, the Fund announced that it has received Toronto Stock Exchange (“**TSX**”) approval of a Notice of Intention to Make a Normal Course Issuer Bid (the “**2009 NCIB**”) through the facilities of the TSX which permits the Fund to repurchase for cancellation up to 1,201,783 Units, being approximately 8.4% of the Fund’s then issued and outstanding Units and approximately 10.0% of its public float, then comprised of 12,017,833 Units.

The Fund has established an automatic securities purchase plan with its broker to allow for the repurchase of Units under the 2009 NCIB at any time, including when it ordinarily would not be active in the market due to its own internal trading blackout periods, insider trading rules or otherwise. The plan will terminate on the earliest of: (a) the date on which the purchase limits specified in the plan have been attained, (b) the date on which the 2009 NCIB terminates, (c) the date on which the Fund terminates the plan in accordance with the terms of the plan, in which case the Fund will issue a press release announcing such termination, and (d) September 30, 2010. All purchases will be made on the open market through the facilities of the TSX in accordance with the requirements of the TSX.

Unitholders may obtain, without charge, a copy of the Notice of Intention to Make a Normal Course Issuer Bid that the Fund filed with the TSX by contacting the Vice President of Investor Relations for the Fund.

Purchases under the 2009 NCIB commenced on October 1, 2009 and as of February 9, 2010, the Fund has acquired 568,370 Units at an average price of \$11.79 per Unit. The 2009 NCIB will terminate on September 30, 2010 or such earlier date that the Fund has acquired the maximum number of Units under the 2009 NCIB. Units acquired under the 2009 NCIB will be cancelled.

The Fund intends to finance purchases under the 2009 NCIB by drawing on the \$20.0 million credit facility previously established by the Partnership with a Canadian Chartered Bank (the “**Lender**”) for the purpose of funding purchases of Units under its normal course issuer bids (the “**NCIB Credit Facility**”) and, if necessary, the Supplementary NCIB Credit Facility (defined below) to be established (please see “Subsequent Events” below for a description of the Supplementary NCIB Credit Facility). The NCIB Credit Facility bears interest at variable rates, comprised of either or a combination of the bank’s prime rate plus 0.50% per annum or bankers’ acceptance rates plus 2.00%, and has a maturity date of September 22, 2012. As at February 9, 2010, the Partnership had drawn down the NCIB Credit Facility by \$17.9 million.

The Fund previously established a normal course issuer bid (the “**2008 NCIB**”), pursuant to which it repurchased for cancellation 1,336,154 Units through the facilities of the TSX. Purchases under the 2008 NCIB commenced on October 1, 2008 and were completed on February 23, 2009 as a result of the Fund having acquired 1,336,154 Units, being the maximum number of Units permitted under the 2008 NCIB, at an average price of \$8.54 per Unit.

As a result of the repurchase and cancellation of Units under the 2008 NCIB and 2009 NCIB, there is a savings for the Fund in overall monthly cash distributions to Unitholders that is partially offset by interest expense and the administrative costs of establishing the 2008 NCIB and 2009 NCIB. At the current annualized distribution rate of \$1.38 per Unit, the 1,904,524 Units acquired under the 2008 NCIB and 2009 NCIB represent distribution savings of \$2.6 million per year. At the prevailing interest rate on the NCIB Credit Facility of approximately 2.4%, the interest cost on the NCIB Credit Facility with respect to the repurchase of Units under the 2008 NCIB and 2009 NCIB balance of \$18.1 million is \$0.4 million per year. The difference of \$2.2 million per year, represents an accretive benefit to existing Unitholders of \$0.123 per Unit per year as a direct result of the 2008 NCIB and 2009 NCIB.

The accretive benefit from the 2008 NCIB together with the accretive benefit from the 2009 NCIB has assisted the Fund in maintaining the current level of monthly distributions to Unitholders despite the weaker economic conditions and corresponding softer Franchise Sales experienced during the Period and the Year.

New Restaurants Added to the Royalty Pool

On January 1, 2009, 25 new Boston Pizza Restaurants that opened across Canada between January 1, 2008 and December 31, 2008 were added to the Royalty Pool and two restaurants that permanently closed during 2008 were removed from the Royalty Pool. The estimated annual gross franchise revenue for the 23 net new restaurants in 2009 was \$43.8 million. The calculation for the number of Additional Entitlements received by BPI is designed to be accretive to existing Unitholders as the additional royalty revenues from the new restaurants are licensed to the Fund at a 7.5% discount. The

MANAGEMENT'S DISCUSSION & ANALYSIS (continued)

estimated 4% royalty revenue the Fund would receive in 2009 from these additional 23 net new restaurants was \$1.8 million. The royalty revenue for the purposes of calculating the Additional Entitlements, therefore, was \$1.6 million or 92.5% of \$1.8 million. In return for adding the royalty revenue from these 23 net new restaurants to the Royalty Pool, BPI received the right to acquire an additional 940,085 Units, representing 80% of the Additional Entitlements with the balance to be received when the actual full year performance of the new restaurants was known with certainty. The 940,085 Additional Entitlements represented 5.1% of the total outstanding Units on a fully diluted basis on January 1, 2009. 235,021 Additional Entitlements, representing the remaining 20% of the Additional Entitlements, were "held back" until such time as the actual performance of these new Royalty Pool restaurants for 2009 was known. BPI also received an increase in monthly distributions based on 100% of the Additional Entitlements (See "Subsequent Events – Audit of Boston Pizza Restaurants Added to Royalty Pool on January 1, 2009").

In January 2009, an audit of the royalty revenues of the 34 restaurants that were added to the Royalty Pool on January 1, 2008 was completed. The purpose of this audit was to compare actual royalty revenue from these 34 restaurants to the estimated amount of royalty revenue the Fund expected to receive. The original royalty revenue the Fund expected to receive was \$2.8 million and the actual royalty revenue that the Fund received was \$2.6 million. As a result of this adjustment and distributions that were paid on the excess units, BPI made a cash payment to the Partnership of \$0.2 million to reconcile distributions received by BPI for the difference between estimated and actual royalty revenue for the 34 restaurants. BPI received only 80% of the Additional Entitlements at the Adjustment Date in 2008. Following the audit, BPI received the right to acquire 248,629 Additional Entitlements.

Subsequent Events

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

On January 1, 2010, 18 new Boston Pizza Restaurants that opened across Canada between January 1, 2009 and December 31, 2009 were added to the Royalty Pool and one restaurant that permanently closed during 2009 was removed from the Royalty Pool. The estimated annual gross franchise revenue for the 17 net new restaurants in 2010 is \$24.2 million. The calculation for the number of Additional Entitlements received by BPI is designed to be accretive to existing Unitholders as the additional royalty revenues from the new restaurants are licensed to the Fund at a 7.5% discount. The estimated 4% royalty revenue the Fund will receive in 2010 from these additional 17 net new restaurants is \$1.0 million. The royalty revenue for the purposes of calculating the Additional Entitlements, therefore, is \$0.9 million or 92.5% of \$1.0 million. In return for adding the royalty revenue from these 17 net new restaurants to the Royalty Pool, BPI received the right to acquire an additional 518,607 Units, representing 80% of the Additional Entitlements with the balance to be received when the actual full year performance of the new restaurants is known with

certainty. The 518,607 Additional Entitlements represented 2.9% of the total outstanding Units on a fully diluted basis on January 1, 2010. 129,652 Units, representing the remaining 20% of the Additional Entitlements, have been "held back" until such time as the actual performance of these new Royalty Pool restaurants for 2010 is known. BPI also receives an increase in monthly distributions based on 100% of the Additional Entitlements, subject to a reconciliation of the distributions paid to BPI in respect of these Additional Entitlements that will occur once the actual performance of these new Royalty Pool restaurants for 2010 is known.

Audit of Boston Pizza Restaurants Added to Royalty Pool on January 1, 2009

In January 2010, an audit of the royalty revenues of the 23 net restaurants that were added to the Royalty Pool on January 1, 2009 was completed. The purpose of this audit was to compare actual royalty revenue from these 23 net restaurants to the estimated amount of royalty revenue the Fund expected to receive. The original royalty revenue the Fund expected to receive was \$1.8 million and the actual royalty revenue that the Fund received was \$1.4 million. As a result of this adjustment and distributions that were paid on the excess units, BPI made a payment to the Partnership of \$0.3 million to reconcile distributions received by BPI for the difference between estimated and actual royalty revenue for the 23 net restaurants. BPI received the right to acquire only 80% of the Additional Entitlements at the Adjustment Date in 2009. Following the audit, BPI received the right to acquire 15,728 Additional Entitlements.

Supplementary NCIB Credit Facility

Subsequent to December 31, 2009, the Partnership reached an agreement with the Lender to establish an additional \$5.0 million credit facility for the purpose of funding purchases of Units under the Fund's normal course issuer bids (the "**Supplementary NCIB Credit Facility**"). The Supplementary NCIB Credit Facility will bear interest, at the Partnership's choice, at either: (a) variable rates, comprised of either or a combination of the bank's prime rate plus 1.50% per annum or bankers' acceptance rates plus 3.00%; or (b) fixed rates equal to the Lender's cost of funds plus 2.00% for the term selected; as selected by the Partnership, and has a maturity date of September 22, 2012. The key covenants under the Supplementary NCIB Credit Facility are the same as under the Operating Loan (as defined in "Liquidity & Capital Resources"), Term Loan (as defined in "Liquidity & Capital Resources") and NCIB Credit Facility. Like the Operating Loan, Term Loan and NCIB Credit Facility, the Supplementary NCIB Credit Facility will be secured by a first charge over the assets of the Partnership and will be guaranteed by the Fund and its other subsidiaries, some of whom have also granted security for their obligations under those guarantees. The establishment of the Supplementary NCIB Credit Facility is subject to formal documentation being completed in a form satisfactory to the Partnership and the Lender.

Units Outstanding

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

	Issued & Outstanding Units, & Additional Entitlements	Issued & Outstanding Units, Additional Entitlements, & Holdback of Additional Entitlements
Issued and Outstanding Units as of December 31, 2009	14,060,544	14,060,544 ⁽¹⁾
BPI Additional Entitlements — Outstanding as of December 31, 2009	3,329,106	3,329,106
BPI Additional Entitlements — Holdback as of December 31, 2009	N/A	235,021 ⁽²⁾
Number of Fully Diluted Units as of December 31, 2009	17,389,650	17,624,671
BPI Total Ownership as of December 31, 2009	19.1%	20.2%
Issued and Outstanding Units as of February 9, 2010	13,791,644	13,791,644 ⁽¹⁾
BPI Additional Entitlements — Outstanding as of December 31, 2009	3,329,106	3,329,106
BPI Additional Entitlements — Issued in respect of 2009 after the audit	15,728	15,728 ⁽²⁾
BPI Additional Entitlements — Issued & Outstanding as of January 1, 2010 (17 net new Restaurants added to Royalty Pool)	518,607	518,607 ⁽³⁾
BPI Additional Entitlements — Holdback as of January 1, 2010 (17 net new Restaurants added to Royalty Pool)	N/A	129,652 ⁽⁴⁾
Number of Fully Diluted Units as of February 9, 2010	17,655,085	17,784,737
BPI Total Ownership as of February 9, 2010	21.9%	22.5%

(1) Issued and Outstanding Units as at December 31, 2009 and February 9, 2010 is after the repurchase and cancellation of 299,470 and 568,370 units respectively under the Normal Course Issuer Bid which commenced on October 1, 2009.

(2) Additional Entitlements from the 23 net new restaurants added to Royalty Pool on January 1, 2009 determined in 2010, once audited results of the 23 net new restaurants were known.

(3) Issued effective January 1, 2010.

(4) Holdback of Additional Entitlements from 17 net new restaurants added to Royalty Pool on January 1, 2010. Actual number of Additional Entitlements will be determined in early 2011, effective January 1, 2010, once audited results of the 17 net new restaurants are known.

BPI also holds 100% of the special voting units (the “**Special Voting Units**”) of the Fund which entitle BPI to one vote for each Unit that BPI would be entitled to receive if it exchanged all of its Class B Units for Units. As of February 9, 2010, BPI was entitled to 3,863,441 votes, representing 21.9% of the aggregate votes held by holders of Units and Special Voting Units (collectively, “**Voting Unitholders**”). The number of Units that BPI is entitled to receive upon the exchange of its Class B Units and the number of votes that BPI is entitled in respect of its Special Voting Units is adjusted annually to reflect any additional Boston Pizza Restaurants that may be added to the Royalty Pool.

TAX TREATMENT OF DISTRIBUTIONS

Of the \$1.380 in distributions declared per Unit during the Year, 8.0% or \$0.110 per Unit represents a tax deferred return of capital and 92.0% or \$1.270 per Unit is taxable as income from property (other than dividends).

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 change in distributions will be implemented in such a manner so that the continuity of uniform monthly distributions is maintained, while making provisions for working capital due to seasonal variations of Boston Pizza Restaurant sales. It is expected that future distributions will continue to be funded entirely by cash flows from operations. The Fund has reviewed its cash flows for general and administrative expenses and anticipates that it will have sufficient cash flows to cover these expenses, commitments and repayments for 2010.

As of December 31, 2009, working capital of the Fund taken together with working capital of the Partnership totalled \$0.2 million. The Partnership has a \$1.0 million operating line of credit available to finance its operations (the “**Operating Loan**”), a \$5.0 million term

MANAGEMENT'S DISCUSSION & ANALYSIS (continued)

loan (the "**Term Loan**") and the \$20.0 million NCIB Credit Facility. As of December 31, 2009, no amount was drawn from the Operating Loan, \$5.0 million was drawn on the Term Loan, and \$14.5 million was drawn on the NCIB Credit Facility.

The credit agreement (which covers all the Operating Loan, Term Loan and NCIB Credit Facility) among the Partnership, BPGP, the Fund, the Trust, Holdings LP, Holdings GP and the Lender dated September 22, 2008, as amended (the "**Credit Agreement**") contains a number of covenants and restrictions including the requirement to meet certain financial ratios and financial condition tests. The financial covenants include a leverage test and a limit on the maximum amount of distributions that may be made by the Partnership to the Fund during each rolling four-quarter period. The Partnership was in compliance with all of its financial covenants and financial condition tests as of the end of the Period. A copy of the Credit Agreement is available at www.sedar.com.

During the Period, the Partnership and the Lender entered into an International Swap Dealers Association Master Agreement (the "**ISDA Agreement**"), which provides the Partnership with the capability in the future of entering into interest rate and currency swaps with the Lender, and establishes the legal framework that will govern any such swaps. Under the ISDA Agreement, the Partnership can enter into swap transactions with the Lender to effectively convert variable interest bearing debt with the Lender to fixed interest bearing debt or vice versa. As of February 9, 2010, the Partnership has not entered into any swap transaction under the ISDA Agreement.

Cash Flow from Operating Activities:

During the Period, the Fund generated \$4.9 million in cash from operating activities and \$19.9 million for the Year compared to \$5.3 million during the fourth quarter in 2008 and \$20.9 million for the year 2008. The decrease in cash generated from operating activities during the Period and Year is mainly due to a reduction in distributions received from the Partnership as direct result of the Units acquired and cancelled through the 2008 NCIB and 2009 NCIB.

Cash Flow from Investing Activities:

During the Period, \$3.1 million in cash was generated from investing activities compared to \$4.0 million generated for the same period in 2008. The decrease is due to the purchase of more Units under the 2008 NCIB in 2008. The Fund generated \$10.7 million for the Year compared to \$4.0 million generated for 2008. The cash generated from investing activities is due to the Partnership returning capital to the Fund.

Cash Flow used in Financing Activities:

Financing activities used \$30.5 million for the Year with \$19.9 million being used to pay distributions to Unitholders and \$10.6 million to purchase Units under the 2008 NCIB and 2009 NCIB. Financing activities used \$24.9 million for the same period in 2008 with \$20.9 million to pay distributions to Unitholders and \$4.0 million to purchase Units under the 2008 NCIB. Financing activities used \$8.0 million

for the Period to pay distributions to Unitholders of \$4.9 million and \$3.1 million to purchase Units under the 2009 NCIB. During the fourth quarter of 2008, financing activities used \$9.3 million to pay distributions to Unitholders of \$5.3 million and \$4.0 million to purchase Units under the 2008 NCIB.

DISCLOSURE CONTROLS AND PROCEDURES

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

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

Internal Control over Financial Reporting

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

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

Management conducted an evaluation of the effectiveness of its controls over financial reporting on a risk based approach using the elements of the framework in "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and COSO's guidance on how to apply the framework to smaller companies. Based on management's assessment, the Fund concluded that its internal controls over financial reporting was effective as at December 31, 2009.

Changes in Internal Control over Financial Reporting

During the year ended December 31, 2009, there has been no change in the Fund's internal control over financial reporting that

has materially affected, or is reasonably likely to materially affect, the Fund's internal control over financial reporting.

CRITICAL ACCOUNTING ESTIMATES

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

The Fund believes that the following selected accounting policies are critical to understanding the estimates, assumptions and uncertainties that affect the amounts reported and disclosed in the Fund's consolidated financial statements and related notes. See note 2 to the Fund's consolidated annual financial statements for the period ending December 31, 2009 for the Fund's significant accounting policies.

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

Adoption of New Accounting Policies

Goodwill and Intangible Assets

In February 2008, the CICA issued Handbook Section 3064, *Goodwill and Intangible Assets*, which supersedes Sections 3062 *Goodwill and Other Intangible Assets* and 3450 *Research and Development Costs*. Section 3064 provides additional guidance on when expenditures qualify for recognition as intangible assets and requires that costs be deferred only when relating to an item meeting the asset definition. The Fund has adopted this standard for the fiscal year commencing January 1, 2009. The adoption of this new accounting standard has no material impact on the Fund's financial position, results of operations or business practices.

Future Accounting Policies

International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board confirmed its plan to converge with International Financial Reporting Standards ("IFRS"). The Fund must prepare its interim and annual

consolidated financial statements in accordance with IFRS for the periods beginning on or after January 1, 2011. The Fund has formally established an IFRS project team consisting of members of its finance group and is led by BPGP's Chief Financial Officer. The team reports regularly to the Trustees of the Fund. The team has performed a review of the impacts of IFRS on the Fund's accounting policies, information systems, internal controls over financial reporting, and contractual arrangements and covenants. While the effects of IFRS have not fully been determined, the team has identified that the key areas expected to be impacted are the accounting treatment for the Fund's interest in the Partnership, the classification of Unitholders' equity, whether a derivative exists in the note receivable from BPI, and the method of calculation of future income taxes.

INCOME TAXES

In 2007, the *Income Tax Act* (Canada) (the "**Tax Act**") was amended to impose on Canadian public income trusts, an entity-level tax at a rate approximately equal to the rate applicable to income earned by a Canadian public corporation and to prevent such trusts from deducting trust distributions when calculating taxable income. A transition period applicable to publicly traded trusts that existed prior to November 1, 2006 will delay the application of these rules until the earlier of January 1, 2011 or the year in which a publicly traded trust exceeds the "normal growth guidelines" issued by the Department of Finance. Management of BPI has advised that it does not expect the Fund to exceed the "normal growth guidelines" prior to 2011. The payment of such taxes will, in the future, reduce the cash flow of the Fund, thereby reducing the amount available for distributions to Unitholders. The amendment also recharacterizes such distributions as eligible dividends received from a taxable Canadian corporation which will generally be beneficial to Canadian resident investors holding their Units in taxable accounts compared to the current characterization of distributions to Unitholders primarily as ordinary income. Since the announcement of this change in tax legislation, management and the Trustees have monitored the changes in the income trust environment and capital markets and continue to review potential impacts on the Fund's current strategies and the alternatives available to the Fund, consistent with protecting and enhancing Unitholder value. No determination regarding a change to the current trust structure has been made by the Trustees at this time. If the Trustees decide, in the future, to change the Fund's existing structure, there is no way of determining the potential impact (positively or negatively) that any such change might have on the value or trading price of Units or any publicly traded replacement securities.

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

The Fund recorded a future income tax expense of \$0.5 million for the Period (2008 – \$0.3 million) and a corresponding increase in the future income tax liability as at December 31, 2009. For the Year, the Fund

MANAGEMENT'S DISCUSSION & ANALYSIS (continued)

recorded a nominal future income tax expense compared to recording a future income tax expense of \$0.4 million for 2008 with corresponding changes to the future income tax liability. The future income tax liability arises mainly as a result of the Fund recording, in the Period, its cumulative share of the temporary differences between the accounting and tax bases of the BP Rights owned by the Partnership generated since the inception of the Fund. The future income tax amounts had no impact on the Fund's cash flow for the Period nor for the Year.

OUTLOOK

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

BPI's management believes that the prevailing weaker economic conditions will persist in 2010 resulting in continued pressure on SSSG and Franchise Sales at Boston Pizza Restaurants in Canada. However, Boston Pizza is well positioned to attract a wide variety of guests into the restaurant, sports bar and take-out/delivery parts of each location and offer a compelling value proposition to Canadians in these challenging economic times. BPI's strategies to drive guest traffic and higher average cheque levels include a larger marketing budget versus the previous year, national and local store promotions, and menu re-pricing as part of the new menu launched each year in June. In addition, BPI's management anticipates that 15 to 25 restaurants will complete renovations in 2010. Renovated restaurants typically experience an incremental sales increase in the year following the re-opening.

BPI's management has determined that 10 to 15 new locations will open across Canada in 2010. Boston Pizza remains well positioned for future expansion and will continue to strengthen its position as the number one casual dining brand in Canada by pursuing further restaurant development opportunities across the country.

Under the Specified Investment Flow Through tax legislation, which was substantively enacted into law on June 12, 2007, the Fund will be subject to a tax at the prevailing corporate rate beginning on January 1, 2011. This tax will reduce net earnings and will affect cash distributions to Unitholders by approximately the same amount. Monthly cash distributions to Unitholders will be reclassified for tax purposes as eligible dividends and Canadian residents who hold their Units in a non-tax deferred account may claim the dividend tax credit for eligible dividends, thereby reducing the after-tax impact of this legislative change. Since the announcement of this change in tax legislation, management and the Trustees have monitored the changes in the income trust environment and capital markets and continue to review potential impacts on the Fund's current strategies and the alternatives available to the Fund, consistent with protecting and enhancing Unitholder value. No determination regarding a change to the current trust structure has been made by the Trustees at this time.

RISKS & UNCERTAINTIES

Risks Related to the Casual Dining Restaurant Industry

The Restaurant Industry and its Competitive Nature

The performance of the Fund is directly dependent upon the royalty and interest payments received from BPI. 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 loan to BPI in the aggregate amount of \$24.0 million held by the Fund (the "**BP Loan**") may be impaired. The restaurant industry is also affected by changes in demographic trends, traffic patterns, and the type, number, and location of competing restaurants. In addition, factors such as government regulations, smoking bylaws, inflation, publicity from any food borne illnesses, increased food, labour and benefits costs, continuing operations of key suppliers and the availability of experienced management and hourly employees may adversely affect the restaurant industry in general and therefore potentially 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, including an H1N1 influenza outbreak, could reduce guest traffic or impose practical limits on pricing, either of which could reduce revenue and operating income, which could adversely affect Franchise Sales, the royalty and the ability of BPI to pay the Royalty to the Partnership or interest on the BP Loan.

Growth of the Royalty

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

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

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

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

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

Revenue from Franchisees

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

Intellectual Property

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

Government Regulation

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

Harmonized Sales Tax for British Columbia

On July 23, 2009, the British Columbia Ministry of Finance announced its intention to harmonize the federal *Goods and Services Tax* ("GST") and the provincial sales tax effective July 1, 2010 (the "**Proposed HST**"). The Proposed HST, if implemented, will impose a 12% tax on restaurant services in British Columbia. Currently, restaurant services in British Columbia are exempt from provincial sales tax and are only subject to the 5% GST. The Proposed HST, if implemented, may adversely affect guest traffic and sales in Boston Pizza Restaurants located in British Columbia and may result in a decrease of royalties received by BPI from Boston Pizza franchisees, thereby reducing the Royalty payable by BPI to the Partnership.

Regulations Governing Alcoholic Beverages

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

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

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

Laws Concerning Employees

The operations of Boston Pizza Restaurants are also subject to minimum wage laws governing such matters as working conditions, overtime and tip credits. Significant numbers of Boston Pizza

MANAGEMENT'S DISCUSSION & ANALYSIS (continued)

Restaurants' food service and preparation personnel are paid at rates related to the minimum wage and, accordingly, further increases in the minimum wage could increase Boston Pizza Restaurants' labour costs.

Potential Litigation and Other Complaints

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

Risk Related to the Structure of the Fund

Investment Eligibility

There can be no assurance that the Units will continue to be qualified investments for registered retirement savings plans, registered retirement income funds, deferred profit sharing plans, registered education savings plans, registered disability savings plans or tax-free savings accounts under the Tax Act. The Tax Act imposes penalties for the acquisition or holding of non-qualified or prohibited investments.

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

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

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

The Partnership and the Fund are each entirely dependent upon the operations and assets of BPI to pay the Royalty to the Partnership and interest on the BP Loan to the Fund, and each is subject to the

risks encountered by BPI in the operation of its business, including the risks relating to the casual dining restaurant industry referred to above and the results of operations and financial condition of BPI.

Leverage: Restrictive Covenants

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

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

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

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

Although the Fund 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.

Restrictions on Certain Unitholders and Liquidity of Units

The declaration of trust dated June 10, 2002 as amended and restated on July 17, 2002 and on September 22, 2008 by which the Fund is governed (the "**Declaration of Trust**") imposes various restrictions on Unitholders. Unitholders that are non-residents of Canada for the purposes of the Tax Act ("**Non-residents**") and partnerships that are not Canadian partnerships for purposes of the Tax Act are prohibited from beneficially owning more than 50% of the Units (on a non-diluted and a fully-diluted basis). These restrictions may limit (or inhibit the exercise of) the rights of certain Unitholders, including Non-residents, to acquire Units, to exercise their rights as Unitholders and to initiate and complete take-over bids in respect of the Units. As a result, these restrictions may limit the demand for Units from certain Unitholders and thereby adversely affect the liquidity and market value of the Units held by the public.

Fund not a Corporation

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

Nature of Units

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

BP Loan, common shares of BPGP and common shares of Holdings GP. The price per Unit is a function of anticipated amount of distributions.

Possible Unitholder Liability

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

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

Distribution of Securities on Redemption or Termination of the Fund

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

Income Tax Matters

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

MANAGEMENT'S DISCUSSION & ANALYSIS (continued)

Distributions on the Trust Units and 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 and Holdings LP), in respect of a particular fiscal year may exceed the cash distributed by the Partnership to the Fund (through the Trust and Holdings LP) in such year. The Declaration of Trust provides that an amount equal to the taxable income of the Fund may 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 amount to Unitholders (for instance, where distributions on the Trust Units or interest payments on the BP Loan are due but not paid in whole or in part), the Declaration of Trust provides that additional Units may be distributed to Unitholders in lieu of cash distributions. Unitholders will generally be required to include an amount equal to the fair market value of those distributed Units in their taxable income.

In 2007, the Tax Act was amended to impose on Canadian public income trusts an entity-level tax at a rate approximately equal to the rate applicable to income earned by a Canadian public corporation and to prevent such trusts from deducting trust distributions when calculating taxable income. Also the amendment recharacterizes such distributions as eligible dividends received from a taxable Canadian corporation. A transition period applicable to publicly traded trusts that existed prior to November 1, 2006 will delay the application of these rules until the earlier of January 1, 2011 or the year in which a publicly traded trust exceeds the "normal growth guidelines" issued by the Department of Finance. Management of BPI has advised that it does not expect the Fund to exceed the "normal growth guidelines" prior to 2011. The new rules (including the normal growth guidelines) may adversely effect the marketability of the Units and the ability of the Fund to undertake financings and acquisitions, and at such time as the new rules apply to the Fund, the distributions on Units may be materially reduced. Since the announcement of this change in tax legislation, management and the Trustees have monitored the changes in the income trust environment and capital markets and continue to review potential impacts on the Fund's current strategies and the alternatives available to the Fund, consistent with protecting and enhancing Unitholder value. No determination regarding a change to the current trust structure has been made by the Trustees at this time. If the Trustees decide, in the future, to change the Fund's existing structure, there is no way of determining the potential impact (positively or negatively) that any such change might have on the value or trading price of Units or any publicly traded replacement securities.

ADDITIONAL INFORMATION

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

NOTE REGARDING FORWARD-LOOKING INFORMATION

Certain information in this Management's Discussion and Analysis may constitute "forward-looking information" that involves known and unknown risks, uncertainties, future expectations and other factors which may cause the actual results, performance or achievements of the Fund, the Trust, the Partnership, Holdings LP, Holdings GP, BPGP, BPI, Boston Pizza Restaurants, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking information. Forward-looking information in this Management's Discussion and Analysis includes, but is not limited to, such things as: the future expansion of Boston Pizza Restaurants; Boston Pizza will continue to strengthen its position as the number one casual dining brand in Canada; estimates of the number of restaurant openings and estimates related to renovations (number of renovations, timeline of renovations and increased revenues following renovations). The forward-looking information disclosed herein is based on a number of assumptions including, among other things, the protection of BP Rights, pace of commercial real estate development, franchisees' access to financing, speed of permitting, future results being similar to historical results and expectations related to future general economic conditions. When used in this Management's Discussion and Analysis, this information may include words such as "anticipate", "estimate", "may", "will", "expect", "believe", "plan" and other similar terminology. This information reflects current expectations regarding future events and operating performance and speaks only as of the date of this Management's Discussion and Analysis. This forward-looking information involves a number of risks, uncertainties and future expectations including, but not limited to: competition; changes in demographic trends; changes in consumer preferences and discretionary spending patterns; changes in national and local business and economic conditions; legislation and government regulation; accounting policies and practices; and the results of operations and financial conditions of BPI and the Fund. The foregoing list of factors is not exhaustive and should be considered in conjunction with the risks and uncertainties set out above in "Risks & Uncertainties". This Management's Discussion and Analysis discusses some of the factors that could cause actual results to differ materially from those expressed in or underlying such forward-looking information. Forward-looking information is provided as of the date hereof and, except as required by law, we assume no obligation to update or revise forward-looking information to reflect new events or circumstances.

AUDITORS' REPORT TO THE UNITHOLDERS

We have audited the consolidated balance sheets of Boston Pizza Royalties Income Fund as at December 31, 2009 and 2008 and the consolidated statements of earnings and comprehensive income, accumulated deficit, 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, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads "KPMG LLP". The signature is stylized and includes a long horizontal flourish extending to the right.

Chartered Accountants

Vancouver, Canada
February 9, 2010

(except note 14(c), which is as of March 17, 2010)

CONSOLIDATED BALANCE SHEETS

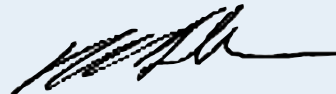
December 31, 2009 and 2008

(in thousands of Canadian dollars)	2009	2008
ASSETS		
Current assets:		
Cash	\$ 3	\$ 1
Interest receivable on note receivable from Boston Pizza International Inc. (note 7)	150	150
Distributions and other receivables from Boston Pizza Royalties Limited Partnership	1,697	1,868
	1,850	2,019
Note receivable from Boston Pizza International Inc. (note 7)	24,000	24,000
Investment in Boston Pizza Royalties Limited Partnership (note 8)	145,196	156,408
	\$ 171,046	\$ 182,427
LIABILITIES AND UNITHOLDERS' EQUITY		
Current liabilities:		
Distributions payable to Fund unitholders	\$ 1,619	\$ 1,750
Accounts payable	228	268
	1,847	2,018
Future income taxes (note 13)	3,310	3,309
Unitholders' equity:		
Fund units (note 10)	166,202	179,932
Treasury units (note 10)	—	(268)
Contributed surplus (note 10)	4,616	1,754
Accumulated deficit	(4,929)	(4,318)
	165,889	177,100
Organization and nature of operations (note 1)		
Subsequent events (note 14)		
	\$ 171,046	\$ 182,427

See accompanying notes to consolidated financial statements.

Approved by the Trustees:


John Cowperthwaite

William Brown

W. Murray Sadler

CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME

Years ended December 31, 2009 and 2008

(in thousands of Canadian dollars except unit and per unit amounts)	2009	2008
Revenue (note 6(a)):		
Equity income related to BPI royalties	\$ 17,688	\$ 18,362
Net interest income	1,783	1,794
Earnings before undernoted	19,471	20,156
Dilution loss (note 6 (c))	(326)	—
Future income taxes (note 13)	(1)	(428)
Net earnings and comprehensive income	\$ 19,144	\$ 19,728
Weighted average units outstanding (note 10(b))	14,451,286	15,068,857
Basic and diluted earnings per Fund unit	\$ 1.32	\$ 1.31

CONSOLIDATED STATEMENTS OF ACCUMULATED DEFICIT

Years ended December 31, 2009 and 2008

(in thousands of Canadian dollars)	2009	2008
Accumulated deficit, beginning of year	\$ (4,318)	\$ (2,865)
Net earnings for the period	19,144	19,728
Distributions declared to Fund unitholders	(19,755)	(21,181)
Accumulated deficit, end of year	\$ (4,929)	\$ (4,318)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2009 and 2008

(in thousands of Canadian dollars)	2009	2008
Cash provided by (used in):		
Operations:		
Net earnings	\$ 19,144	\$ 19,728
Items not affecting cash:		
Equity income	(17,688)	(18,362)
Future income taxes	1	428
Dilution loss	326	—
Distributions and other amounts received from Boston Pizza Royalties Limited Partnership	18,126	18,830
Change in non-cash working capital	(40)	268
	19,869	20,892
Investing:		
Return of capital from Boston Pizza Royalties Limited Partnership (note 9)	10,659	4,024
Financing:		
Distributions paid to Fund unitholders	(19,886)	(20,897)
Purchase of Fund units	(10,640)	(4,018)
	(30,526)	(24,915)
Increase in cash	2	1
Cash, beginning of year	1	—
Cash, end of year	\$ 3	\$ 1

Supplemental cash flow information (note 12)

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2009 and 2008

(In thousands of Canadian dollars except store, unit and per unit amounts)

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 June 10, 2002, and as it was amended and restated on July 17, 2002 and September 22, 2008, 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 at the discretion of the Fund's trustees. As a result, the Fund is not currently liable for income taxes. Income tax obligations related to the distributions by the Fund are obligations of the unitholders. Income trusts will become taxable starting in 2011 (note 13).

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 Trade-Marks Act (Canada).

The Fund was also established to acquire, directly from a bank, the BPI loan (the "BP Loan") in the principal amount of \$24 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 subsidiaries Boston Pizza Holdings Trust (the "Trust"), Boston Pizza Holdings GP Inc. and Boston Pizza Holdings Limited Partnership ("Holdings LP"), 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 ("GAAP").

All significant intercompany transactions have been eliminated.

The Partnership is considered to be a variable interest entity ("VIE"). BPI is the primary beneficiary of the Partnership and accordingly is required to consolidate the Partnership. The Partnership was established to acquire and hold the BP Rights, which were previously owned by BPI. The Partnership and BPI also entered into a license and royalty agreement to allow BPI the use of the BP Rights for a term of 99 years beginning in 2002, for which BPI pays 4% of the franchise sales of certain restaurants located in Canada (the "Royalty Pool").

(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) Cash flows:

Declarations of distributions from the Fund are at the discretion of the trustees of the Fund. For the year ended December 31, 2009 \$19.9 million (2008 – \$20.9 million) in discretionary cash distributions were paid to unitholders.

(f) Earnings per Fund unit:

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

(g) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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.

(h) Goodwill and intangible assets:

In February 2008, the CICA issued Handbook Section 3064, *Goodwill and Intangible Assets*, which supersedes Sections 3062 *Goodwill and Other Intangible Assets* and 3450 *Research and Development Costs*. Section 3064 provides additional guidance on when expenditures qualify for recognition as intangible assets and requires that costs be deferred only when relating to an item meeting the asset definition. The Fund adopted this standard for the fiscal year commencing January 1, 2009. The adoption of this new accounting standard has had no material impact on the Fund's financial statements or disclosures.

(i) Future changes in accounting policies:

International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board confirmed its plan to converge with International Financial Reporting Standards ("IFRS"). The Fund must prepare its interim and annual consolidated financial statements in accordance with IFRS for the periods beginning on or after January 1, 2011. The Fund has formally established an IFRS project team consisting of members of its finance group and is lead by BPGP's Chief Financial Officer. The team reports regularly to the Trustees of the Fund. While the effects of IFRS have not fully been determined, the team has identified that the key areas expected to be impacted are the accounting treatment for the Fund's interest in the Partnership, the classification of unitholders' equity, whether a derivative exists in the note receivable from BPI, and the method of calculation of future income taxes.

3. Capital Disclosures:

The Fund's objective when managing capital is to safeguard its ability to continue as a going concern so that it can continue to provide distributions to unitholders and benefits for other stakeholders. The Fund includes its equity, comprised of Fund units, contributed surplus, and accumulated deficit, in its definition of capital as well as the debt of the Partnership, which it controls through its majority ownership interest. This debt does not appear on the Fund's balance sheet as the Fund does not consolidate the Partnership on the basis of variable interest entity guidance. See note 8 for the summarized financial statement data of the Partnership.

The Fund seeks to maintain a balance between the higher returns that might be possible with the leverage afforded by higher borrowing levels and the security afforded by a sound capital structure. It does this by maintaining appropriate debt levels in the Partnership in

relation to its cash flows, working capital and other assets in order to provide the maximum distributions to unitholders commensurate with the level of risk. Also, the Fund utilizes the Partnership's debt capabilities to buy back units, when appropriate, in order to maximize cash distribution rates for remaining unitholders.

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

The Partnership had long-term debt of \$19.5 million at December 31, 2009 (2008 – \$8.9 million). In addition, the Partnership's banking covenants currently require it to limit its funded debt to EBITDA to 1.25:1. The Partnership's funded debt to EBITDA ratio at December 31, 2009 was 0.79:1 (2008 – 0.36:1) which is below its banking covenant requirements.

The Fund is not subject to any other statutory capital requirements and has no commitments to sell or otherwise issue shares, other than the commitment to exchange Class B general partner units of the Partnership ("Class B Units") held by BPI for Fund units, as described in note 10(c).

4. Financial Instruments:

The Fund classified its financial instruments as follows:

- Cash as *held-for-trading*, which is measured at fair value.
- Interest receivable on note receivable from BPI, distributions and other receivables from the Partnership and note receivable from BPI as *loans and receivables*, which are initially measured at fair value and subsequently at amortized cost.
- Distributions payable to Fund unitholders and accounts payable as *other financial liabilities*, which are measured at amortized cost.
- The requirement of the Fund to settle its note receivable from BPI in exchange for Class C general partner units ("Class C Units") is classified as a *derivative instrument*. The Fund has reviewed the net impact of this potential exchange requirement on its cash flows and has determined there is no significant value applicable to this feature.

The fair values of interest receivable, distributions receivable, distributions payable and accounts payable approximate their carrying amount largely due to the short-term maturities of these instruments.

5. Financial Risk Management:

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

Credit risk

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

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

As at December 31, 2009, the Fund had no provision for credit risk recorded in its financial statements.

Liquidity risk

Liquidity risk results from the Fund's potential inability to meet its financial liabilities. Beyond effective net working capital and cash management, the Fund constantly monitors the operations and cash flows of the Partnership to ensure that current and future distributions to Unitholders will be met. At December 31, 2009, all liabilities of the Fund, except future income taxes had a maturity of less than three months.

The Fund's capital resources are comprised of cash and cash equivalents, the Partnership's undrawn \$1 million operating line of credit, and the Partnership's \$20 million term loan for the Fund's Normal Course Issuer Bid ("NCIB Credit Facility"). Also included are cash flows from operating activities and reductions in distributions associated with purchases made through the Fund's Normal Course Issuer Bid. The \$1 million operating line of credit pays interest at the bank's prime rate, and the NCIB Credit Facility pays interest at the bank's prime rate plus 0.5% or other variable interest rates as determined by the Partnership.

The Partnership's NCIB Credit Facility is secured by a first charge over the assets of the Partnership, has a four year term, and has no scheduled repayment terms. As at December 31, 2009, \$14.5 million (2008 – \$3.9 million) had been drawn from the NCIB Credit Facility.

The Fund is subject to certain guarantor covenants and reporting requirements arising from the Partnership's \$5 million term loan, its NCIB Credit Facility, and its undrawn \$1 million operating line of credit.

Interest rate risk

The Fund's interest rate risk exposure is mainly related to an interest-bearing note receivable from BPI. As this note receivable has a fixed interest rate of 7.5%, is from a related party, and is due in July 2042, the Fund does not perform interest rate risk management to minimize the overall financial interest rate risk.

6. Operations:

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

(in thousands, except number of restaurants in the Royalty Pool)	2009	2008
Restaurants in the Royalty Pool	322	298
Franchise sales reported by restaurants in the Royalty Pool	\$ 644,091	\$ 646,275
Royalty income – 4% of Franchise sales	\$ 25,764	\$ 25,851
Administrative and interest expenses	(1,449)	(1,587)
Partnership earnings for the period before undernoted	24,315	24,264
BPI's interest in the earnings of the Partnership	(6,627)	(5,902)
Equity income related to BPI royalties earned by Fund	17,688	18,362
Net interest income	1,783	1,794
Earnings before dilution loss and income taxes	\$ 19,471	\$ 20,156

(a) On January 1 of each year, the number of restaurants in the Royalty Pool on which BPI pays a royalty to the Fund is adjusted to include Franchise Sales from new Boston Pizza restaurants opened less Franchise Sales from any Boston Pizza restaurants that have permanently closed during the previous year. 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"). 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, 2009, 25 (2008 – 34) new Boston Pizza restaurants that opened during the period from January 1, 2008 to December 31, 2008 (2008 – January 1, 2007 to December 31, 2007) were added to the Royalty Pool while two restaurants that closed during the period were removed. The Franchise sales of these 23 net new restaurants were initially estimated at \$43.8 million. The total number of restaurants in the Royalty Pool was increased to 323. There were 322 restaurants in the Royalty

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Pool at December 31, 2009. As a result of the contribution of additional Franchise Sales to the Royalty Pool, and assuming 100% of the Additional Entitlement, BPI's Additional Entitlement was equivalent to 1,175,106 (2008 – 1,889,459) Fund units. BPI received a proportionate increase in monthly distributions from the Partnership. Of the Additional Entitlement, 20% (2009 – 235,021 units; 2008 – 377,892 units), remain unissued and are not eligible for conversion to Fund units until January 1, 2010 (2008 units – January 1, 2009) based on the actual performance of the new stores (see note 14).

(b) On January 1, 2009, adjustments to royalty payments and Additional Entitlement were made based on the actual performance of 34 new restaurants added to the Royalty Pool on January 1, 2008. Based on these adjustments, BPI received its pro rata portion of the remaining Additional Entitlement, 248,629 Fund units (2008 – 386,341).

(c) The Fund recognized a dilution loss of \$0.3 million during the period (2008 – nil). GAAP required the Fund to recognize the accounting loss related to the Partnership returning capital to the Fund in connection with the Fund's NCIB Program. The amount was calculated based on the change in the Fund's percentage ownership in the Partnership and the carrying value of the Fund's investment in the Partnership. The dilution loss is a non-cash item that does not impact the Fund's cash flows.

7. Note receivable from Boston Pizza International Inc.:

	2009	2008
Note receivable with interest payable monthly at 7.5% per annum, due July 17, 2042	\$ 24,000	\$ 24,000

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 Units, has the right to transfer such Class C Units to the Holdings LP in consideration for the assumption by the Holdings LP of, and the concurrent release of BPI of its obligations with respect to, an amount of the indebtedness under the BP Loan equal to \$10.00 for each Class C Unit transferred.

8. Investment in Boston Pizza Royalties Limited Partnership:

Balance as at December 31, 2007	\$ 125,198
Acquisition of additional Partnership units by issuing Fund units	36,521
Equity income	18,362
Distributions from the Partnership	(19,381)
Return of capital (note 9)	(4,292)
Balance as at December 31, 2008	156,408
Equity income	17,688
Distributions from the Partnership	(17,955)
Return of capital (note 9)	(10,619)
Dilution loss (note 6 (c))	(326)
Balance as at December 31, 2009	\$ 145,196

Summarized balance sheet of the Partnership is as follows:

	2009	2008
Current assets	\$ 8,551	\$ 7,894
Long-term assets, consisting of the BP Rights	224,826	216,865
Total assets	\$ 233,377	\$ 224,759
Current liabilities	\$ 8,387	\$ 7,687
Long-term liabilities	19,509	8,875
Partners' surplus	205,481	208,197
Total liabilities and surplus	\$ 233,377	\$ 224,759

9. Promissory note:

To fund purchases under the Normal Course Issuer Bid ("NCIB"), the Fund may borrow certain amounts from the Partnership under a promissory note (the "Note"). The amounts advanced under the Note are repayable upon demand. During 2009 the Partnership advanced \$10.7 million (2008 – \$4.0 million) to the Fund. This amount was settled by way of a return of capital from the Partnership to the Fund. The amounts drawn on the Note bear interest at a rate equal to the annual rate of interest the Partnership pays under the Partnership's NCIB Credit Facility plus 0.1%. As at December 31, 2009, the amount payable from the Fund to the Partnership under the Note was nil (December 31, 2008 – nil).

The Partnership has entered into an agreement with a Canadian Chartered Bank whereby the bank provided the Partnership with the NCIB Credit Facility available in loans at variable and fixed interest rates as selected by the Partnership to fund purchases under the NCIB Program. The Partnership had drawn \$14.5 million on the NCIB Credit Facility as at December 31, 2009 (2008 – \$3.9 million).

10. 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 general partner units of the Partnership ("Class A Units") and Class B Units are entitled to vote in all votes of Fund unitholders as if they were holders of the number of Fund units they would receive if Class A Units and Class B Units were exchanged into Fund units 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.

On September 22, 2008 the Toronto Stock Exchange ("TSX") approved the Fund's notice of intention to make a Normal Course Issuer Bid ("2008 NCIB"). Under the 2008 NCIB from October 1, 2008 to February 23, 2009, the Fund acquired the maximum total of 1,336,154 Fund units allowed under the 2008 NCIB at an average cost of \$8.54 per unit for a total cost of \$11.6 million including professional fees of \$0.2 million.

On September 21, 2009 the TSX approved the Fund's notice of intention to renew its NCIB ("2009 NCIB"). The 2009 NCIB permits the Fund to acquire up to 1,201,783 Fund units through the facilities of the TSX from October 1, 2009 to no later than September 30, 2010. The maximum purchase amount of 1,201,783 Fund units represented approximately 8.4%, of its 14,360,014 issued and outstanding Fund units, or approximately 10.0% of its public float of 12,017,833 Fund units as at September 21, 2009. The Fund is permitted to purchase a maximum of 6,333 Fund units on a daily basis subject to a block purchase exemption. For the three month period from October 1 to December 31, 2009, the Fund acquired a total of 299,470 Fund units at an average cost of \$11.11 per unit for a total cost of \$3.3 million. All Fund units acquired under the NCIB Program are

cancelled. The excess of the carrying value of the cancelled Fund units over the total cost of acquisition of \$0.2 million has been credited to contributed surplus.

(b) Fund units outstanding

	Number of Fund units	Amount
Balance as at December 31, 2007	12,750,922	\$ 149,183
Exchange of Class B Units for Fund units	2,945,246	36,521
Acquisition and cancellation of Fund units	(475,200)	(5,772)
Balance as at December 31, 2008	15,220,968	179,932
Acquisition and cancellation of Fund units	(1,160,424)	(13,730)
Balance as at December 31, 2009	14,060,544	\$ 166,202
	2009	2008
Weighted average Fund units outstanding	14,451,286	15,068,857

(c) Exchangeable units of the Partnership:

Units (underlying the Class B Units)	3,329,106	2,140,284
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BPI has the right to exchange each Class B 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 sales from restaurants opened subsequent to July 17, 2002. Class B Units held by BPI carry voting rights equivalent to the number of units into which such Class B Units are exchangeable at that time. Subject to the prior rights of the holders of Class C Units, the holders of the Class B Units are entitled to receive a cumulative preferential cash distribution equal to the distribution on Class C Units multiplied by the number of Class B Units issued, multiplied by a defined ratio which is based in part on the net franchise sales from restaurants opened subsequent to July 17, 2002, and divided by the number of issued ordinary limited partner units of the Partnership. Class B Units are also entitled to a pro rata share of residual distributions of the Partnership.

As described in note 6(a), on January 1, 2009, Class B Units of the Partnership received Additional Entitlement equivalent to 1,175,106 Fund units (2008 – 1,889,459 units), upon adding new stores to the Royalty Pool.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. 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.

12. Supplemental cash flow information:

	2009	2008
Supplemental cash flow information:		
Net interest received	\$ 1,783	\$ 1,794
Non-cash financing and investing activities:		
Acquisition of additional Partnership units by issuing Fund units	—	36,521

13. Income taxes:

On October 31, 2006, the Canadian federal government announced proposed tax legislation that would change the income tax rules applicable to publicly traded trusts rendering income trusts taxable starting in 2011. On June 12, 2007, the proposed tax legislation passed third reading in the House of Commons. As a result, the associated income tax became substantively enacted for accounting purposes. The legislation imposes a tax of 31.5% on Canadian public income trusts. This rate was subsequently lowered in December 2007 and then again in June 2008 to 27.5% for 2011 and 26% for 2012 and onwards. As a transition period applies to publicly traded trusts that existed prior to November 1, 2006, the new tax is not expected to apply to the Fund until January 1, 2011.

Future income taxes are recorded on the temporary differences arising between the accounting and tax bases of balance sheet assets and liabilities. Historically the Fund had been exempt from recognizing future income taxes associated with temporary differences.

The impact on the Fund's consolidated financial statements was to record a future income tax expense of \$1 (2008 – \$428) resulting in a corresponding increase to the future income tax liability to \$3,310 (2008 – \$3,309). The future income tax liability arises mainly as a result of the Fund recording, in the current year, its cumulative share of the temporary differences between the accounting and tax bases of the BP Rights owned by the Partnership generated since the inception of the Fund. This additional expense had no impact on the Fund's cash flow for the year.

The reconciliation to statutory tax rate is as follows:

	2009
Earnings before dilution loss and income taxes	\$ 19,471
Combined Canadian federal and provincial rate	34.5%
Computed expected tax expense	6,710
Decreased by:	
Current year's earnings not taxable	(6,710)
Increased by:	
Change in the tax base of the BP Rights	1
Total tax expense per statement of earnings	\$ 1

The tax effect of the temporary difference that gives rise to the future tax liability is as follows:

	2009
Future tax liabilities:	
Investment in the Boston Pizza Royalties Limited Partnership	\$ 3,310
Net future tax liability	\$ 3,310

14. Subsequent events:

- On January 1, 2010, adjustments to royalty payments and Additional Entitlement were made based on the actual performance of 23 net new restaurants added to the Royalty Pool on January 1, 2009. Based on these adjustments, BPI will receive its pro rata portion of the remaining Additional Entitlement, 15,728 Fund units.
- On January 1, 2010, 18 new Boston Pizza restaurants that opened during the period from January 1, 2009 to December 31, 2009 were added to the Royalty Pool while one restaurant that closed during the period was removed. The Franchise Sales of these 17 net new restaurants has been estimated at \$24.2 million. The total number of restaurants in the Royalty Pool has increased to 340. As a result of the contribution of the additional net sales to the Royalty Pool, and assuming 100% of the Additional Entitlement, BPI's Additional Entitlement is equivalent to 648,259 (2008 – 1,175,106) Fund units. BPI will also receive a proportionate increase in monthly distributions from the Partnership. Of the Additional Entitlement, 20% (2010 – 129,652 units; 2009 – 235,021 units), remain unissued and are not eligible for conversion to Fund units until January 1, 2011 (2009 units – January 1, 2010) based on the actual performance of the new stores.
- On March 17, 2010, BPI exchanged Class B Partnership units for 1,350,000 Fund units, resulting in an increase in the Fund's investment in the Partnership and unitholders' equity of approximately \$16.1 million. BPI then sold these Fund units to the public. Neither the Fund nor the Partnership received any cash as a result of the transactions. Subsequent to the exchange and sale, BPI holds exchangeable Partnership units equivalent to 2,513,441 Fund units, or 14.5% of the issued and outstanding units on a fully diluted basis.

MANAGEMENT'S DISCUSSION & ANALYSIS

For the Period and Year ended December 31, 2009

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 consolidated financial statements of BPI for the three month and twelve month periods ended December 31, 2009.

(in thousands of dollars)	Jan 1, 2009 to Dec 31, 2009	Jan 1, 2008 to Dec 31, 2008	Jan 1, 2007 to Dec 31, 2007
Restaurant System Franchise Sales ¹	660,634	658,727	603,800
<u>Income Statement Data</u>			
Total revenue	70,189	70,333	65,834
Non-controlling interest related to royalty expense	17,956	19,036	15,232
Earnings before loss on sale of units, provision for impaired long-term receivables and income taxes ²	4,882	5,895	6,572
	Dec 31, 2009	Dec 31, 2008	Dec 31, 2007
Total assets	93,965	88,843	78,380
Total long-term liabilities	48,947	39,369	37,465
Deferred gain and other	128,203	129,566	89,555

	Q4 2009	Q3 2009	Q2 2009	Q1 2009
Restaurant System Franchise Sales ¹	162,427	168,535	167,333	162,339
<u>Income Statement Data</u>				
Total revenue	16,870	17,169	17,556	18,594
Non-controlling interest related to royalty expense	4,506	4,562	4,454	4,434
Earnings (loss) before income taxes ²	435	2,537	2,454	(544)

	Q4 2008	Q3 2008	Q2 2008	Q1 2008
Restaurant System Franchise Sales ¹	164,271	175,709	165,334	153,414
<u>Income Statement Data</u>				
Total revenue	18,429	17,994	17,868	16,041
Non-controlling interest related to royalty expense	5,221	5,070	4,868	3,877
Earnings before loss on sale of units, provision for impaired long-term receivables and income taxes ²	1,152	2,260	1,893	590

¹ Franchise sales is the basis on which the royalty is payable; it means the gross revenues of Boston Pizza Restaurants (as defined herein) in respect of which the royalty is payable ("**Franchise Sales**"). The term "gross revenue" refers to the gross revenue: (i) of the corporate Boston Pizza Restaurants in Canada owned by BPI; and (ii) reported to BPI by franchised Boston Pizza Restaurants in Canada, without audit or other form of independent assurance, and in the case of both (i) and (ii), after deducting revenue from the sale of liquor, beer, wine and tobacco and revenue from BPI approved national promotions and discounts and excluding applicable sales and similar taxes. Nevertheless, BPI periodically conducts audits of the Franchise Sales reported to it by its franchisees, and the Franchise Sales reported herein include results from sales audits of earlier periods conducted during the Year and the proceeds from insurance claims as the result of the fire damage to two stores in the first quarter of 2008.

² This is a non-GAAP financial measure that does not have a standardized meaning prescribed by GAAP and therefore is unlikely to be comparable to similar measures presented by other issuers. This non-GAAP financial measure provides useful information to investors and management by providing an indication of operating earnings. Investors are cautioned that this should not be construed as an alternative net income measure of profitability. Please refer to BPI's financial statements for the three month and twelve month periods ended December 31, 2008 and the three month and twelve month periods ended December 31, 2009 for reconciliation from this non-GAAP financial measure to the most directly comparable GAAP measure.

MANAGEMENT'S DISCUSSION & ANALYSIS (continued)

OVERVIEW

This Management's Discussion and Analysis covers the three month period from October 1, 2009 to December 31, 2009 (the "**Period**") and the twelve month period from January 1, 2009 to December 31, 2009 (the "**Year**") and is dated February 9, 2010.

BPI is a privately controlled company and is the franchisor of the Boston Pizza concept in Canada. BPI competes in the casual dining sector of the restaurant industry and Boston Pizza is the number one casual dining brand in Canada. With 341 restaurants stretching from Victoria to St. John's, Boston Pizza has more locations and serves more customers annually than any other casual dining restaurant chain in Canada.

BPI charges a 7% royalty fee on Franchise Sales for all full-service Boston Pizza restaurants open in Canada and a 5% royalty fee on Franchise Sales for all Boston Pizza Quick Express restaurants open in Canada (collectively "**Boston Pizza Restaurants**"). BPI pays Boston Pizza Royalties Income Fund (the "**Fund**") a 4% royalty fee based on Franchise Sales from the Boston Pizza Restaurants in the royalty pool (the "**Royalty Pool**") for the use of the Boston Pizza trademarks (the "**BP Rights**"³). As at February 9, 2010, there are 340 Boston Pizza Restaurants in the Royalty Pool.

On January 1 of each year (the "**Adjustment Date**"), an adjustment is made to add to the Royalty Pool new Boston Pizza Restaurants that opened and to remove any Boston Pizza Restaurants that permanently closed since the last 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 of the Fund ("**Unitholders**"). The Additional Entitlements are calculated at 92.5% of the estimated net 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 is performed. At such time an adjustment is made to reconcile distributions paid to BPI and the Additional Entitlements received by BPI.

During 2005, the Boston Pizza Royalties Limited Partnership (the "**Partnership**") was determined to be a variable interest entity in accordance with the criteria established in the new Canadian Institute of Chartered Accountants' Guideline, Consolidation of Variable Interest Entities ("AcG-15"). As a result of this guideline, the Fund accounts for its investment in the Partnership on an equity basis and BPI's financial statements consolidate the Partnership. Readers are advised that

this is an accounting basis of presentation only and that earnings and distributions attributable to Unitholders are not impacted nor does this impact the contractual obligations between the Fund and the Partnership, and BPI. The consolidated financial statements of the Fund therefore include the accounts of the Fund, its wholly-owned (directly and indirectly) subsidiaries Boston Pizza Holdings Trust (the "**Trust**"), Boston Pizza Holdings GP Inc., Boston Pizza Holdings Limited Partnership ("**Holdings LP**") and its 80% owned subsidiary Boston Pizza GP Inc. ("**BPGP**") (collectively, the "**Companies**"). BPGP is the managing general partner of the Partnership. All residual ownership of the Companies is either directly or indirectly controlled by BPI.

BUSINESS STRATEGY

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

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

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

The following information provides additional analysis of the operations and financial position of BPI and should be read in conjunction with the consolidated financial statements and accompanying notes. The financial statements are in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles ("**GAAP**").

³ BP Rights are the trademarks that as at July 17, 2002 were registered or the subject of pending applications for registration under the Trade-Marks Act (Canada), and other trademarks and the trade names which are confusing with the registered or pending trademarks. The BP Rights purchased do not include the rights outside of Canada to any trademarks or trade names used by BPI or any affiliated entities in its business, and in particular do not include the rights outside of Canada to the trademarks registered or pending registration under the Trade-Marks Act (Canada).

OPERATING RESULTS

Same Store Sales Growth ("SSSG")

SSSG, a key driver of distribution growth for individual Unitholders, is the change in gross revenues of Boston Pizza Restaurants as compared to the gross revenues for the same period in the previous year, where restaurants were open for the full period in each year. SSSG is the combined result of changes in customer traffic and changes in average guest cheque. SSSG was negative 4.4% for the Period and negative 4.0% for the Year, compared to positive 0.1% SSSG reported for the fourth quarter of 2008 and positive 0.7% for 2008. SSSG is based on gross sales, including approved national promotions and discounts, of Boston Pizza Restaurants that have been opened for a minimum of 24 months. Franchise Sales, the basis upon which royalties are paid by the franchisees to BPI, exclude revenue from the sale of liquor, beer, wine and tobacco and approved national promotions and discounts. On a Franchise Sales basis, SSSG for the Period was negative 5.8% (2008 – negative 0.3%) and negative 5.4% for the Year (2008 – positive 0.3%). Sales for the Period were negatively impacted by weaker economic conditions partially offset by a national promotion in October 2009. Sales for the Year were negatively impacted by weaker economic conditions offset by a successful new national promotion which ran during the first quarter of 2009. The SSSG reported for the Period and Year include results from sales audits conducted during 2009. Over the past decade ended December 31, 2009, annual SSSG has averaged positive 4.9%, a figure that compares favourably against the Canadian restaurant industry as a whole.

New Store Openings, Renovations and Relocations

During the Period, seven new Boston Pizza Restaurants were opened, six of which are full service restaurants and one of which is a Quick Express location. Also during the Period, one Boston Pizza Restaurant permanently closed. A total of 18 new Boston Pizza Restaurants opened during the Year and one Boston Pizza Restaurant permanently closed during the Year. As well, during the Period five Boston Pizza Restaurants were renovated, bringing the total to 16 completed renovations during the Year. Locations typically close for two to three weeks to complete the renovation and experience an incremental sales increase in the year following the re-opening. Subsequent to December 31, 2009, Boston Pizza opened one new restaurant and completed two additional restaurant renovations bringing the total number of locations opened as of February 9, 2010 to 341.

Seasonality

Boston Pizza Restaurants experience seasonal fluctuations in Franchise Sales, which are inherent in the full service restaurant industry in Canada. Seasonal factors such as better weather allow Boston Pizza Restaurants to open their patios and generally increase Franchise Sales in the second and third fiscal quarters compared to the first and fourth fiscal quarters. Tourism is also a seasonal factor positively impacting the same time frame. However, weaker economic conditions experienced during the Period and the Year together with poor weather conditions in parts of

Canada negated the positive effect that these seasonal factors typically have on Franchise Sales.

Revenues

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. BPI's revenues were \$16.9 million during the Period compared to \$18.4 million during the same period in 2008. BPI's revenues for the Year were \$70.2 million compared to \$70.3 million for 2008. The decrease in royalty income received from franchised Boston Pizza Restaurants during the Period and the Year compared to the same periods in 2008 was due to weaker economic conditions which had a negative impact on customer traffic and average guest cheque at Boston Pizza Restaurants.

Historically, BPI has presented revenue and expenses of developing territories separately until the territories achieved operational break even. As operational break even for Quebec was achieved in the first quarter of 2009, BPI no longer classifies Quebec as a developing territory and no longer presents the revenue and expenses of Quebec separately.

Expenses

Administrative expenses and restaurant operating costs during the Period were \$10.9 million compared to \$10.4 million for the same period in 2008. The increase in expenses for the Period is mainly due to employee severance payments. Administrative expenses and restaurant operating costs for the Year were \$43.6 million compared to \$41.2 million in 2008. These expenses include compensation and administrative costs associated with the services provided to franchised Boston Pizza Restaurants and the operation of the three corporately owned restaurants. The increase in administrative expenses and restaurant operating costs during the Year is primarily due to costs associated with the bi-annual franchisee conference held by BPI.

During the Period, non-controlling interest related to royalty expense was \$4.5 million compared to \$5.2 million for the same period in 2008. For the Year, non-controlling interest related to royalty expense was \$18.0 million compared to \$19.0 million in 2008. 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. The decrease in non-controlling interest compared to the same period in 2008 is due to lower earnings of the Partnership arising from decreased royalty income earned by the Partnership (see "Revenues").

Other Income and Expenses

Before taking into account depreciation and amortization, management fees, interest on the loan from the Fund, interest on long-term debt, amortization of deferred gain associated with the sale of the BP Rights, amortization of intangible assets, organization restructuring expenses, provision for impaired long-term receivables and income tax, BPI had earnings² of \$1.4 million during the Period and \$8.7 million during the Year. Using the same basis, earnings² for the fourth quarter of

MANAGEMENT'S DISCUSSION & ANALYSIS (continued)

2008 were \$2.8 million and \$10.1 million in 2008. This decrease in earnings² compared to the same period in 2008 is primarily due to the weaker economic conditions and costs associated with the bi-annual franchisee conference.

Depreciation and amortization was \$0.3 million for the Period and \$1.4 million for the Year compared to \$0.4 million for the fourth quarter of 2008 and \$1.5 million for the year 2008.

Interest expense on the \$24.0 million loan from BPI to the Fund acquired by the Fund at the time of the Fund's initial public offering on July 17, 2002 ("IPO") was the same at \$0.5 million during the Period and \$1.8 million for the Year compared to the same periods in 2008.

Interest on long-term debt was the same at \$0.1 million during the Period and \$0.6 million for the Year compared to the same periods in 2008. During the Period, interest expense on the \$5.0 million and \$20.0 million term loans held by the Partnership of \$0.1 million (2008 – \$0.1 million) and \$0.5 million for the Year (2008 – \$0.3 million) is included in these amounts.

The amortization of the deferred gain from the Fund's IPO was \$0.4 million during the Period and \$1.5 million for the Year compared to \$0.3 million for the fourth quarter of 2008 and \$1.3 million in 2008. 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, 2009 was \$128.2 million (2008 – \$129.6 million).

The amortization of intangible assets was \$0.3 million for the Period and \$0.9 million for the Year compared to \$0.2 million for the fourth quarter of 2008 and \$0.4 million for the year in 2008. The increase in amortization is primarily due to implementation of various software development projects during the Year.

Given the combined effects of the above-noted factors, BPI had earnings before income taxes² of \$0.4 million for the Period compared to earnings before income taxes and a provision for impaired long-term receivables² of \$1.2 million for the same period in 2008. For the Year, BPI had earnings before income taxes² of \$4.9 million compared to earnings before income taxes, a provision for impaired long-term receivables and loss on the sale of units of the Fund² ("Units") of \$5.9 million for the same period in 2008.⁴

New Restaurants Added to the Royalty Pool

On January 1, 2009, 25 new Boston Pizza Restaurants that opened across Canada between January 1, 2008 and December 31, 2008 were added to the Royalty Pool and two restaurants that permanently closed during 2008 were removed from the Royalty Pool. The estimated annual gross franchise revenue for the 23 net new restaurants in 2009 was \$43.8 million. The calculation for the number of Additional Entitlements received by BPI is designed to be accretive to existing Unitholders as the

additional royalty revenues from the new restaurants are licensed to the Fund at a 7.5% discount. The estimated 4% royalty revenue the Fund would receive in 2009 from these additional 23 net new restaurants was \$1.8 million. The royalty revenue for the purposes of calculating the Additional Entitlements, therefore, was \$1.6 million or 92.5% of \$1.8 million. In return for adding the royalty revenue from these 23 net new restaurants to the Royalty Pool, BPI received the right to acquire an additional 940,085 Units, representing 80% of the Additional Entitlements with the balance to be received when the actual full year performance of the new restaurants was known with certainty. The 940,085 Additional Entitlements represented 5.1% of the total outstanding Units on a fully diluted basis on January 1, 2009. 235,021 Additional Entitlements, representing the remaining 20% of the Additional Entitlements, were "held back" until such time as the actual performance of these new Royalty Pool restaurants for 2009 was known. BPI also received an increase in monthly distributions based on 100% of the Additional Entitlements (see "Subsequent Events").

In January 2009, an audit of the royalty revenues of the 34 restaurants that were added to the Royalty Pool on January 1, 2008 was completed. The purpose of this audit was to compare actual royalty revenue from these 34 restaurants to the estimated amount of royalty revenue the Fund expected to receive. The original royalty revenue the Fund expected to receive was \$2.8 million and the actual royalty revenue that the Fund received was \$2.6 million. As a result of this adjustment and distributions that were paid on the excess units, BPI made a cash payment to the Partnership of \$0.2 million to reconcile distributions received by BPI for the difference between estimated and actual royalty revenue for the 34 restaurants. BPI received only 80% of the Additional Entitlements at the Adjustment Date in 2008. Following the audit, BPI received the right to acquire 248,629 Additional Entitlements.

Subsequent Events

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

On January 1, 2010, 18 new Boston Pizza Restaurants that opened across Canada between January 1, 2009 and December 31, 2009 were added to the Royalty Pool and one restaurant that permanently closed during 2009 was removed from the Royalty Pool. The estimated annual gross franchise revenue for the 17 net new restaurants in 2010 is \$24.2 million. The calculation for the number of Additional Entitlements received by BPI is designed to be accretive to existing Unitholders as the additional royalty revenues from the new restaurants are licensed to the Fund at a 7.5% discount. The estimated 4% royalty revenue the Fund will receive in 2010 from these additional 17 net new restaurants is \$1.0 million. The royalty revenue for the purposes of calculating the Additional Entitlements, therefore, is \$0.9 million or 92.5% of \$1.0 million. In return for adding the royalty revenue from these 17 net new restaurants to the Royalty Pool, BPI received the right to acquire an additional 518,607 Units, representing 80% of the Additional Entitlements with the balance to be received when

⁴ The earnings for 2008 were also before the loss on sale of Units of the Fund. On March 14, 2008, BPI sold 2,945,246 Units of the Fund received in exchange for Class B general partner units of the Partnership. The sale of these Units resulted in a loss of \$7.4 million, which is not included in the \$0.6 million of earnings for the second quarter of 2008. BPI did not sell any Units of the Fund during the Year.

the actual full year performance of the new restaurants is known with certainty. The 518,607 Additional Entitlements represented 2.9% of the total outstanding Units on a fully diluted basis on January 1, 2010. 129,652 Units, representing the remaining 20% of the Additional Entitlements, have been “held back” until such time as the actual performance of these new Royalty Pool restaurants for 2010 is known. BPI also receives an increase in monthly distributions based on 100% of the Additional Entitlements, subject to a reconciliation of the distributions paid to BPI in respect of these Additional Entitlements that will occur once the actual performance of these new Royalty Pool restaurants for 2010 is known.

*Audit of Boston Pizza Restaurants
Added to Royalty Pool on January 1, 2009*

In January 2010, an audit of the royalty revenues of the 23 net restaurants that were added to the Royalty Pool on January 1, 2009 was completed. The purpose of this audit was to compare actual royalty revenue from these 23 net restaurants to the estimated amount of royalty revenue the Fund expected to receive. The original royalty revenue the Fund expected to receive was \$1.8 million and the actual royalty revenue that the Fund received was \$1.4 million. As a result of this adjustment and distributions that were paid on the excess units, BPI made a payment to the Partnership of \$0.3 million to reconcile distributions received by BPI for the difference between estimated and actual royalty revenue for the 23 net restaurants. BPI received the right to acquire only 80% of the Additional Entitlements at the Adjustment Date in 2009. Following the audit, BPI received the right to acquire 15,728 Additional Entitlements.

Supplementary NCIB Credit Facility

Subsequent to December 31, 2009, the Partnership reached an agreement with the Lender to establish an additional \$5.0 million credit facility for the purpose of funding purchases of Units under the Fund's normal course issuer bids (the “Supplementary NCIB Credit Facility”). The Supplementary NCIB Credit Facility will bear interest, at the Partnership's choice, at either: (a) variable rates, comprised of either or a combination of the bank's prime rate plus 1.50% per annum or bankers' acceptance rates plus 3.00%; or (b) fixed rates equal to the Lender's cost of funds plus 2.00% for the term selected; as selected by the Partnership, and has a maturity date of September 22, 2012. The key covenants under the Supplementary NCIB Credit Facility are the same as under the Partnership's current operating and term loans. Like the Partnership's current operating and term loans, the Supplementary NCIB Credit Facility will be secured by a first charge over the assets of the Partnership and will be guaranteed by the Fund and its other subsidiaries, some of whom have also granted security for their obligations under those guarantees. The establishment of the Supplementary NCIB Credit Facility is subject to formal documentation being completed in a form satisfactory to the Partnership and the Lender.

Units Outstanding

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

	Issued & Outstanding Units, & Additional Entitlements	Issued & Outstanding Units, Additional Entitlements, & Holdback of Additional Entitlements
Issued and Outstanding Units as of December 31, 2009	14,060,544	14,060,544 ⁽¹⁾
BPI Additional Entitlements — Outstanding as of December 31, 2009	3,329,106	3,329,106
BPI Additional Entitlements — Holdback as of December 31, 2009	N/A	235,021 ⁽²⁾
Number of Fully Diluted Units as of December 31, 2009	17,389,650	17,624,671
BPI Total Ownership as of December 31, 2009	19.1%	20.2%
Issued and Outstanding Units as of February 9, 2010	13,791,644	13,791,644 ⁽¹⁾
BPI Additional Entitlements — Outstanding as of December 31, 2009	3,329,106	3,329,106
BPI Additional Entitlements — Issued in respect of 2009 after the audit	15,728	15,728 ⁽²⁾
BPI Additional Entitlements — Issued & Outstanding as of January 1, 2010 (17 net new Restaurants added to Royalty Pool)	518,607	518,607 ⁽³⁾
BPI Additional Entitlements — Holdback as of January 1, 2010 (17 net new Restaurants added to Royalty Pool)	N/A	129,652 ⁽⁴⁾
Number of Fully Diluted Units as of February 9, 2010	17,655,085	17,784,737
BPI Total Ownership as of February 9, 2010	21.9%	22.5%

(1) Issued and Outstanding Units as at December 31, 2009 and February 9, 2010 is after the repurchase and cancellation of 299,470 and 568,370 units respectively under the Normal Course Issuer Bid which commenced on October 1, 2009.

(2) Additional Entitlements from the 23 net new restaurants added to Royalty Pool on January 1, 2009 determined in 2010, once audited results of the 23 net new restaurants were known.

(3) Issued effective January 1, 2010.

(4) Holdback of Additional Entitlements from 17 net new restaurants added to Royalty Pool on January 1, 2010. Actual number of Additional Entitlements will be determined in early 2011, effective January 1, 2010, once audited results of the 17 net new restaurants are known.

MANAGEMENT'S DISCUSSION & ANALYSIS (continued)

BPI also holds 100% of the special voting units (the “**Special Voting Units**”) of the Fund which entitle BPI to one vote for each Unit that BPI would be entitled to receive if it exchanged all of its Class B Units for Units. As of February 9, 2010, BPI was entitled to 3,863,441 votes, representing 21.9% of the aggregate votes held by holders of Units and Special Voting Units (collectively, “**Voting Unitholders**”). The number of Units that BPI is entitled to receive upon the exchange of its Class B Units and the number of votes that BPI is entitled in respect of its Special Voting Units is adjusted annually to reflect any additional Boston Pizza Restaurants that may be added to the Royalty Pool.

ADOPTION OF NEW AND FUTURE ACCOUNTING POLICIESGoodwill and Intangible Assets

In February 2008, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets, which supersedes Sections 3062 Goodwill and Other Intangible Assets and 3450 Research and Development Costs. Section 3064 provides additional guidance on when expenditures qualify for recognition as intangible assets and requires that costs be deferred only when relating to an item meeting the asset definition. BPI has adopted this standard for the fiscal year commencing January 1, 2009. The adoption of this new accounting standard has no material impact on BPI's financial position, results of operations or business practices.

International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board confirmed its plan to converge with International Financial Reporting Standards (“**IFRS**”). BPI must prepare its interim and annual consolidated financial statements in accordance with IFRS for the periods beginning on or after January 1, 2011. BPI has formally established an IFRS project team consisting of members of its finance group and is led by BPI's Chief Financial Officer. The team has performed a review of the impacts of IFRS on BPI's accounting policies, information systems, internal controls over financial reporting, and contractual arrangements and covenants. While the effects of IFRS have not fully been determined, the team has identified that the key areas expected to be impacted are the accounting treatment for BPI's interest in the Partnership, whether a derivative exists in the note payable to the Fund, and the method of calculation of future income taxes.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no significant changes to the internal controls over financial reporting for the fiscal year ended December 31, 2009 that have had or are reasonably likely to have a material effect on BPI's internal controls over financial reporting.

COMPARATIVE FIGURESGift Cards

In 2005, BPI introduced the Boston Pizza Gift Card program. Customers can prepay for future purchases at participating Boston Pizza Restaurants by reloading a dollar value onto their gift card through cash or credit card, when and as needed. A gift card entitles the holder to use the value for purchasing product only and the amounts generally are nonrefundable

and not redeemable for cash. Cardholders are not entitled to any interest, dividends or returns on prepaid amounts. There are no expiration dates on the gift cards and BPI does not charge any service fees that cause a decrease to customer balances.

As the purpose of the gift card program is to expand the Boston Pizza brand through increased exposure, as well as to increase Franchise Sales, the assets and liabilities pertaining to this program have been recorded as restricted assets and liabilities of the Co-op. Cash collected from the loading of the gift cards and interest earned thereon are recorded as Co-op restricted assets in the consolidated balance sheet. The restricted cash and cash equivalents balances at December 31, 2009 and December 31, 2008 represent the prepaid amounts not yet redeemed by customers. The outstanding customer obligations for these gift cards are recorded as Co-op restricted liabilities on the consolidated balance sheet.

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

BPI recognizes income on unredeemed gift cards (“**Gift Card Breakage**”) when it can determine that the likelihood of the gift card being redeemed is remote and that there is no legal obligation to remit the unredeemed gift card value to relevant jurisdictions. BPI determines Gift Card Breakage based on historical redemption patterns. Based on historical information, the likelihood of a gift card remaining unredeemed can be determined 24 months after the gift card is issued. At that time, breakage income is recognized by the Co-op to help offset costs associated with this program, and as a result, is not recorded in BPI's consolidated statement of earnings.

Co-op

The Co-op was established to collect and administer funds contributed for use in advertising and promotional programs designed to increase sales and enhance the reputation of BPI and its franchisees. In accordance with AcG-2 — Franchisee Fee Revenue, the revenue, expenses and cash flows of the Co-op are not included in the BPI's consolidated statements of earnings and cash flows because the contributions to the Co-op are segregated, designated for specific purposes, and BPI acts, in substance, as an agent with regard to these contributions.

The assets and liabilities held by the Co-op are considered restricted and are recorded as such on BPI's consolidated balance sheet. BPI collects 2.5% of Franchise Sales from franchisees and corporately owned and operated Boston Pizza Restaurants for contribution to the Co-op. These contributions are used for local, regional and national advertising, promotional programs, brand protection and to administer the gift card program.

The deficit balance of the Co-op as at December 31, 2009 and 2008 was \$0.8 million and \$0.2 million, respectively.

LIQUIDITY & CAPITAL RESOURCES

The Partnership has a \$1.0 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. Since inception in July, 2002, the line of credit has been maintained with a nil balance.

During the Period, the Partnership and a Canadian Chartered Bank (the “**Lender**”) entered into an International Swap Dealers Association Master Agreement (the “**ISDA Agreement**”), which provides the Partnership with the capability in the future of entering into interest rate and currency swaps with the Lender, and establishes the legal framework that will govern any such swaps. Under the ISDA Agreement, the Partnership can enter into swap transactions with the Lender to effectively convert variable interest bearing debt with the Lender to fixed interest bearing debt or vice versa. As of February 9, 2010, the Partnership has not entered into any swap transaction under the ISDA Agreement.

BPI is an entirely franchised business except for three corporate restaurants. For 2010, BPI has forecasted capital requirements of approximately \$1.6 million which will consist mainly of the development of software applications and the purchase of office and computer equipment. Given the debt repayment and commitments schedule to follow, BPI is confident it has sufficient cash to cover expenditures, capital requirements, commitments and repayments for 2010.

BPI has an available line of credit in the amount of \$7.5 million with a 180 day term to cover BPI's day-to-day operating requirements through normal seasonal variations in the business if needed. The line of credit bears interest at the bank prime rate and is due upon demand. As at December 31, 2009, the line of credit had a nil balance. BPI was in compliance with all of its financial covenants and financial condition tests as of the end of the Period except for the fixed charge coverage ratios related to \$1.4 million in GE Canada Equipment Finance G.P. (“GE”) term loans. The covenant is determined annually and BPI has obtained a waiver from GE as at the end of the Period through to January 1, 2011 and therefore, has classified these term loans as long-term obligations.

Cash Flows from Operating Activities:

During the Year, operating activities generated \$4.1 million in cash compared to \$3.0 million in cash being used during the same period in 2008. This increase is primarily due to higher net earnings in 2009 and the payment of income tax in 2008 on the sale of Units in 2008.

Cash Flows used in Financing Activities:

During the Year financing activities generated \$7.7 million in cash of which \$2.4 million was used for the partial repayment by BPI of a promissory note and \$10.7 million was generated during the Year as a result of drawing from the Partnership's \$20.0 million credit facility, later defined. During the same period in 2008, financing activities used \$26.0 million in cash. \$29.2 million was used for the payment of dividends and a

promissory note to shareholders, \$1.1 million was used for the repayment of long term debt and \$4.2 million was generated through draws on the Partnership's \$20.0 million credit facility.

Cash Flows from Investing Activities:

During the Year, investing activities used \$12.0 million in cash of which \$1.4 million was used to purchase intangible and capital assets and \$10.6 million to return capital to the Fund which resulted in a proportionate increase in BPI's ownership share of the Partnership. During the same period in 2008, investing activities generated \$28.1 million in cash mainly through the sale of Units for \$34.4 million offset by \$1.9 million for the purchase of intangible and capital assets and \$4.3 million to return capital to the Fund which resulted in a proportionate increase in BPI's ownership share of the Partnership.

Long-Term Debt Obligations

The Partnership has a \$5.0 million non-revolving term loan facility, with a maturity date of September 22, 2012, used to partially finance the purchase of the BP Rights from BPI and to provide term debt as part of the capital structure. As at December 31, 2009 the facility was fully drawn.

The Partnership also has a revolving term loan in the amount of up to \$20.0 million available at variable and fixed rates as selected by the Partnership to fund purchases under the Fund's normal course issuer bid. This loan bears interest at variable rates, comprised of either, or a combination of, the bank's prime rate plus 0.50% per annum or bankers' acceptance rates plus 2.00% or fixed rates equal to the Lender's cost of funds plus 2.00% for the term selected, as selected by the Partnership and has a maturity date of September 22, 2012. This loan is secured by a first charge over the assets of the Partnership and is guaranteed by the Fund and its other subsidiaries, some of whom have also granted security for their obligations under those guarantees.

The loans contain a number of covenants and restrictions including the requirement to meet certain financial ratios and financial condition tests. The financial covenants include a leverage test and a limit on the maximum amount of distributions that may be made by the Partnership to the Fund during each rolling four-quarter period. The Partnership was in compliance with all of its financial covenants and financial condition tests as of the end of the Period. The key covenants for this loan are the same as the covenants established for the Partnership's current operating and term loans which covenants are summarized in the Fund's annual information form for the year ended December 31, 2009. As at December 31, 2009, \$14.5 million had been advanced on this loan.

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

MANAGEMENT'S DISCUSSION & ANALYSIS (continued)

Principal repayments on BPI's long-term debt and capital lease obligations, excluding the Partnership's \$5.0 million and \$20.0 million term loans, for the next five years ending December 31, 2009 are as follows:

Long-Term Debt:	
2010	\$ 554
2011	417
2012	431
2013	211
2014 and thereafter	77
	<u>\$ 1,690</u>

Other Long-Term Commitments

BPI has long term commitments under operating lease contracts for office space, restaurant space and advertising contracts. The source of funds to meet these long term commitments is mainly derived from royalty income from franchised Boston Pizza Restaurants, sales in corporately owned restaurants, initial franchise fees, and franchise renewal fees. The minimum annual payments under these contracts for the next five years ending December 31 are as follows:

2010	\$ 2,156
2011	1,970
2012	1,345
2013	1,012
2014 and thereafter	4,473
	<u>\$ 10,956</u>

Stock Option Plan

On May 21, 2008, BPI established a stock option plan pursuant to which BPI may, from time to time, grant options to acquire up to 15,600,000 Class B Common shares of BPI ("**Class B Shares**") to directors, officers and employees of BPI or its subsidiaries. BPI initially granted options to acquire 5,840,000 Class B Shares to BPI's officers and senior employees (the "**Granted Options**"), of which options to acquire 3,852,000 Class B Shares remained outstanding as at December 31, 2009. The exercise price of each Granted Option is equal to the fair market value of one Class B Share at the date on which the option was granted, as determined by a valuation formula approved by BPI's board of directors. Each Granted Option may be exercised during a period not exceeding 10 years from the date of grant. The Granted Options vest 20% per year for five years beginning on January 1, 2009. Holders of vested options under the stock option plan have the choice, subject to certain restrictions, of exercising their options to acquire Class B Shares at the corresponding option exercise price, or receiving a cash payment from BPI equivalent to the difference between the fair market value of the Class B Shares and the exercise price of the option.

On January 1, 2009, 1,168,000 of the Granted Options vested. During the Period, no additional options to acquire Class B Shares were granted. During the Year, 1,988,000 Granted Options have been terminated or surrendered for cancellation, 356,000 of which were vested and 1,632,000 of which were un-vested. There was no impact to earnings during the Period.

The following table sets forth the changes in Granted Options during the Period:

	Number of Options	Weighted Average Exercise Price	Total Number of Vested Options	Total Number of Un-Vested Options
Balance				
October 1, 2009	4,560,000	\$1.00	912,000	3,648,000
Granted during the Period	Nil	N/A	N/A	N/A
Exercised during the Period	Nil	N/A	N/A	N/A
Cancelled during the Period	(708,000)	N/A	(100,000)	(608,000)
Balance				
December 31, 2009	3,852,000	\$1.00	812,000	3,040,000

BPI currently has 104,600,000 Class A Common shares outstanding which represent all the issued and outstanding shares in the capital of BPI. The 3,852,000 Granted Options outstanding as at December 31, 2009 represents, if exercised, 3.6% of the issued and outstanding shares in the capital of BPI.

CRITICAL ACCOUNTING ESTIMATES

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

Management believes that the following selected accounting policies are critical to understanding the estimates, assumptions and uncertainties that affect the amounts reported and disclosed in BPI's consolidated financial statements and related notes. See notes 3 to 4 to BPI's consolidated annual financial statements for the period ending December 31, 2009 for BPI's significant accounting policies.

BPI 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. BPI uses a best estimate approach with respect to the recognition and measurement of tax exposure items, whereby BPI records income tax expense for the effect of tax exposure items based on the single best estimate of the tax amount expected ultimately to be paid.

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

OUTLOOK

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

BPI's management believes that the prevailing weaker economic conditions will persist in 2010 resulting in continued pressure on SSSG and franchise sales at Boston Pizza Restaurants in Canada. However, Boston Pizza is well positioned to attract a wide variety of guests into the restaurant, sports bar and take-out/delivery parts of each location and offer a compelling value proposition to Canadians in these challenging economic times. BPI's strategies to drive guest traffic and higher average cheque levels include a larger marketing budget versus the previous year, national and local store promotions, and menu re-pricing as part of the new menu launched each year in June. In addition, BPI's management anticipates that 15 to 25 restaurants will complete renovations in 2010. Renovated restaurants typically experience an incremental sales increase in the year following the re-opening.

BPI's management has determined that 10 to 15 new locations will open across Canada in 2010. Boston Pizza remains well positioned for future expansion and will continue to strengthen its position as the number one casual dining brand in Canada by pursuing further restaurant development opportunities across the country.

RISKS & UNCERTAINTIES

Risks Related to the Casual Dining Restaurant Industry

The Restaurant Industry and its Competitive Nature

The performance of the Fund is directly dependent upon the royalty and interest payments received from BPI. 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 loan to BPI in the aggregate amount of \$24.0 million held by the Fund (the "**BP Loan**") may be impaired. The restaurant industry is also affected by changes in demographic trends, traffic patterns, and the type, number, and location of competing restaurants. In addition, factors such as government regulations, smoking bylaws, inflation, publicity from any food borne illnesses, increased food, labour and benefits costs, continuing operations of key suppliers and the availability of experienced management and hourly employees may adversely affect the restaurant industry in general and therefore potentially 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, including an H1N1 influenza outbreak, could reduce guest traffic or impose practical limits on pricing, either of which could reduce revenue and operating income, which could adversely affect Franchise Sales, the royalty and the ability of BPI to pay the Royalty (defined below) to the Partnership or interest on the BP Loan.

Growth of the Royalty

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

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

MANAGEMENT'S DISCUSSION & ANALYSIS (continued)

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

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

Revenue from Franchisees

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

Intellectual Property

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

Government Regulation

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

Harmonized Sales Tax for British Columbia

On July 23, 2009, the British Columbia Ministry of Finance announced its intention to harmonize the federal Goods and Services Tax and the provincial sales tax effective July 1, 2010 (the "**Proposed HST**"). The Proposed HST, if implemented, will impose a 12% tax on restaurant services in British Columbia. Currently, restaurant services in British Columbia are exempt from provincial sales tax and are only subject to the 5% Goods and Services Tax. The Proposed HST, if implemented, may adversely affect guest traffic and sales in Boston Pizza Restaurants located in British Columbia and may result in a decrease of royalties received by BPI from Boston Pizza franchisees.

Regulations Governing Alcoholic Beverages

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

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

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

Laws Concerning Employees

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

Potential Litigation and Other Complaints

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

For a more detailed list of risks and uncertainties related to BPI and the Fund, please refer to the Fund's Management's Discussion and Analysis for the three month and twelve month periods ended December 31, 2009 which is available on SEDAR at www.sedar.com.

ADDITIONAL INFORMATION

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

NOTE REGARDING FORWARD-LOOKING INFORMATION

Certain information in this Management's Discussion and Analysis may constitute "forward-looking information" that involves known and unknown risks, uncertainties, future expectations and other factors which may cause the actual results, performance or achievements of the Fund, the Trust, the Partnership, Holdings LP, Boston Pizza Holdings GP Inc., BPGP, BPI, Boston Pizza Restaurants, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking information. Forward-looking information in this Management's Discussion and Analysis includes, but is not limited to, such things as: the future expansion of Boston Pizza Restaurants; Boston Pizza will continue to strengthen its position as the

number one casual dining brand in Canada; estimates of the number of restaurant openings and estimates related to renovations (number of renovations, timeline of renovations and increased revenues following renovations). The forward-looking information disclosed herein is based on a number of assumptions including, among other things, the protection of BP Rights, pace of commercial real estate development, franchisees' access to financing, speed of permitting, future results being similar to historical results and expectations related to future general economic conditions. When used in this Management's Discussion and Analysis, this information may include words such as "anticipate", "estimate", "may", "will", "expect", "believe", "plan" and other similar terminology. This information reflects current expectations regarding future events and operating performance and speaks only as of the date of this Management's Discussion and Analysis. This forward-looking information involves a number of risks, uncertainties and future expectations including, but not limited to: competition; changes in demographic trends; changes in consumer preferences and discretionary spending patterns; changes in national and local business and economic conditions; legislation and government regulation; accounting policies and practices; and the results of operations and financial conditions of BPI and the Fund. The foregoing list of factors is not exhaustive and should be considered in conjunction with the risks and uncertainties set out above in "Risks & Uncertainties". This Management's Discussion and Analysis discusses some of the factors that could cause actual results to differ materially from those expressed in or underlying such forward-looking information. Forward-looking information is provided as of the date hereof and, except as required by law, we assume no obligation to update or revise forward-looking information to reflect new events or circumstances.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Boston Pizza International Inc. as at December 31, 2009 and 2008 and the consolidated statements of earnings (loss) and comprehensive income (loss), accumulated 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, 2009 and 2008, the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, stylized font. Below the signature is a horizontal line that starts under the "K" and extends to the right, ending under the "P".

Chartered Accountants

Vancouver, Canada

February 9, 2010

(except note 19(d), which is as of March 17, 2010
and except note 19(e), which is as of March 31, 2010)

CONSOLIDATED BALANCE SHEETS

December 31, 2009 and 2008

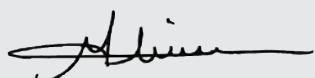
(in thousands of Canadian dollars)	2009	2008 (restated – see note 4(m) and 8)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,829	\$ 2,986
Accounts receivable	9,471	8,851
Income tax receivable	299	—
Prepaid expenses	944	1,534
Advertising fund restricted assets (note 4 (m))	9,334	8,987
Future income taxes (note 12)	331	604
	23,208	22,962
Long-term receivables (note 6)	19,466	20,078
Long-term investments	75	75
Capital assets (note 7)	5,481	6,597
Intangible assets and deferred charges (note 8)	18,239	7,497
Future income taxes (note 12)	27,496	31,634
	\$ 93,965	\$ 88,843
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 6,364	\$ 7,774
Distributions payable	1,469	1,601
Income tax payable	—	700
Current portion of deferred revenue	1,444	2,364
Current portion of long-term debt (note 10)	554	539
Promissory note payable (note 11)	3,809	6,253
Advertising fund restricted liabilities (note 4 (m))	9,334	8,987
	22,974	28,218
Long-term debt (note 10)	20,645	10,481
Deferred revenue	3,714	4,091
Loan from Boston Pizza Royalties Income Fund (note 11)	24,000	24,000
Other long-term liabilities	588	797
Deferred gain (note 5)	128,203	129,566
Shareholders' deficiency:		
Accumulated deficit	(106,159)	(108,310)
	\$ 93,965	\$ 88,843

Commitments (note 14)

Subsequent events (note 19)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:


George Melville, Director

James Treliving, Director

CONSOLIDATED STATEMENTS OF EARNINGS (LOSS) AND COMPREHENSIVE INCOME (LOSS)

Years ended December 31, 2009 and 2008

(in thousands of Canadian dollars)	2009	2008
Franchise, restaurant and other revenues	\$ 70,189	\$ 70,333
Administrative expenses and restaurant operating costs (note 16)	43,571	41,176
Non-controlling interest related to royalty expense	17,956	19,036
Earnings before undernoted	8,662	10,121
Depreciation and amortization	1,397	1,477
Management fee (note 16)	586	665
Interest on loan from Boston Pizza Royalties Income Fund (note 16)	1,800	1,800
Interest on long-term debt	590	578
Amortization of deferred gain (note 5)	(1,451)	(1,346)
Amortization of intangible assets	858	426
Organization restructuring expenses	—	626
Earnings before undernoted items	4,882	5,895
Loss on sale of Fund units	—	7,431
Provision for impaired long-term receivables	—	7,615
Earnings (loss) before income taxes	4,882	(9,151)
Income tax expense (recovery) (note 12):		
Current	(1,678)	4,627
Future	4,216	(5,690)
	2,538	(1,063)
Net earnings (loss) and comprehensive income (loss)	\$ 2,344	\$ (8,088)

CONSOLIDATED STATEMENTS OF ACCUMULATED DEFICIT

Years ended December 31, 2009 and 2008

(in thousands of Canadian dollars)	2009	2008
Accumulated deficit, beginning of year	\$ (108,310)	\$ (73,291)
Net earnings (loss)	2,344	(8,088)
Dividends declared	—	(32,500)
Refundable dividend tax	(193)	5,569
Accumulated deficit, end of year	\$ (106,159)	\$ (108,310)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2009 and 2008

(in thousands of Canadian dollars)	2009	2008
Cash and cash equivalents provided by (used in):		
Operating:		
Net earnings (loss)	\$ 2,344	\$ (8,088)
Items not affecting cash:		
Depreciation and amortization	1,397	1,477
Future income taxes	4,216	(5,690)
Amortization of deferred gain	(1,451)	(1,346)
Amortization of intangible assets	858	426
Loss on sale of Fund units	—	7,431
Non-controlling interest related to royalty expense	17,956	19,036
Distributions to non-controlling interest	(18,087)	(19,097)
Long-term receivables	612	6,136
Change in non-cash operating items (note 18(a))	(3,750)	(3,329)
	4,095	(3,044)
Financing:		
Repayment of long-term debt	(570)	(1,064)
Proceeds from long-term debt	10,749	4,227
Payment of promissory note	(2,444)	(2,813)
Payment of dividends	—	(26,410)
	7,735	(26,060)
Investing:		
Proportionate increase in ownership of Boston Pizza Royalties Limited Partnership	(10,619)	(4,292)
Sale of Fund Units, net of transaction costs	—	34,354
Purchase of capital assets, net	(282)	(718)
Purchase of intangible assets	(1,086)	(1,197)
	(11,987)	28,147
Decrease in cash and cash equivalents	(157)	(958)
Cash and cash equivalents, beginning of year	2,986	3,944
Cash and cash equivalents, end of year	\$ 2,829	\$ 2,986

See supplementary cash flow information (note 18(b)).

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2009 and 2008

(In thousands of Canadian dollars except unit amounts and except where otherwise indicated)

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 operating entities, after elimination of all material intercompany balances and transactions:

Boston Pizza International Inc. and subsidiaries:

Lansdowne Holdings Ltd.	100.0%
Winston Churchill Pizza Ltd.	100.0%
Laval Corporate Training Centre Inc.	100.0%
Boston Pizza Royalties Limited Partnership	19.1%

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 consolidates the Partnership. The Partnership was established to hold the trademarks and trade names used in connection with the operation of Boston Pizza restaurants in Canada (collectively, the "BP Rights"). The Partnership and the Company also entered into a 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").

3. Changes in accounting policies:

Goodwill and Intangible Assets:

In February 2008, the CICA issued Handbook Section 3064, *Goodwill and Intangible Assets*, which supersedes Sections 3062 *Goodwill and Other Intangible Assets* and 3450 *Research and Development Costs*. Section 3064 provides additional guidance on when expenditures qualify for recognition as intangible assets and requires that costs be deferred only when relating to an item meeting the asset definition. The Company has adopted this standard for the fiscal year

commencing January 1, 2009. The adoption of this new accounting standard did not have any impact on net earnings but did result in a reclassification of computer software costs from capital assets to intangible assets in the amount of approximately \$1.8 million as at December 31, 2008.

4. Significant accounting policies:

(a) Capital assets:

Capital assets are recorded at cost less accumulated depreciation.

(b) Depreciation and amortization:

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

Asset	Basis	Rate
Building	Declining balance	4%
Office furniture and equipment	Declining balance	10-50%
Office furniture and equipment under capital lease	Straight-line at various rates	up to 7 years
Leasehold improvements	Straight-line	shorter of term of the lease or useful life

(c) Revenue recognition and deferred revenue:

(i) Franchise revenues:

Monthly franchise fee:

Monthly franchise fees are recorded as they are earned.

Franchise fee deposits:

Franchise fee deposits are deferred and 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 in franchise and other revenues.

(d) 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. The Company uses a best estimate approach with respect to the recognition and measurement of tax exposure items, whereby the Company records income tax expense for the effect of tax exposure items based on the single best estimate of the tax amount expected ultimately to be paid.

(e) Cash and cash equivalents:

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

(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 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 include the valuation of accounts receivable and long-term receivables, capital assets, future income tax benefits, deferred revenue and estimated income taxes payable.

(g) Transaction costs:

The Company's policy for transaction costs for financial liabilities of less than five years duration is to expense the costs as they are incurred.

(h) 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 5).

(i) Financial instruments:

This section gives an overview of the significance of financial instruments for the Company and provides additional information on balance sheet items that contain financial instruments.

The Company classified its financial instruments as follows:

- Cash and cash equivalents as held-for-trading, which are measured at fair value.
- Accounts receivables and long-term receivables are loans and receivables, which are measured at amortized cost.

- Accounts payable, accrued liabilities, distributions payable, long-term debt, loan payable, and promissory note payable are classified as other financial liabilities, which are measured at amortized cost.
- The right to transfer Class C general partner units in consideration of its note payable to the Fund is classified as a derivative instrument. The Company has reviewed the net impact of this potential exchange requirement on its cash flows and has determined there is no significant value applicable to this feature.

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

	2009	2008
Financial assets:		
Cash and cash equivalents	\$ 2,829	\$ 2,986
Accounts receivable	9,471	8,851
Long-term receivables	19,466	20,078
	\$ 31,766	\$ 31,915
Financial liabilities:		
Accounts payable and accrued liabilities	\$ 6,364	\$ 7,774
Distributions payable	1,469	1,601
Long-term debt	21,199	11,020
Promissory note payable	3,809	6,253
Loan from Boston Pizza Royalties Income Fund	24,000	24,000
	\$ 56,841	\$ 50,648

The fair values of accounts receivable, accounts payable, accrued liabilities, distributions payable, and borrowings under revolving credit facilities approximate their carrying amount largely due to the short-term maturities of these instruments.

(j) Financial risk management:

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

(i) Interest rate risk:

The Company's exposure to interest rate risk is mainly through the Partnership's two term loans. The Partnership has entered into an International Swap Dealers Association Master Agreement (the "ISDA Agreement") which provides the Partnership with the capability in the future of entering into interest rate swaps with the Lender, and establishes the legal framework that will govern any such swaps. Under the ISDA Agreement, the Partnership can enter into swap transactions with the Lender to effectively convert variable interest bearing debt with the Lender to fixed interest bearing debt or vice versa. The Partnership monitors the interest

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

rate environment regularly but as at December 31, 2009, the Partnership had not entered into any swap transactions under the ISDA Agreement. The other obligations, such as the interest-bearing note payable to the Fund, have fixed interest rates and therefore the Company does not perform interest rate risk management on these obligations to minimize the overall financial interest rate risk. The Company currently has \$20.2 million in floating rate debt. The annual impact for every 1% increase in the prime rate would be \$0.2 million of additional interest expense.

(ii) Liquidity risk:

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

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

	Value	Maturity
Accounts payable and accrued liabilities	\$ 6,364	Less than 1 year
Current portion of long-term debt	554	Less than 1 year
Promissory note payable	3,809	Less than 1 year
Long-term debt	20,645	2011-2015
Notes payable	24,000	2042

(iii) Credit risk:

Credit risk is defined as the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's accounts receivable and long-term receivables from companies under common control. The effective monitoring and controlling of credit risk is a core competency of the Company. Each potential franchisee must complete a thorough interview process and pass mandatory credit evaluations. The collectability of the long-term receivables depends on the operations of U.S. franchisees, and management closely monitors the U.S. operations to manage this credit risk exposure. The Company's maximum exposure to credit risk is the value of its accounts receivable of \$9.5 million, as well as the value of long-term receivables from companies under common control of \$19.5 million.

The amount of past-due accounts receivable is \$2.2 million. A provision for impaired accounts receivable of \$0.8 million has been recorded. The Company continues to make every effort to collect all past due amounts.

(k) Capital disclosures:

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

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

	2009	2008
Liquidity:		
Cash and cash equivalents	\$ 2,829	\$ 2,986
Undrawn credit facilities	12,991	23,626
Total liquidity	15,820	26,612
Capitalization:		
Unsecured notes	3,809	6,253
Long-term debt	21,199	11,020
Total debt	25,008	17,273
Deferred gain	128,203	129,566
Shareholder's deficiency	(106,159)	(108,310)

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

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

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

The Partnership has a \$20.0 million term loan facility of which \$5.5 million is undrawn at December 31, 2009.

(l) Gift cards:

In 2005, the Company introduced the Boston Pizza Gift Card program. Customers can prepay for future purchases at participating Boston Pizza Restaurants by reloading a dollar value onto their gift card through cash or credit card, when and as needed. A gift card entitles the holder to use the value for purchasing product only and the amounts generally are nonrefundable and not redeemable for cash. Cardholders are not entitled to any interest, dividends or returns on prepaid amounts. There are no expiration dates on the gift cards and the Company does not charge any service fees that cause a decrease to customer balances.

As the purpose of the gift card program is to expand the Boston Pizza brand through increased exposure, as well as to increase Franchise Sales, the assets and liabilities pertaining to this program have been recorded as restricted assets and liabilities of the Advertising Fund (note 4 (m)). Cash collected from the loading of the gift cards and interests earned thereon are recorded as Advertising Fund (defined below) restricted assets in the consolidated balance sheet. The restricted cash and cash equivalents balances at December 31, 2009 and December 31, 2008 represent the prepaid amounts not yet redeemed by customers. The outstanding customer obligations for these gift cards are recorded as Advertising Fund restricted liabilities on the consolidated balance sheet.

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

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

(m) Advertising fund:

The Company participates in an Advertising Fund (the "Advertising Fund") established to collect and administer funds contributed for use in advertising and promotional programs designed to increase sales and enhance the reputation of the Company and its franchise owners. In accordance with AcG-2 — Franchisee Fee Revenue, the revenue, expenses and cash flows of the advertising funds are not included in the Company's Consolidated Statements of Earnings and Cash Flows because the contributions to these advertising funds are segregated, designated for specific purposes, and the Company acts, in substance, as an agent with regard to these contributions.

The assets and liabilities held by these advertising funds are considered restricted and recorded as such on the Company's Consolidated Balance Sheet. The Company collects 2.5% of franchise sales from franchisees and Company-operated restaurants for contribution to the Advertising Fund. These contributions are used for local, regional and national advertising, promotional programs, brand protection and to administer the gift card program.

The deficit balance of the advertising fund as at December 31, 2009 and 2008 was \$0.8 million and \$0.2 million respectively. The Company has restated the balances of restricted fund assets and liabilities as at December 31, 2008 to reflect the recording of balances associated with the gift card program (note 4(l)), which were previously not recorded on the Company's balance sheet. This restatement did not have any effect on net assets or earnings, and has resulted in an increase of both restricted fund assets and liabilities as at December 31, 2008 by \$6.1 million.

(n) Intangible assets:

Intangible assets consist primarily of the BP Rights and the proportionate increase in ownership of Boston Pizza Royalties Limited Partnership, as described in note 8.

Intangible assets also include computer software costs which are amortized on a declining balance basis at a rate of 30% per year.

(o) Future changes in accounting policies:

International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board confirmed its plan to converge with International Financial Reporting Standards ("IFRS"). BPI must prepare its interim and annual consolidated financial statements in accordance with IFRS for the periods beginning on or after January 1, 2011. BPI has formally established an IFRS project team consisting of members of its finance group and is led by BPI's Chief Financial Officer. The team has performed a review of the impacts of IFRS on BPI's accounting policies, information systems, internal controls over financial reporting, and contractual arrangements and covenants. While the effects of IFRS have not fully been determined, the team has identified the key differences between IFRS and Canadian GAAP that require further evaluation to determine the expected impact which are the accounting treatment for BPI's interest in the Partnership, certain financial instruments, long-term receivables, and the method of calculation of future income taxes.

5. Deferred gain:

	2009	2008
		(restated - see note 8)
Balance, beginning of year	\$ 129,566	\$ 89,555
Value of fund units received on exchange of Partnership units	—	41,786
Long-term incentive plan	88	(429)
Amortization of deferred gain	(1,451)	(1,346)
Balance, end of year	\$ 128,203	\$ 129,566

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,

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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, and are 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, 2009, 25 (2008 – 34) new Boston Pizza restaurants that opened during the period from January 1, 2008 to December 31, 2008 (2008 – January 1, 2007 to December 31, 2007) were added to the Royalty Pool of the Fund while two (2008 – nil) restaurants that closed during the period were removed. In accordance with the terms of the partnership agreements, the Partnership provided entitlements to the Company to receive distributions on 1,175,106 (2008 – 1,889,459) Class B general partner units in the Partnership in exchange for the addition of these new restaurants to the Royalty Pool. 20% of the Additional Entitlement, 235,021 units (2008 – 377,892) remain unissued and are not entitled for conversion to Fund units until January 1, 2010 (2008 units – January 1, 2009) based on the actual performance of the new stores (note 19).

On January 1, 2009, adjustments to royalty payments and Additional Entitlement were made based on the actual performance of the 34 new restaurants added to the Royalty Pool on January 1, 2008. Based on these adjustments, the Company received its pro rata portion of the remaining Additional Entitlement of 248,629 Fund units.

Restaurant locations – Canada:

	2009	2008
Corporately owned restaurants included in the Royalty Pool	3	3
Franchised restaurants included in the Royalty Pool	320	297
	323	300
Closure of franchised restaurant included in Royalty Pool	1	2
Franchised restaurants excluded from the Royalty Pool (note 19(b))	18	25
	340	323

6. Long-term receivables:

Long-term receivables consist of the following:

	2009	2008
Advances to companies owned by shareholders of the Company, non-interest bearing, unsecured with no specified terms of repayment	\$ 614	\$ 1,226
Promissory notes to companies owned by the shareholders of the Company, bearing interest at 7.6%, unsecured with no specific terms of repayment	18,852	18,852
	\$ 19,466	\$ 20,078

On December 31, 2008 the Company recorded a provision for impairment of long-term receivables of \$7.6 million in relation to the \$18.9 million in promissory notes. As a result, in accordance with CICA Handbook Section 3025, the Company has ceased accruing interest on these notes, and is carrying them at their estimated realizable amounts. The Company continues to make every effort to collect all long-term receivable balances.

7. Capital assets:

2009	Cost	Accumulated amortization	Net book value
Office furniture and equipment	\$ 6,988	\$ 5,172	\$ 1,816
Office furniture and equipment under capital lease	2,275	1,598	677
Leasehold improvements	4,832	2,915	1,917
Building	1,233	164	1,069
Auto	24	22	2
	\$ 15,352	\$ 9,871	\$ 5,481

2008 (restated)	Cost	Accumulated amortization	Net book value
Office furniture and equipment	\$ 6,743	\$ 4,520	\$ 2,223
Office furniture and equipment under capital lease	2,156	1,272	884
Leasehold improvements	4,915	2,541	2,374
Building	1,233	119	1,114
Auto	24	22	2
	\$ 15,071	\$ 8,474	\$ 6,597

8. Intangible assets and deferred charges:

2009	Cost	Accumulated amortization	Net book value
Intangible assets ("BP Rights") and other	\$ 482	\$ 175	\$ 307
Long-term portion of deferred charges	1,049	106	943
Proportionate increase in ownership of Boston Pizza Royalties Limited Partnership	14,911	133	14,778
Computer software	4,209	1,998	2,211
	\$ 20,651	\$ 2,412	\$ 18,239

2008 (restated)	Cost	Accumulated amortization	Net book value
Intangible assets ("BP Rights") and other	\$ 482	\$ 175	\$ 307
Long-term portion of deferred charges	1,049	—	1,049
Proportionate increase in ownership of Boston Pizza Royalties Limited Partnership	4,292	—	4,292
Computer software	3,122	1,273	1,849
	\$ 8,945	\$ 1,448	\$ 7,497

On July 17, 2002, 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 an interest in 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 license 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 of restaurants in 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 and are not amortized as they have an indefinite life.

Between October 1, 2008 and February 23, 2009, and then again between October 1, 2009 and December 31, 2009, BPI, through a series of transactions, re-acquired a portion of certain rights which were previously granted to the Partnership. As at December 31, 2008, these rights were recorded as an offset to the Deferred Gain. In the current year, the Company has recorded these rights as an intangible

asset apart from Goodwill and has restated the comparative balance sheet as at December 31, 2008 for the reclassification between Deferred Gain and Intangibles in the amount of approximately \$4.3 million. This asset is being amortized over the remaining life of the License and Royalty agreement. This restatement did not have an effect on net assets or earnings of the Company.

9. Line of credit:

The Company has an available line of credit in the amount of \$7.5 million with a 364 day term to cover the Company's day-to-day operating requirements through normal seasonal variations in the business if needed. The line of credit bears interest at prime and is due upon demand. The line of credit facility is secured by a first charge over the Company's assets other than the following assets: the royalty payments received by the Company from its franchises, the Class C general partnership units held by the Company and the monthly distribution by the Partnership on those Class C general partnership units. The Fund and its subsidiaries will continue to have a first charge over these assets. The Company has, as part of the security granted to the Bank, agreed to pledge a minimum number of Class B general partner units held by the Company which are convertible into units of the Fund which would have value, at any time, equal to at least 125% of the amount outstanding on the Line of Credit.

In addition, the Company is required to comply with specified financial ratios and tests including a minimum adjusted current ratio, a minimum ratio of cash flow available for debt service to total debt service and maximum total funded debt to EBITDA.

The Partnership has an available line of credit in the amount of \$1.0 million with a 364 day term to finance its operations. This line of credit bears interest at the bank's prime rate, is due upon demand and is secured by a first ranking interest in all present and after-acquired property of the Partnership and the rights and interests of the Partnership in a general security agreement providing a first floating charge against assets of the Partnership guaranteed by the Fund. In addition, the Partnership is required to comply with specified financial ratios and tests including a maximum total funded debt to EBITDA ratio and a cash distribution test.

At December 31, 2009 and 2008, there were no amounts outstanding under the lines of credit.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. Long-term debt:

Long-term debt consists of

	2009	2008
Term loans:		
The Bank of Montreal term loan bearing interest at bankers' acceptance rates plus 2.00% per annum, with a maturity date of September 22, 2012	\$ 5,000	\$ 5,000
GE Canada Equipment Financing G.P. term loans bearing fixed rates of interest at 6.58%-6.95% per annum and due in 2013 secured by restaurant equipment	797	971
GE Canada Equipment Financing G.P. term loans bearing variable rates of interest at prime plus 2.75% per annum and due in 2012-2015 secured by restaurant equipment	603	747
The Bank of Montreal term loan bearing interest at combination of prime plus 0.50% and bankers' acceptance rates plus 2.00% per annum, with a maturity date of September 22, 2012	14,509	3,874
Other including capital leases:	290	428
	21,199	11,020
Current portion	554	539
	\$ 20,645	\$ 10,481

Certain debt agreements contain minimum levels for fixed charge coverage ratios. For the year ended December 31, 2009, the Company was not in compliance with this ratio related to \$1.4 million in GE Canada Equipment Financing G.P. ("GE") term loans. The covenant is determined annually and the Company has obtained a waiver from the GE as of December 31, 2009 through January 1, 2011 and therefore, has classified these term loans as long-term obligations.

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

The fair market value of the Company's long-term debt is \$21.0 million which was determined by completing a net present value calculation of long-term debt using current lending rates. The impact of a 1% increase in the prime rate would result in a decrease in the fair value of \$0.5 million.

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

Long-term debt:	
2010	\$ 340
2011	363
2012	19,918
2013	211
2014 and thereafter	77
	20,909
Capital lease obligations:	
2010	\$ 214
2011	54
2012	22
	290
Total	\$ 21,199

11. Notes payable:

	2009	2008
Loan from Boston Pizza Royalties Income Fund with interest payable monthly at 7.5% per annum, due July 17, 2042	\$ 24,000	\$ 24,000
Promissory note payable to the parent company, non-interest bearing and due on demand	3,809	6,253
	27,809	30,253
Current portion	3,809	6,253
	\$ 24,000	\$ 24,000

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

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

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:

	2009	2008
Earnings (loss) before income taxes	\$ 4,882	\$ (9,151)
Combined Canadian federal and provincial tax rates	31.0%	31.6%
	1,513	(2,889)
Increased (reduced) by:		
Permanent differences	295	452
Difference between statutory rate and refundable rate	(234)	554
Refundable tax charged to retained earnings	(193)	774
Change in statutory tax rates	1,157	46
Income tax expense (recovery)	\$ 2,538	\$ (1,063)

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

	2009	2008
Future income tax assets (liabilities):		
Long term receivables	\$ —	\$ 2,465
Goodwill and other intangibles	(3,197)	(890)
Deferred revenue	718	781
Deferred gain	30,239	29,724
Other	67	158
	27,827	32,238
Current future income tax assets	331	604
	\$ 27,496	\$ 31,634

13. Share capital:

Authorized:

- Unlimited Class A common shares
- Unlimited Class B common shares

	2009	2008
Issued:		
104,600,000 Class A common shares	\$ —	\$ —

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:

2010	2,156
2011	1,970
2012	1,345
2013	1,012
2014 and thereafter	4,473

15. Stock option plan:

On May 21, 2008, BPI established a stock option plan pursuant to which BPI may, from time to time, grant options to acquire up to 15,600,000 Class B Common shares of BPI ("Class B Shares") to directors, officers and employees of BPI or its subsidiaries. BPI initially granted options to acquire 5,840,000 Class B Shares to BPI's officers and senior employees (the "Granted Options"), of which options to acquire 3,852,000 Class B Shares remained outstanding as at December 31, 2009. The exercise price of each Granted Option is equal to the fair market value of one Class B Share at the date on which the option was granted, as determined by a valuation formula approved by BPI's board of directors. Each Granted Option may be exercised during a period not exceeding 10 years from the date granted. The Granted Options vest 20% per year for five years beginning on January 1, 2009. Holders of vested options under the stock option plan have the choice, subject to certain restrictions, of exercising their options to acquire Class B Shares at the corresponding option exercise price, or receiving a cash payment from BPI equivalent to the difference between the fair market value of the Class B Shares and the exercise price of the option.

The compensation cost attributable to stock-based awards to employees that call for settlement in cash or other assets at the option of the employee is recognized in operating expenses over the vesting period. These awards are treated as liability awards and are therefore measured using the intrinsic value of the options rather than the fair value. Changes in the intrinsic value of the stock option awards between the grant date and the measurement date result in a change in measurement of the liability and compensation cost. There was no impact on earnings in the year and no associated liability.

On January 1, 2009, 1,168,000 of the Granted Options vested. During the Year, no additional options to acquire Class B Shares were granted. During the Year, 1,988,000 Granted Options have been terminated or surrendered for cancellation, 356,000 of which were vested and 1,632,000 of which were un-vested. There was no impact to earnings during the Year.

The following table sets forth the changes in Granted Options during the Year:

	Number of Options	Weighted Average Exercise Price	Total Number of Vested Options	Total Number of Un-Vested Options
Balance				
January 1, 2009	5,840,000	\$1.00	1,168,000	4,672,000
Granted during the Period	Nil	N/A	N/A	N/A
Exercised during the Period	Nil	N/A	N/A	N/A
Cancelled during the Period	(1,988,000)	N/A	(356,000)	(1,632,000)
Balance December 31, 2009	3,852,000	\$1.00	812,000	3,040,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. Related party transactions:

The Company earned revenues of \$0.4 million (2008 – \$0.6 million) from a company under common control.

Included in administrative expenses and restaurant operating costs are management fees of \$3.2 million (2008 – \$3.1 million) to companies under common control. Additionally, included in management fees is \$0.6 million (2008 – \$0.7 million) paid to the Company's parent for services rendered.

The Company paid interest on a note payable to the Fund of \$1.8 million (2008 – \$1.8 million).

17. Comparative figures:

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

18. Supplementary cash flow information:

(a) Change in non-cash operating items:

	2009	2008
Accounts receivable	\$ (620)	\$ 237
Prepaid expenses	590	(905)
Accounts payable and accrued liabilities	(1,410)	650
Income taxes payable	(700)	(281)
Income taxes receivable	(299)	—
Deferred revenue	(1,297)	(666)
Other assets	106	(1,033)
Long-term liabilities	(120)	(1,331)
	\$ (3,750)	\$ (3,329)

(b) Supplementary information:

	2009	2008
Interest received	\$ 20	\$ 137
Interest paid	2,390	2,378
Income taxes paid	—	4,710
Non-cash transactions:		
Increase (decrease) in refundable dividend tax and future income taxes	193	(5,569)
Settlement of dividends payable through issuance of notes payable	—	6,090

19. Subsequent events:

(a) On January 1, 2010, adjustments to royalty payments and Additional Entitlement were made based on the actual performance of 23 net new restaurants added to the Royalty Pool on January 1, 2009. Based on these adjustments, the Company will receive its pro rata portion of the remaining Additional Entitlement, 15,728 Fund units.

(b) On January 1, 2010, 18 new Boston Pizza restaurants that opened during the period from January 1, 2009 to December 31, 2009 were added to the Royalty Pool while one restaurant that closed during the period was removed. The Franchise Sales of these 17 net new restaurants has been estimated at \$24.2 million. The total number of restaurants in the Royalty Pool has increased to 340. As a result of the contribution of the additional net sales to the Royalty Pool, and assuming 100% of the Additional Entitlement, The Company's Additional Entitlement is equivalent to 648,259 (2008 – 1,175,106) Fund units. The Company will also receive a proportionate increase in monthly distributions from the Partnership. Of the Additional Entitlement, 20% (2010 – 129,652 units; 2009 – 235,021 units), remain unissued and are not eligible for conversion to Fund units until January 1, 2011 (2009 units – January 1, 2010) based on the actual performance of the new stores.

(c) Subsequent to December 31, 2009, the Partnership reached an agreement with the Lender to establish an additional \$5.0 million credit facility for the purpose of funding purchases of Units under the Fund's normal course issuer bids (the "Supplementary NCIB Credit Facility"). The Supplementary NCIB Credit Facility will bear interest, at the Partnership's choice, at either: (a) variable rates, comprised of either or a combination of the bank's prime rate plus 1.50% per annum or bankers' acceptance rates plus 3.00%; or (b) fixed rates equal to the Lender's cost of funds plus 2.00% for the term selected; as selected by the Partnership, and has a maturity date of September 22, 2012. The key covenants under the Supplementary NCIB Credit Facility are the same as under the Partnership's current operating and term loans. Like the Partnership's current operating and term loans, the Supplementary NCIB Credit Facility will be secured by a first charge over the assets of the Partnership and will be guaranteed by the Fund and its other subsidiaries, some of whom have also granted security for their obligations under those guarantees. The establishment of the Supplementary NCIB Credit Facility is subject to formal documentation being completed in a form satisfactory to the Partnership and the Lender.

(d) On March 17, 2010, the Company exchanged Class B Partnership units for 1,350,000 Fund units. Following this exchange, the Company sold these Fund units to the public for gross proceeds of approximately \$16.1 million and recognized a loss on sale of approximately \$1.7 million net of transaction costs. Subsequent to the exchange and sale of Fund units, the Company holds exchangeable Partnership units equivalent to 2,513,441 Fund units, or 14.5% of the issued and outstanding units on a fullt diluted basis.

(e) On March 31, 2010, the Company declared \$14.2 million of dividends to its shareholders.

GLOSSARY AND INVESTOR INFORMATION

Boston Pizza Restaurants	The casual dining pizza and pasta restaurants operated by BPI, its affiliated entities, related parties or franchisees in Canada.
BP Rights	<p>(a) All rights of BPI in Canada, including all Canadian registered trademarks and pending Canadian trademark applications of BP, including but not limited to “Boston Pizza”, “BP & Design”, “BP’s Lounge”, “BP’s Bistro”, “Boston’s The Gourmet Pizza”, “Boston Pizza Quick Express”, “Boston Pizza Restaurant & Sports Bar”.</p> <p>(b) All rights of BPI in Canada in and to any unregistered trademarks used in the business of BPI and which contain the word “Boston” or “Boston’s” or the letters “BP” or the BP design.</p> <p>(c) All rights of BPI in Canada in any trade names confusingly similar to any of the trademarks outlined in the Fund’s AIF dated February 9, 2010.</p>
BPI	Boston Pizza International Inc.
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.
Franchise Sales	Franchise Sales is Gross Revenue after deducting revenue from the sale of liquor, beer, wine and tobacco and approved national discounts and excluding applicable sales and similar types.
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
Fund	Boston Pizza Royalties Income Fund.
Gross Sales / System Sales	Gross Revenue is (i) revenue of the corporate Boston Pizza Restaurants in Canada owned by BPI and (ii) revenue reported to BPI by franchised Boston Pizza Restaurants in Canada, without audit or other form of independent assistance in the case of both (i) and (ii).
IPO	Initial Public Offering — date July 17, 2002.
Non-Controlling Interest	BPI’s indirect interest in the Fund.
Partnership	Boston Pizza Royalties Limited Partnership.
Royalty Pool	In any period, those Boston Pizza Restaurants on which royalty equating to 4% of Franchise Sales is to be paid to the Fund.
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.
Unit	A trust unit of the Fund, each unit representing an equal undivided interest therein.
Unitholders	At the relevant time, the holder(s) of the Units.
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 the Units traded on the relevant Stock Exchange during such period divided by the total number of Units so traded.

UNITHOLDER INFORMATION

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Web: www.bpincomefund.com

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John L. Cowperthwaite

Corporate Director

William C. Brown

Corporate Director

W. Murray Sadler

Corporate Director

TRANSFER AGENT

Computershare Investor Services Inc.

STOCK EXCHANGE LISTING

Toronto Stock Exchange: BPF.UN

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LEGAL COUNSEL

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DIRECTORS OF BOSTON PIZZA GP INC. –

THE MANAGING GENERAL PARTNER OF BOSTON PIZZA

ROYALTIES LIMITED PARTNERSHIP

John L. Cowperthwaite

Director*

Corporate Director

William C. Brown

Director*

Corporate Director

W. Murray Sadler

Director*

Corporate Director

George C. Melville

Director

Chief Executive Officer

Mark Powell

Director

Chief Financial Officer

*Audit Committee and Governance Committee

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MANAGEMENT TEAM

Jim Treliving

Chairman & Owner

George C. Melville

Chairman & Owner

Mark Pacinda

President and Chief Operating Officer

Mark Powell

Chief Financial Officer

KEY MANAGEMENT



“For over 45 years, our guests have come to depend on Boston Pizza’s friendly service, wide variety of great food and attractive and comfortable restaurant environment. Our dedication to continually improving the guest experience has made us Canada’s number one casual dining brand with over 340 locations from coast-to-coast serving 40 million people each year.”

Jim Treiving

Chairman & Owner, Boston Pizza International Inc.



“In 2009, Boston Pizza continued its growth strategy by opening 18 new restaurants in Canada and renovating another 16 locations to the latest design standards. The steps we have taken to expand and strengthen the Boston Pizza brand will be a significant benefit as economic conditions improve going forward.”

George Melville

Chairman & Owner, Boston Pizza International Inc.

Director & Chief Executive Officer, Boston Pizza GP Inc.



“Boston Pizza reached several major milestones in 2009 including the opening of our 100th location in the province of Ontario, the launch of our new corporate website with online ordering capability and being named to the Platinum Club for “Canada’s 50 Best Managed Companies.” In addition, the Boston Pizza Foundation surpassed \$10 million in total funds raised and donated to deserving charities in Canada. We are very pleased with the progress and look forward to more significant achievements in the years ahead.”

Mark Pacinda

President & Chief Operating Officer,

Boston Pizza International Inc.

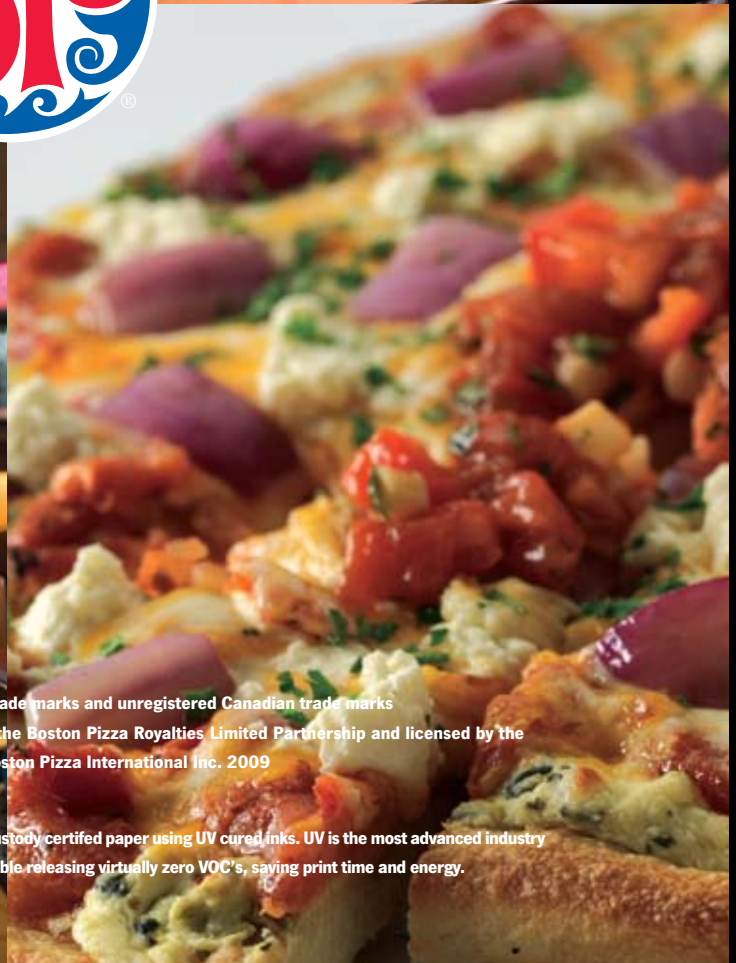


“Despite the challenging sales environment for restaurants in 2009, the Fund’s earnings per unit before non-cash items increased for both the fourth quarter and year compared to the same periods in 2008. This result is due to the buyback and cancellation of 2.2 million units under the Fund’s Normal Course Issuer Bid programs in 2008 and 2009, which provides an accretive benefit to unitholders of over 12 cents per unit annually.”

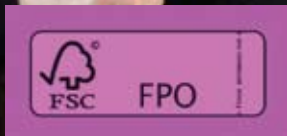
Mark Powell

Chief Financial Officer, Boston Pizza International Inc.

Director & Chief Financial Officer, Boston Pizza GP Inc.



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