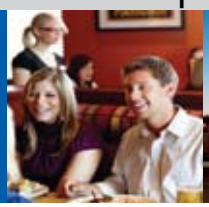

## Canada's #1 Casual Dining Brand launches "Finger Cooking"

# 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 offerings and our customer experience. Boston Pizza's success has allowed the concept to grow and prosper in new markets across Canada.

There are now 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.

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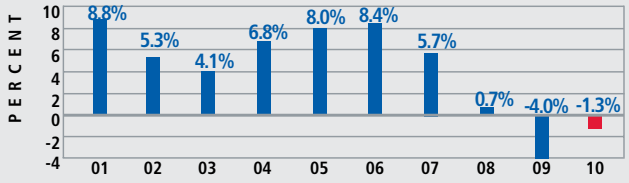
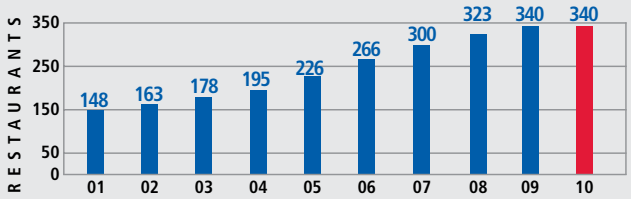
# 2010 Highlights

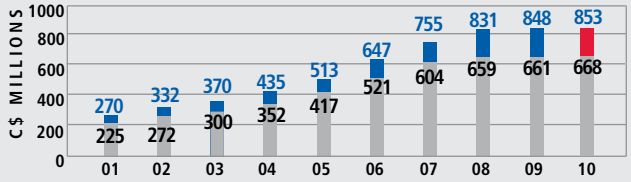
- Record system-wide gross sales of $853 million
- 6 new full-service Boston Pizza restaurants opened
- 15 existing restaurants renovated to the latest Boston Pizza design standards
- Number of restaurants in the Royalty Pool has more than doubled since the IPO in 2002 from 154 to 340 locations at January 1, 2011
- Boston Pizza Royalties Income Fund announced plan to maintain current trust structure beyond Dec. 31, 2010
- Boston Pizza International Inc. named to the Platinum Club of "Canada's 50 Best Managed Companies"




**In 2010 SSSG was negative 1.3%** A key driver for distribution growth of the Fund is SSSG. In the last 10 years Boston Pizza restaurants nationwide have averaged over 4.3% SSSG.

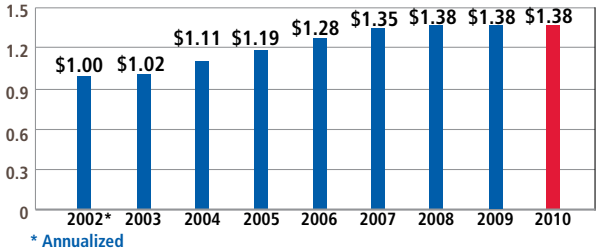



**Store Openings in 2010: 6** Total locations as at December 31, 2010: 340

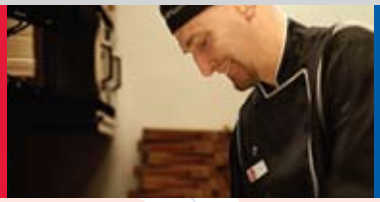



**System-wide Gross Sales & Franchise Sales** Compound annual growth of system-wide gross sales over the last 10 years: 14.1%; System-Wide Gross Sales in 2010: $853 million; Franchise Sales in 2010: $668 million.

## Distributions




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



# 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.

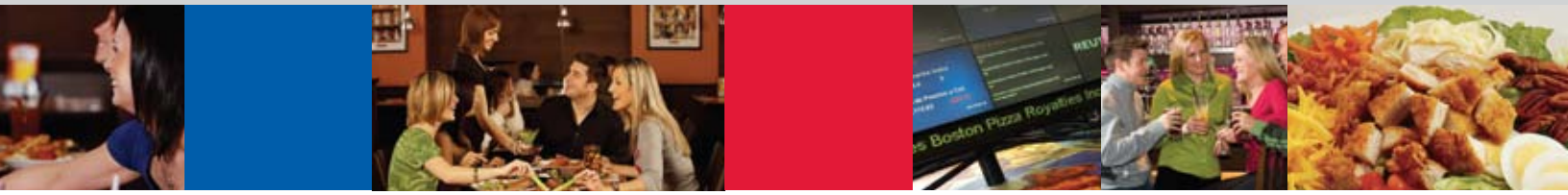
## A Successful Income Fund

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, 2010, together with distributions paid by the Partnership to BPI, had paid out 101 consecutive monthly distributions for total cash distributions of $153.0 million or $10.44 per Unit.

**Demonstrated Growth** — As at December 31, 2010, monthly cash distributions have been increased thirteen times since the IPO for a total increase of 38%.



# Growth

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

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

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

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 the U.S. under the banner "Boston's The Gourmet Pizza."

1999 – Jim Treliving and George Melville earn the Ernst & 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.

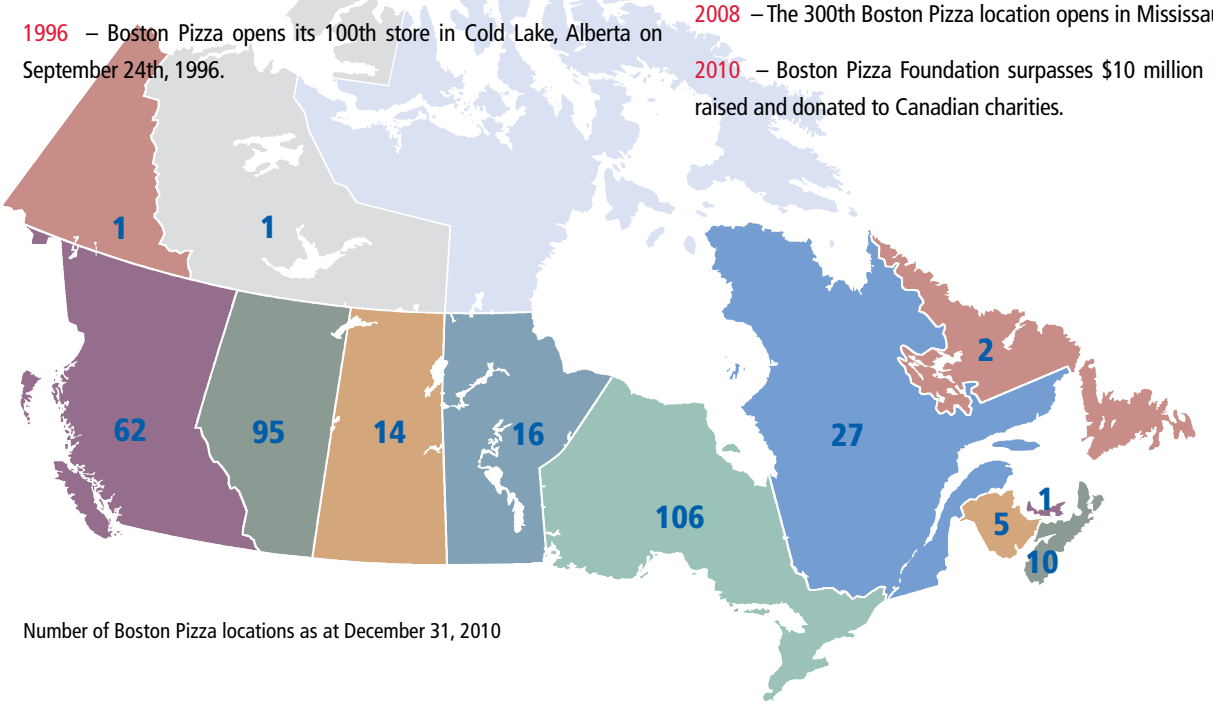
2004 – Boston Pizza celebrates its 40th anniversary and begins expansion into Quebec with the opening of a corporate office in Laval.

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

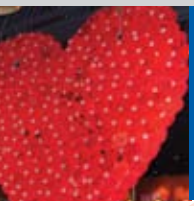
2006 – Boston Pizza opens its first locations in Newfoundland and P.E.I., making Boston Pizza truly coast-to-coast.

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.




Number of Boston Pizza locations as at December 31, 2010



BOSTON PIZZA FOUNDATION

# Community

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. Through this promotion, we were able to donate $50,000 to Haiti Earthquake relief on top of the $50,000 we had donated immediately after the earthquake.

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, national and global charities.

**January 21, 2010**
Boston Pizza Foundation, staff and franchisees donate $50,000 to Haiti relief

KidzCan Help.ca

**February 11, 2010**
Boston Pizza Foundation breaks through $10 million fundraising mark

**February 14, 2010**
Boston Pizza's annual heart-shaped pizza sale raises over $500,000 through participation, sponsorship and charity auctions

**June 14, 2010**
Boston Pizza Foundation Invitational golf tournament raises over $400,000 for international and national charities with Valentine's Day fundraiser

**June 16, 2010**
Boston Pizza Foundation announces $1 Million donation to Juvenile Diabetes Research Foundation's Boston Pizza Foundation Artificial Pancreas Fund

Kids Help Phone
CELEBRATING 20 YEARS

**July 12, 2010**
Boston Pizza Foundation and Jonathan Toews FORE Kids Golf Classic donates more than $100,000 for Children's Rehabilitation Foundation

JDRF

**August 15, 2010**
Boston Pizza Foundation announces a 5 year $100,000 partnership with the Canadian Museum of Human Rights in conjunction with the Enright Group of Boston Pizza stores

HEART & STROKE FOUNDATION

**November 1, 2010**
Boston Pizza's Kids Cards raise 'Dough' for children and families across Canada

**December 9, 2010**
Dragon Sighting: Jim Treliving visits Boston Pizza Vernon and Kelowna. Presents $10,000 to Cops for Kids

**December 14, 2010**
Boston Pizza raises $260,000 in 'dough' during the month of November through generous donations made by restaurant guests across the country in support of the Boston Pizza Foundation's BP Kids Card program

## Letter from the Chairman
## Boston Pizza Royalties Income Fund

On behalf of the Trustees, I am pleased to present the fourth quarter report for the Boston Pizza Royalties Income Fund (the "Fund"). This report covers the period from October 1, 2010 to December 31, 2010 (the "Period") and from January 1, 2010 to December 31, 2010 (the "Year"). These results are also available on SEDAR at www.sedar.com and 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.

### Overview

The Fund ended the Year on a positive note by posting record earnings before income taxes and dilution gains or losses[1] ("Earnings before non-cash items") per unit for both the Period and Year. In addition, sales momentum accelerated during the Period with royalty income rising 6.4% and same store sales growth ("SSSG") on a franchise sales basis increasing by 2.6% compared to the same period in 2009. These results continued a trend of sequentially improving SSSG results in each quarter during the Year and enabled the Fund to maintain monthly distributions to unitholders while increasing the cash balance of Boston Pizza Royalties Limited Partnership to $0.9 million from $0.4 million one year ago.

### Highlights

The Fund's Earnings before non-cash items for the Period and Year were $5.0 million or a record $0.346 per unit and $20.5 million or a record $1.412 per unit, respectively, compared to the same periods in 2009 during which Earnings before non-cash items[1] were $4.7 million or $0.329 per unit and $19.5 million or $1.347 per unit, respectively. The Fund's earnings per unit before income taxes and dilution gains or losses[1] increased by 5.2% for the Period and 4.8% for the Year compared to the same periods in 2009 as a result of the Fund's acquisition and cancellation of units pursuant to normal course issuer bids. The Fund's net earnings for the Period and Year were $5.0 million or $0.341 per unit and $20.2 million or a record $1.397 per unit, respectively, compared to the same periods in 2009 during which net earnings were $4.2 million or $0.294 per unit and $19.1 million or $1.325 per unit, respectively. Distributions declared for the Period and the Year were $6.7 million or $0.460 per unit and $20.1 million or $1.380 per unit, respectively, substantially unchanged from the same periods one year ago. Distributions for the Period and Year were funded entirely by cash flow from operations. No debt was incurred at any point during the Period or Year to fund distributions.

Same store sales growth ("SSSG") was positive 1.3% for the Period and negative 1.3% for the Year compared to negative 4.4% and negative 4.0% in the same periods one year ago. On a franchise sales basis, SSSG for the Period was positive 2.6% and negative 0.7% for the Year compared to negative 5.8% and negative 5.4% respectively in the same periods in 2009. Franchise sales of restaurants in the royalty pool were $166.2 million for the Period and $663.8 million for the Year, compared to $156.3 million and $644.1 million, respectively, in the same periods in 2009. Sales results for the Period were positively impacted by Boston Pizza's new "Finger Cooking" media campaign, which was well received by Boston Pizza guests and contributed to strong take out and delivery sales, partially offset by weaker sales in British Columbia as a result of the new Harmonized Sales Tax in that province which increased the amount of tax on restaurant meals from 5% to 12% effective July 1, 2010.

The Trustees of the Fund announced a cash distribution to unitholders of 8.4 cents per unit for January 2011. The distribution will be payable to unitholders of record at the close of business on February 21, 2011 and will be paid on February 28, 2011. The distribution of 8.4 cents per unit is approximately equal to the monthly distribution of 11.5 cents per unit that the Fund declared in 2010 less the rate of the specified investment flow-through tax that the Fund is liable to pay from and after January 1, 2011. The Fund periodically reviews distribution levels based on its policy of stable and sustainable distribution flow to unitholders.

[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.

## 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.

The Canadian Restaurant and Foodservices Association has forecast sales growth of 2.8% for the Canadian full-service restaurant sector in 2011. Boston Pizza International Inc.'s ("BPI") management agrees with this outlook for modest growth during 2011 and believes that 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 our guests. SSSG is the combined result of changes in guest traffic and changes in average guest cheque. BPI's strategies to drive higher guest traffic include a larger marketing budget versus the previous year along with a revised calendar of national and local store promotions. Increased average cheque levels will be achieved through a combination of menu design and annual re-pricing. In addition, BPI's franchise agreement requires that each Boston Pizza Restaurant undergo a complete store renovation every seven years and several renovations are already underway in 2011. Restaurants typically close for two to three weeks to complete the renovation and experience an incremental sales increase in the year following the re-opening.

Boston Pizza remains well positioned for future expansion as evidenced by the three new Boston Pizza restaurants that are currently under construction and scheduled to open in the first half of 2011. BPI's management believe that Boston Pizza will continue to strengthen its position as the number one casual dining brand in Canada by pursuing further restaurant development opportunities across the country.

On behalf of the Board of Trustees,

**John Cowperthwaite**, FCA
Chairman, Boston Pizza Royalties Income Fund

## Management's Discussion & Analysis

For the Period and the Year ended December 31, 2010

### 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, 2010. 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, 2010 to Dec 31, 2010** | Jan 1, 2009 to Dec 31, 2009 | Jan 1, 2008 to Dec 31, 2008 |
|---|---|---|---|
| Number of restaurants in Royalty Pool [2] | 334 | 322 | 298 |
| Franchise Sales [3] reported by restaurants in the Royalty Pool | 663,758 | 644,091 | 646,275 |
| Royalty Income – 4% of Franchise Sales of Restaurants | 26,550 | 25,764 | 25,851 |
| Administrative and interest expenses | 2,039 | 1,449 | 1,587 |
| Partnership earnings for the period before undernoted [4] | 24,511 | 24,315 | 24,264 |
| BPI's interest in the earnings of the Partnership | 5,835 | 6,627 | 5,902 |
| Equity income related to BPI royalties earned by the Fund | 18,676 | 17,688 | 18,362 |
| Net interest income | 1,790 | 1,783 | 1,794 |
| Earnings before undernoted [3 5] | 20,466 | 19,471 | 20,156 |
| Dilution gain (loss) | 319 | (326) | — |
| Future income tax expense | (540) | (1) | (428) |
| Net earnings | 20,245 | 19,144 | 19,728 |
| Earnings before undernoted per Fund unit [3 4] | 1.412 | 1.347 | 1.338 |
| Basic and diluted earnings per Fund unit [6] | 1.397 | 1.325 | 1.309 |
| Distributions declared per Fund unit | 1.380 | 1.380 | 1.380 |
| Same store sales growth (SSSG) | (1.3%) | (4.0%) | 0.7% |
| Number of restaurants opened during the period | 6 | 18 | 25 |
| Number of restaurants closed during the period | 6 | 1 | 2 |

| | Dec 31, 2010 | Dec 31, 2009 | Dec 31, 2008 |
|---|---|---|---|
| Total assets | 177,452 | 171,046 | 182,427 |
| Total liabilities | 5,526 | 5,157 | 5,327 |

[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] Number of restaurants in Royalty Pool excludes restaurants that permanently closed during the applicable period.

[3] Franchise sales is the basis on which the royalty is payable; it means the gross revenues of Boston Pizza Restaurants (as defined herein) in respectof 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.

[4] This is a non-GAAP financial measure that does not have a standardized meaning prescribed by GAAP (as defined herein) 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.

[5] Earnings before dilution gain (loss) and future income tax expense.

[6] 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 gain (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 gain (loss) and future income tax expense, please refer to the "Distributions" section of this Management's Discussion and Analysis.

| (in thousands of dollars – except restaurants and per unit items) | Q4 2010 | Q3 2010 | Q2 2010 | Q1 2010 |
|---|---|---|---|---|
| Number of restaurants in the Royalty Pool [2] | 334 | 335 | 338 | 340 |
| Franchise Sales reported by restaurants in the Royalty Pool | 166,181 | 171,151 | 165,972 | 160,455 |
| Royalty income – 4% of Franchise Sales | 6,647 | 6,846 | 6,639 | 6,418 |
| Administrative and interest expenses | (685) | (481) | (443) | (430) |
| Partnership earnings for the period before undernoted [3] | 5,962 | 6,365 | 6,196 | 5,988 |
| BPI's interest in the earnings of the Partnership | (1,365) | (1,428) | (1,393) | (1,649) |
| Equity income related to BPI royalties earned by the Fund | 4,597 | 4,937 | 4,803 | 4,339 |
| Net interest income | 450 | 448 | 448 | 444 |
| Earnings before undernoted [3 4] | 5,047 | 5,385 | 5,251 | 4,783 |
| Dilution gain | — | — | 56 | 263 |
| Future income tax expense | (80) | (80) | (70) | (310) |
| Net earnings | 4,967 | 5,305 | 5,237 | 4,736 |
| Earnings before undernoted per Fund unit [3 4] | 0.346 | 0.369 | 0.355 | 0.342 |
| Basic and diluted earnings per Fund unit [5] | 0.341 | 0.364 | 0.354 | 0.338 |
| Distributions declared per Fund unit | 0.460 | 0.345 | 0.345 | 0.230 |

| (in thousands of dollars – except restaurants and per unit items) | Q4 2009 | Q3 2009 | Q2 2009 | Q1 2009 |
|---|---|---|---|---|
| Number of restaurants in the Royalty Pool [2] | 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 | 447 | 450 | 451 | 436 |
| Earnings before undernoted [3 4] | 4,685 | 5,012 | 4,905 | 4,870 |
| Dilution gain (loss) | 37 | — | — | (364) |
| Future income tax (expense) recovery | (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 |

## OVERVIEW

This Management's Discussion and Analysis covers the three month period from October 1, 2010 to December 31, 2010 (the "**Period**"), the twelve month period from January 1, 2010 to December 31, 2010 ("**Year**") and is dated February 9, 2011.

The Fund is a limited purpose open-ended trust established in July 2002, and the units of the Fund (the "**Units**") trade on the Toronto Stock Exchange ("**TSX**") under the symbol BPF.UN. The Fund was 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**" [7]) 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**"). As of December 31, 2010, there were 334 restaurants in the Royalty Pool.

7 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).

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 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.

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 net 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 for Adjustment Dates occurring on or before January 1, 2011 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 (see Subsequent Events – "Amendment to Roll-in Mechanism" for details on how Additional Entitlements are calculated for Adjustment Dates occurring after January 1, 2011). 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 2010 results are not directly comparable with the 2009 results due to the fact that there were 334 restaurants in the Royalty Pool for the Period2 and 322 restaurants in the Royalty Pool for the same period in 2009.*[2]

## 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 positive 1.3% for the Period and negative 1.3% for the Year, compared to negative 4.4% SSSG reported in the fourth quarter of 2009 and negative 4.0% for 2009. SSSG is based on gross sales, including approved national

promotions and discounts, of Boston Pizza Restaurants that have been open 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 positive 2.6% (Q4 2009 – negative 5.8%) and negative 0.7% for the Year (2009 – negative 5.4%). SSSG results for the Period were positively impacted by Boston Pizza's new "Finger Cooking" media campaign, which was well received by Boston Pizza guests and contributed to strong take out and delivery sales offsetting weaker sales in British Columbia as a result of the new Harmonized Sales Tax in that province which increased the amount of tax on restaurant meals from 5% to 12% effective July 1, 2010. Over the past decade, ended December 31, 2010, annual SSSG has averaged positive 4.3%, a figure that compares favourably against the Canadian restaurant industry as a whole.

**New Store Openings, Renovations and Relocations**

During the Period, two new Boston Pizza Restaurants opened and one Boston Pizza Restaurant permanently closed. A total of six new Boston Pizza Restaurants have opened during the Year and six Boston Pizza Restaurants have closed during the Year. Historically, Boston Pizza has a very low closure rate and has permanently closed only ten restaurants since the inception of the Fund in 2002. The number of permanent closures experienced in 2010 is higher than in recent years due to the weaker general economic conditions. Unitholders are reminded that permanent restaurant closures are deducted from new store openings in the roll-in calculation (to determine net additional royalties) for the Fund's Royalty Pool. As well during the Period, five Boston Pizza Restaurants were renovated, bringing the total to 15 completed renovations for the Year. Restaurants typically close for two to three weeks to complete the renovation and experience an incremental sales increase in the year following the re-opening. The total number of restaurants opened as of February 9, 2011 is 340, all 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 frames.

**Revenues**

Royalty income earned by the Partnership was $6.6 million for the Period compared to $6.3 million for the same period in 2009 and $26.6 million for the Year compared to $25.8 million in 2009. Royalty income was based on the Royalty Pool of 334 Boston Pizza Restaurants reporting Franchise Sales of $166.2 million for the Period and $663.8 million for the Year. In the fourth quarter of 2009, royalty income was based on the Royalty Pool of 322 Boston Pizza Restaurants reporting Franchise Sales of $156.3 million and $644.1 million in 2009. Increases in royalty income earned by the Partnership and Franchise Sales of Boston Pizza Restaurants in the Royalty Pool during the Period and Year compared to 2009 are as a result of the positive impact made by the addition of 17 net new restaurants in the Royalty Pool on January 1, 2010 offsetting weaker Franchise Sales per restaurant for the Year.

Net interest income earned by the Fund was $0.4 million for the Period (Q42009 – $0.4 million) and $1.8 million for the Year (2009 – $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 $0.7 million consisting of $0.3 million for interest expense on the Term Loan (defined below), NCIB Credit Facility (defined below), Supplementary NCIB Credit Facility (defined below) and $0.4 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 2009, Partnership expenses were $0.4 million consisting of $0.1 million for interest expense and $0.3 million for general and administrative expenses. During the Year, Partnership expenses were $2.0 million consisting of $0.8 million for interest expense on the Term Loan, NCIB Credit Facility and Supplementary NCIB Credit Facility and $1.2 million for general and administrative expenses. For the same period for the year 2009, Partnership expenses 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. The $0.3 million increase in the Partnership's interest expense during the Year is a result of funds borrowed to finance the Fund's purchase and cancellation of Units under the 2009 NCIB. The $0.3 million increase in general and administrative expenses during the Year is mainly due to costs related to the Fund's Special Meeting (defined below) and consulting costs related to the Fund's adoption of IFRS (defined below).

The Fund did not recognize a dilution gain or loss during the Period (Q42009 – nil) and recognized a dilution gain of $0.3 million for the Year (2009 – loss of $0.3 million). 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 to the Fund results in a decrease in the Fund's entitlement to 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. The dilution gain or loss is a non-cash item that does not impact the Fund's cash flow for the Period or Year.

**Distributions**

The Fund's earnings before dilution gains and future income taxes[3] during the Period were $5.0 million or $0.346 per Unit, with the Fund declaring distributions of $6.7 million or $0.460 per Unit. During the same period in 2009, earnings before dilution loss and future income taxes[3] were $4.7 million or $0.329 per Unit with the Fund declaring distributions of $6.5 million or $0.460 per Unit. The total dollar value of distributions declared during the Period was substantially unchanged from the same period a year ago as the Units cancelled under the 2009 NCIB (defined below) were offset by the additional Units issued by the Secondary Offering (defined below). The Fund's earnings for the Year before dilution gain and future income taxes[3] were $20.5 million or $1.412 per Unit with the Fund declaring distributions of $20.1 million or $1.380 per Unit. For 2009, earnings before dilution loss and future income taxes[3] were $19.5 million or $1.347 per Unit with the Fund declaring distributions of $19.8 million or $1.380 per Unit.

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, 2010, the Fund, together with distributions paid by the Partnership to BPI, paid out 101 consecutive monthly distributions for total cash distributions of $153.0 million or $10.44 per Unit.

Distributions for the Year were as follows:

| PERIOD | PAYMENT DATE | AMOUNT/UNIT |
|---|---|---|
| January 1 – 31, 2010 | February 26, 2010 | 11.50¢ |
| February 1 – 28, 2010 | March 31, 2010 | 11.50¢ |
| March 1 – 31, 2010 | April 30, 2010 | 11.50¢ |
| April 1 – 30, 2010 | May 31, 2010 | 11.50¢ |
| May 1 – 31, 2010 | June 30, 2010 | 11.50¢ |
| June 1 – 30, 2010 | July 30, 2010 | 11.50¢ |
| July 1 – 31, 2010 | August 31, 2010 | 11.50¢ |
| August 1 – 31, 2010 | September 30, 2010 | 11.50¢ |
| September 1 – 30, 2010 | October 29, 2010 | 11.50¢ |
| October 1 – 31, 2010 | November 30, 2010 | 11.50¢ |
| November 1 – 30, 2010 | December 31, 2010 | 11.50¢ |
| December 1 – 31, 2010 | January 31, 2011* | 11.50¢ |

* Paid subsequent to the Period.

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

**Normal Course Issuer Bids**

On September 21, 2009, the Fund announced that it had received TSX approval of a Notice of Intention to Make a Normal Course Issuer Bid (the "**2009 NCIB**") through the facilities of the TSX which permited 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. Purchases under the 2009 NCIB commenced on October 1, 2009 and the 2009 NCIB expired on September 30, 2010. The Fund acquired 1,139,370 Units at an average price of $11.93 per Unit. Units acquired under the 2009 NCIB were cancelled.

The Fund financed purchases under the 2009 NCIB by fully drawing on the $20.0 million credit facility (the "**NCIB Credit Facility**") and the $5.0 million credit facility (the "**Supplementary NCIB Credit Facility**") previously established by the Partnership with a Canadian Chartered Bank (the "**Lender**"). The Supplementary NCIB Credit Facility bears 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. As at December 31, 2010 and February 9, 2011, both the NCIB Credit Facility and the Supplementary NCIB Credit Facility were fully drawn at variable bankers' acceptance rates.

As a result of the repurchase and cancellation of 2,475,524 Fund units under the Fund's previously established normal course issuer bid and 2009 NCIB (the "**NCIBs**"), there are savings for the Fund in overall monthly cash distributions to Unitholders that are partially offset by interest expense. At an annualized distribution rate of $1.38 per Unit, which was the annualized distribution rate in effect prior to the Fund becoming liable to pay SIFT Tax (defined below), the 2,475,524 Units acquired under the NCIBs would represent distribution savings of $3.4 million per year. At the combined prevailing interest rate on the NCIB Credit Facility and Supplementary NCIB Credit Facility of approximately 3.4%, the interest cost would be $0.9 million per year. The difference of $2.5 million would represent an accretive benefit to existing Unitholders of $0.148 per unit per year as a direct result of the NCIBs.

At an annualized distribution rate of $1.01 per Unit, which is the annualized distribution rate using the rate of the monthly distribution approved by the trustees of the Fund (the "**Trustees**") on February 9, 2011, the 2,475,524 Units

acquired under the NCIBs represent distribution savings of $2.5 million per year. At the 3.4% combined interest rate indicated above, interest costs would be $0.6 million on an after-tax basis. The difference of $1.9 million represents an accretive benefit to existing Unitholders of $0.108 per unit per year as a direct result of the NCIBs.

The accretive benefits from the NCIBs have assisted the Fund in maintaining the current level of monthly distributions to Unitholders despite generally weaker economic conditions.

### New Restaurants Added to the Royalty Pool

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 while 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 was $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 valued at a 7.5% discount. The estimated 4% royalty revenue the Fund was to receive in 2010 from these additional 17 net new restaurants was $1.0 million. The royalty revenue for the purposes of calculating the Additional Entitlements, therefore, was $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 as of January 1, 2010. 129,652 Units, 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 2010 was known. BPI received an increase in monthly distributions based on 100% of the Additional Entitlements, subject to a reconciliation of the distributions paid to BPI in respect of these Additional Entitlements that occurred once the actual performance of these new Royalty Pool restaurants for 2010 was known. See "Subsequent Events".

In January 2010, an audit of the royalty revenues of the 23 net new 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 new 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 new restaurants. BPI received the right to acquire only 80% of the Additional Entitlements at the Adjustment Date for the year 2009. Following the audit, BPI received the right to acquire 15,728 Additional Entitlements.

### Secondary Offering

On March 17, 2010, BPI exchanged 5,531,778 Class B general partner units of the Partnership (the "**Class B Units**") for 1,350,000 Units, which were then sold as part of a secondary offering pursuant to a Short Form Prospectus filed by the Fund on March 8, 2010 (the "**Secondary Offering**").

### Subsequent Events

BOSTON PIZZA RESTAURANTS ADDED TO ROYALTY POOL ON JANUARY 1, 2011

On January 1, 2011, six new Boston Pizza Restaurants that opened across Canada between January 1, 2010 and December 31, 2010 were added to the Royalty Pool and the six restaurants that permanently closed during 2010 were removed from the Royalty Pool. The estimated annual gross franchise revenue for the six new Boston Pizza Restaurants that opened across Canada between January 1, 2010 and December 31, 2010 less the revenue from the six permanent closures that occurred during 2010 is $2.2 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 valued at a 7.5% discount. The estimated 4% royalty revenue the Fund will receive in 2011 from these additional six new restaurants, less revenue from the six permanent closures, is $0.1 million. The royalty revenue for the purposes of calculating the Additional Entitlements, therefore, is $0.1 million or 92.5% of $0.1 million. In return for adding the royalty revenue from these six new restaurants, less revenue from the six permanent closures, to the Royalty Pool, BPI received the right to acquire an additional 46,387 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 46,387 Additional Entitlements represented 0.3% of the total outstanding Units on a fully diluted basis on January 1, 2011. 11,597 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 2011 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 2011 is known.

AUDIT OF BOSTON PIZZA RESTAURANTS ADDED TO ROYALTY POOL ON JANUARY 1, 2010

In January 2011, an audit of the royalty revenues of the 17 net new restaurants that were added to the Royalty Pool on January 1, 2010 was completed. The purpose of this audit was to compare actual royalty revenue from these 17 net new restaurants to the estimated amount of royalty revenue the Fund expected to receive. The original royalty revenue the Fund expected to receive was $1.0 million and the actual royalty revenue that the Fund received was slightly greater. As a result, the Partnership made a nominal payment to BPI to reconcile distributions payable on the full number of Additional Entitlements. BPI received the right to acquire only 80% of the Additional Entitlements at the Adjustment Date in 2010. Following the audit, BPI received the right to acquire 164,033 Additional Entitlements.

AMENDMENT TO ROLL-IN MECHANISM

On January 2, 2011, the mechanism through which new Boston Pizza Restaurants are added to the Royalty Pool on each Adjustment Date was amended, in the manner described below, to adjust for the impact that the SIFT Tax (defined below) will have on the economics of such mechanism, commencing with the roll-in of new Boston Pizza Restaurants that will occur on January 1, 2012 and on each Adjustment Date thereafter (the "**Amendment**").

(i) Background to Amendment

In 2007, the Federal Government of Canada amended the *Income Tax Act* (Canada) (the "**Tax Act**") to impose an entity level specified investment flow-through tax (the "**SIFT Tax**") on Canadian publicly listed income trusts effective January 1, 2011. As a result of the SIFT Tax, the Fund will pay tax at a rate approximately equal to the rate applicable to income earned by a Canadian public corporation, and is prevented from deducting trust distributions when calculating taxable income. The SIFT Tax will reduce the amount of cash available for distribution to the Unitholders.

On August 12, 2010, the Trustees determined, having considered a number of alternatives to maximize Unitholder value in the face of the imposition of the SIFT Tax on the Fund, that the Fund would retain its current structure following January 1, 2011. Having made that determination, the Trustees of the Fund and BPI then commenced an analysis of the structure of the Fund, its subsidiary entities and material agreements, and determined that the imposition of the SIFT Tax would alter the economics of the roll-in of new Boston Pizza Restaurants to the Royalty Pool for the roll-ins that occur on January 1, 2012 and each Adjustment Date thereafter.

As a result of such analysis, the Fund convened a special general meeting of Unitholders on December 7, 2010 (the "**Special Meeting**") at which the Amendment, among other things, was voted on and approved by Unitholders.

(ii) Details of Amendment

On January 2, 2011, the limited partnership agreement governing the Partnership was amended by altering the basis for determining the Additional Entitlements that BPI receives for adding new Boston Pizza Restaurants to the Royalty Pool of the Partnership to take into account the reduced benefit that additional royalty revenues to the Partnership will have on the Fund and the Unitholders as a result of the SIFT Tax. The percentage reduction is an estimate of the effective entity level tax rate (determined using the total income taxes paid by the Fund during the fiscal year divided by the total cash received by the Fund during that fiscal year) of the Fund for the upcoming year (i.e. for the roll-in of January 1, 2012, there will be an estimate of the effective entity level tax rate of the Fund for the year ended December 31, 2012).

The reduction in Additional Entitlements to BPI adjusted the economics of the roll-in mechanism, following the imposition of the SIFT Tax, to the economics that existed between the parties prior to the imposition of the SIFT Tax. The roll-in mechanism was designed to compensate BPI for the new royalties payable to the Partnership as a result of the addition of the new Boston Pizza Restaurants to the Royalty Pool, but still result in accretion to Unitholders and the Fund. The Amendment adjusts the roll-in mechanism such that the addition of new Boston Pizza Restaurants to the Royalty Pool in the future will continue to be accretive to the Fund and Unitholders.

More detailed particulars of the Amendment are set forth in the notice of meeting and information circular for the Special Meeting, a copy of which was filed on SEDAR on November 5, 2010 and is available at www.sedar.com and www.bpincomefund.com.

### Units Outstanding

The table below sets forth a summary of the outstanding Units. BPI owns 100% of 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. References 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, 2010 | 14,570,644 | 14,570,644 |
| BPI Additional Entitlements – Outstanding as of December 31, 2010 | 2,513,441 | 2,513,441 |
| BPI Additional Entitlements – Holdback as of December 31, 2010 | N/A | 129,652 (1) |
| Number of Fully Diluted Units as of **December 31, 2010** | 17,084,085 | 17,213,737 |
| BPI Total Ownership as of December 31, 2010 | 14.7% | 15.4% |
| Issued and Outstanding Units as of February 9, 2011 | 14,570,644 | 14,570,644 |
| BPI Additional Entitlements – Outstanding as of December 31, 2010 | 2,513,441 | 2,513,441 |
| BPI Additional Entitlements – Issued in respect of 2010 after the audit | 164,033 | 164,033 (2) |
| BPI Additional Entitlements – Issued & Outstanding as of January 1, 2011 (zero net new Restaurants added to Royalty Pool) | 46,387 | 46,387 (3) |
| BPI Additional Entitlements – Holdback as of January 1, 2011 (zero net new Restaurants added to Royalty Pool) | N/A | 11,597 (4) |
| Number of Fully Diluted Units as of **February 9, 2011** | 17,294,505 | 17,306,102 |
| BPI Total Ownership as of February 9, 2011 | 15.7% | 15.8% |

(1) Additional Entitlements from the 17 net new restaurants added to Royalty Pool on January 1, 2010 determined in 2011, prior to the audit of the 17 net new restaurants.
(2) Additional Entitlements from the 17 net new restaurants added to Royalty Pool on January 1, 2010 determined in 2011, once audited results of the 17 net new restaurants were known.
(3) Issued effective January 1, 2011.
(4) Holdback of Additional Entitlements from zero net new restaurants added to Royalty Pool on January 1, 2011. Actual number of Additional Entitlements will be determined in early 2012, effective January 1, 2011, once audited results of the zero 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, 2011, BPI was entitled to 2,723,861 votes, representing 15.7% 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 to in respect of its Special Voting Units is adjusted annually to reflect any additional Boston Pizza Restaurants that were added to the Royalty Pool.

## TAX TREATMENT OF DISTRIBUTIONS

Of the $1.380 in distributions declared per Unit during the Year, 4.5% or $0.0624 per Unit represents a tax deferred return of capital and 95.5% or $1.3176 per Unit is taxable as income from property (other than dividends).

## LIQUIDITY & CAPITAL RESOURCES

The Fund's distribution policy is to distribute the total amount of cash received by the Fund from the Trust on the Trust Units (defined below) and the Trust Notes (defined below) and from BPI on the BP Loan (defined below), less the sum of: (a) administrative expenses and other obligations of the Fund; (b) amounts which may be paid by the Fund in connection with any cash redemptions of Units; (c) any interest expense incurred by the Fund; and (d) reasonable reserves established by the Trustees in their sole discretion, including, without limitation, reserves established after January 1, 2011 to pay SIFT Tax, in order to maximize returns to Unitholders. In light of seasonal variations that are inherent to the restaurant industry, the Fund's policy is to make equal distribution payments to Unitholders on a monthly basis in order to smooth out these fluctuations. Any further change in distributions will be implemented in such a manner so that the continuity of uniform monthly distributions is maintained,

while making provisions for working capital due to seasonal variations of Boston Pizza Restaurant sales. It is expected that future distributions will continue to be funded entirely by cash flows from operations. The Fund 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 2011.

As of December 31, 2010, working capital of the Fund taken together with working capital of the Partnership totalled $1.0 million (2009 – $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 loan (the "**Term Loan**"), the $20.0 million NCIB Credit Facility and the $5.0 million Supplementary NCIB Credit Facility. As of December 31, 2010, no amount was drawn from the Operating Loan while the Term Loan, NCIB Credit Facility and the Supplementary NCIB Credit Facility were fully drawn.

The credit agreement (which covers the Operating Loan, Term Loan, NCIB Credit Facility and Supplementary NCIB Credit Facility) among the Partnership, BPGP, the Fund, the Trust, Holdings LP, Holdings GP and the Lender dated September 22, 2008, as amended February 9, 2010 (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. For further details, see the section "Description of the Partnership – Term Loan, Operating Loan, NCIB Loan and Supplementary NCIB Loan" in the Fund's annual information form for the year ended December 31, 2010. A copy of the Credit Agreement is available at www.sedar.com.

Cash Flow from Operating Activities:
During the Period, the Fund generated $5.0 million in cash from operating activities and $20.0 million during the Year compared to $4.9 million during the fourth quarter of 2009 and $19.9 million for 2009.

Cash Flow from Investing Activities:
During the Period, no cash was generated from investing activities and $10.5 million was generated during the Year compared to $3.1 million in cash generated for the fourth quarter in 2009 and $10.7 million for 2009. The $3.1 million generated in the fourth quarter of 2009 relates to the Partnership returning capital to the Fund in connection with the 2009 NCIB. The 2009 NCIB expired in the third quarter of 2010.

Cash Flow used in Financing Activities:
Financing activities used $5.0 million in cash during the Period to pay distributions to Unitholders. During the fourth quarter of 2009, financing activities used $8.0 million of which $4.9 million was used to pay distributions to Unitholders and $3.1 million to purchase Units under the 2009 NCIB. Financing activities used $30.5 million in cash during the Year to pay distributions to Unitholders of $20.0 million and $10.5 million to purchase Units under the 2009 NCIB. For 2009, financing activities also used $30.5 million in cash to pay distributions to Unitholders of $19.9 million and $10.6 million to purchase Units under the NCIBs. Cash used to pay distributions was relatively unchanged for the Period and Year compared to the same periods for 2009 as Units purchased and cancelled were offset by the Fund issuing 1,350,000 Units in March 2010 in connection with the Secondary Offering.

## DISCLOSURE CONTROLS AND PROCEDURES

The Chief Executive Officer ("**CEO**") and the Chief Financial Officer ("**CFO**") of BPGP, managing general partner of the Partnership, administrator of the Fund have designed or caused to be designed under their supervision disclosure controls and procedures to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the CEO and CFO, on a timely basis, particularly during the period in which the annual filings are being prepared, so that appropriate decisions can be made regarding public disclosure.

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

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 control 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 control over financial reporting was effective as at December 31, 2010.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

During the year ended December 31, 2010, 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.

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 the 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.

### Future Accounting Policies

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("**IFRS**")

The Canadian Accounting Standards Board announced in February 2008 that publicly accountable enterprises will be required to adopt IFRS in place of GAAP for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. The Fund's transition from GAAP to IFRS will take place in the first quarter of 2011 at which time the Fund will report both the current and comparative financial information using IFRS.

The Fund's IFRS transition project consists of three phases:

- Preliminary diagnostic review,
- Detailed assessment, and
- Policy design and implementation.

The following summarizes the key activities, milestones and progress to date:

| Key Activity | Milestones | Progress at December 31, 2010 |
|---|---|---|
| Project Management:<br>• Selection and training of internal project team.<br>• Ensure appropriate training for project team members.<br>• Audit committee engagement.<br>• Engagement of external consultants.<br>• On-going communication on project status to external stakeholders. | • Project team in place by beginning of fiscal 2009.<br>• Ensure appropriate training to key members is provided on an ongoing basis.<br>• Update audit committee on progress on a quarterly basis.<br>• Have external consultants in place during 2009 to assist in the conversion process.<br>• Communication to external stakeholders on a quarterly basis. | • Project team assembled at end of fiscal 2008.<br>• Key members of team have and continue to undertake IFRS related training.<br>• Audit committee updated on progress during quarterly meetings.<br>• Engaged external consultant during 2009 to assist in the process.<br>• Communication to external stakeholders done quarterly through Management's Discussion and Analysis and quarterly disclosures. |
| Preparation / Accounting Policies:<br>• Identification of differences between GAAP and IFRS accounting policies applicable to the Fund.<br>• Selection of the Fund's IFRS 1 optional exemptions and IFRS accounting policies.<br>• Quantification of impact of policy choices on 2010 financial statements. | • Identify and summarize significant differences between current GAAP accounting policies and IFRS during 2009.<br>• Selection of accounting policies and preparation of Q1 2010 comparatives by mid 2010. | • During 2009 a preliminary diagnostic review was completed.<br>• Draft Q1 2010 comparative statements and notes completed and under review.<br>• Selection of policy choices and quantification is ongoing. |
| Information Technology:<br>• Ensure that the appropriate system is in place to support the new IFRS accounting policies and the compilation of the related data. | • System should be in place to facilitate parallel process of 2010 accounts by Q4 2010. | • Process is largely in place and will be amended as required. |
| Control Environment:<br>Internal Controls over Financial Reporting ("**ICFR**"):<br>• Identify, assess, and implement changes to the ICFR based on the design and effectiveness implications that the new accounting policies will have. Ensure all changes to systems and processes are fully documented. | • Determine impact of new policy selections on ICFR and DC&P and update CEO/CFO certification process by Q4 2010. | • Key accounting policy differences have been identified.<br>• Impact on ICFR and DC&P is currently being investigated and discussed. |
| Disclosure Controls and Procedures ("**DC&P**"):<br>• Identify and assess impact of new accounting policies on DC&P.<br>• Ensure that all investor communications are IFRS compliant. | | |

**Preliminary Diagnostic Review:**

In 2009, the Fund, with the assistance of its external consultant, completed the preliminary diagnostic review, which involved a high level review of the major differences between current GAAP and IFRS. The major differences identified were:

- Basis of consolidation of the Fund's interest in the Partnership – under GAAP, the Partnership was determined to be a Variable Interest Entity and is currently consolidated with BPI. Under IFRS, consolidation is based on "control" which is the power to govern the financial and operating policies of an entity to obtain benefits from its activities.
- Classification of Unitholders' equity – the Units are classified as equity under GAAP. However under IFRS, an instrument is classified as a financial liability if it contains a contractual obligation to transfer cash or other financial assets. See "Detailed Assessment" below for further analysis.
- Impairment of assets – the Fund accounts for its investment in the Partnership using the equity method. Under GAAP, an impairment test is conducted at least annually. Value is determined under IFRS as greater of value in use or fair value less costs to sell, which is different than GAAP. Under IFRS, an impairment test of the investment is required at the transition date with any impairment recorded in retained earnings and annually thereafter. If an indicator of impairment exists, an analysis under IFRS will need to be completed. Under IFRS, impairment losses may be reversed and any impairments reversed or recorded require significant additional disclosure.
- Method of calculation for future income taxes – there are future income tax assets and liabilities that are accounted for under IFRS but not recognized under GAAP and vice versa. The Fund is currently investigating how these differences will impact its future tax calculations.

**Detailed Assessment:**

In 2010, the Fund worked with its external consultant on a detailed assessment of IFRS with the aim of resolving issues and making appropriate accounting policy choices. This detailed assessment involved a detailed analysis of differences between IFRS and GAAP and the associated impacts on the Fund's financial reporting and accounting policies, internal controls over financial reporting and disclosure, and information technology and systems. The following is a summary of the key issues resulting from the detailed analysis:

- Basis of consolidation of the Fund's interest in the Partnership – It has been determined that under IFRS, the Fund will consolidate the accounts of the Partnership rather than account for the Fund's investment in the Partnership using the equity method. The Partnership's significant assets include cash, royalties receivable from BPI, and the BP Rights, while its significant liabilities include long-term debt. See note 8 of the Fund's consolidated financial statements for the year ended December 31, 2010 for a summarized balance sheet of the Partnership. The Fund's consolidated statements of earnings and comprehensive income under IFRS will no longer include equity income from the Partnership but rather the actual income and expenses of the Partnership, adjusted for any minority interest in the Partnership's earnings. The Partnership's earnings are largely comprised of royalty revenue earned from the BP Rights less administrative and interest expenses.
- Classification of Unitholders' equity – As noted above above, under IFRS, an instrument is classified as a financial liability if it contains a contractual obligation to transfer cash or other financial assets. During the Period, the Trustees of the Fund determined that the Units likely would be classified as a financial liability under IFRS as the Fund's declaration of trust contained a mandatory requirement to distribute to Unitholders no less than all of the Fund's taxable income and all of the Fund's net realized capital gains in each year. The Trustees of the Fund further determined that it would be undesirable for Units to be classified as a financial liability under IFRS. As a result, the Fund convened the Special Meeting on December 7, 2010 at which Unitholders approved, among other things, an amendment to the Fund's declaration of trust to remove the Fund's mandatory requirement to distribute to Unitholders no less than all of the Fund's taxable income and all of the Fund's net realized capital gains in each year. More detailed particulars of this amendment are set forth in the notice of meeting and information circular for the Special Meeting, a copy of which is available on www.sedar.com and www.bpincomefund.com. As a result of this amendment, the Unit's and distributions paid on the Units will, under IFRS, be presented as equity from and after December 7, 2010; however, comparative figures for the periods prior to December 7, 2010 will present the Units and distributions paid on the Units as a financial liability and interest expense, respectively. At the Special Meeting, Unitholders also approved an amendment to the Fund's declaration of trust that permits the Trustees of the Fund to make future amendments to the Fund's declaration of trust without Unitholder approval that are, in the opinion of the Trustees, necessary or desirable as a result of changes in accounting standards.

- Impairment of assets – Under IFRS, the carrying value of the Fund's assets will need to be assessed on each reporting date to determine if there are any indicators of impairment. Under IFRS, the Fund's assets, on a consolidated basis, will include the Fund's $24 million note receivable from BPI and the Partnership's BP Rights. Impairment exists if the carrying value of an asset exceeds its recoverable amount. If there are any indicators of impairment, the Fund will be required to make a formal estimate of the recoverable amount and the carrying value of the asset will be reduced to the determined amount with the loss recognized in the statement of profit of loss. Impairment losses may be reversed under IFRS and any impairment adjustments require significant disclosure.

**Policy Design and Implementation:**

The Fund is currently in the policy design and implementation phase of its transition to IFRS. In the fourth quarter of 2010, the Fund completed a draft set of IFRS-compliant financial statements and notes for presentation to the Fund's Trustees. With the assistance of the Fund's external consultant, these statements were prepared based on the IFRS accounting standards in place at the time, however, there are minor issues outstanding that may impact the Fund's IFRS financial statements.

As the IFRS transition project nears completion, the Fund will continue to report on the status of its plan including further information on accounting policy changes, if any, and any impacts on the Fund's IFRS financial statements. The transition to IFRS is not expected to have any impact on the Fund's operations or cash flows and the Fund's goal is to make policy choices that are IFRS-compliant and also provide the most meaningful information to the Fund's financial statement readers.

## INCOME TAXES

On January 1, 2011, the Fund became subject to the SIFT Tax. The payment of the SIFT Tax will reduce the cash flow of the Fund, thereby reducing the amount available for distributions to Unitholders. The SIFT Tax also recharacterizes such distributions as eligible dividends received from a taxable Canadian corporation. Eligible dividend treatment for distributions to Unitholders will generally be beneficial to Canadian resident investors holding their Units in taxable accounts compared to the previous characterization primarily as ordinary income. The Trustees of the Fund previously announced that they have examined all alternatives available to the Fund to maximize Unitholder value in the face of the legislative changes to the tax treatment of income trusts, which became effective on January 1, 2011, and believe that the Fund remaining a trust is in the best interest of Unitholders. The Trustees will continue to examine all available alternatives for the structure of the Fund and can choose to convert to a new structure on a tax-deferred basis until December 31, 2012. 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 $0.1 million for the Period (2009 – $0.5 million) and a corresponding increase in the future income tax liability as at December 31, 2010. During the Year, the Fund has recorded a future income tax expense of $0.5 million compared to nil in 2009 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 or 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.

The Canadian Restaurant and Foodservices Association has forecast sales growth of 2.8% for the Canadian full-service restaurant sector in 2011. BPI's management agrees with this outlook for modest growth during 2011 and believes that 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 our guests. SSSG is the combined result of changes in guest traffic and changes in average guest cheque. BPI's strategies to drive higher guest traffic include a larger marketing budget versus the previous year along with a revised calendar of national and local store promotions. Increased average cheque levels will be achieved through a combination of menu design and annual re-pricing. In addition, BPI's franchise agreement requires that each Boston Pizza Restaurant undergo a complete store renovation every seven years and several renovations are already underway in 2011. Restaurants typically close for two to three weeks to complete the renovation and experience an incremental sales increase in the year following the re-opening.

Boston Pizza remains well positioned for future expansion as evidenced by the three new Boston Pizza restaurants that are currently under construction and scheduled to open in the first half of 2011. BPI's management believe that Boston Pizza 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 (defined below) 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 affect Franchise Sales. BPI's success also depends on numerous factors affecting discretionary consumer spending, including economic conditions, disposable consumer income and consumer confidence. Adverse changes in these factors could reduce guest traffic or impose practical limits on pricing, either of which could reduce revenue and operating income, which could adversely affect Franchise Sales, the Royalty and the ability of BPI to pay the Royalty to the Partnership or interest on the BP Loan to the Fund.

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 (the "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 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 trademarks in Canada can be challenged pursuant to provisions of the Trade-marks Act (Canada) and if any BP Rights are ever successfully challenged, this may have an adverse impact on Franchise Sales and therefore on the Royalty. The Partnership owns the BP Rights in Canada. However it does not own identical or similar trademarks owned by parties not related to BPI or the Partnership in other jurisdictions. Third parties may use such trademarks in jurisdictions other than Canada in a manner that diminishes the value of such trademarks. If this occurs, the value of the BP Rights may suffer and gross revenue by Boston Pizza Restaurants could decline. Similarly, negative publicity or events associated with such trademarks in jurisdictions outside of Canada may negatively affect the image and reputation of Boston Pizza Restaurants in Canada, resulting in a decline in gross revenue by Boston Pizza Restaurants.

GOVERNMENT REGULATION

BPI 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.

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.

HARMONIZED SALES TAX FOR BRITISH COLUMBIA

Effective July 1, 2010, the British Columbia Ministry of Finance harmonized the federal Goods and Services Tax and the provincial sales tax ("**HST**"). HST imposes a 12% tax on restaurant services in British Columbia. Prior to July 1, 2010, restaurant services in British Columbia were exempt from provincial sales tax and were only subject to the 5% Goods and Services Tax. HST may continue to 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.

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.

### 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 general partner 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 Trust Units held by the Fund is entirely dependent upon the ability of Holdings LP to make distributions on the limited partner units of Holdings LP held by the Trust. The ability of Holdings LP to make distributions on limited partner units held by the Trust is entirely dependent upon the ability of 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, the NCIB Credit Facility and the Supplementary NCIB Credit Facility. 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, the NCIB Credit Facility and the Supplementary NCIB Credit Facility 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, the NCIB Credit Facility or the Supplementary NCIB Credit Facility 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, the NCIB Credit Facility and the Supplementary NCIB Credit Facility 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, the NCIB Credit Facility or the Supplementary NCIB Credit Facility could result in an event of default which, if not cured or waived, could result in the acceleration of the relevant indebtedness. If the indebtedness under the Term Loan, the Operating Loan, the NCIB Credit Facility and the Supplementary NCIB Credit Facility were to be accelerated, there can be no assurance that the Partnership's and the Trust's assets would be sufficient to repay that indebtedness.

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

CASH DISTRIBUTIONS ARE NOT GUARANTEED AND WILL FLUCTUATE WITH THE PARTNERSHIP'S PERFORMANCE

Although the Fund's policy is to distribute the total amount of cash received by the Fund from the Trust on the Trust Units and the Trust Notes and from BPI on the BP Loan, less the sum of: (a) administrative expenses and other obligations of the Fund; (b) amounts which may be paid by the Fund in connection with any cash redemptions of Units; (c) any interest expense incurred by the Fund; and (d) reasonable reserves established by the Trustees in their sole discretion, including, without limitation, reserves established after January 1, 2011 to pay SIFT Tax, in order to maximize returns to Unitholders, there can be no assurance regarding the amounts of income to be generated by the Fund 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, on September 22, 2008 and on December 7, 2010 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 the anticipated amount of distributions.

POSSIBLE UNITHOLDER LIABILITY

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

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

DISTRIBUTION OF SECURITIES ON REDEMPTION 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 the Unitholders. If the Fund ceases to qualify as a "mutual fund trust" under the Tax Act, the income tax treatment afforded to Unitholders would be materially and adversely different in certain respects.

Distributions on the Trust Units and interest on the BP Loan 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 the Trustees of the Fund may declare distributions to Unitholders in such amounts as the Trustees may determine from time to time. Where, in a particular year, the Fund does not have sufficient available cash to distribute the amounts so declared to Unitholders (for instance, where distributions on the Trust Units or interest payments on the BP Loan are due but not paid in whole or in part), the Declaration of Trust provides that additional Units may be distributed to Unitholders in lieu of cash distributions. Unitholders will generally be required to include an amount equal to the fair market value of those distributed Units in their taxable income.

On January 1, 2011, the Fund became liable to pay the SIFT Tax. The payment of the SIFT Tax will reduce the cash flow of the Fund, thereby reducing the amount available for distributions to Unitholders. The SIFT Tax may also adversely affect the marketability of the Units and the ability of the Fund to undertake financings and acquisitions. The Trustees have examined a number of alternatives available to the Fund to maximize Unitholder value in the face of the legislative changes to the tax treatment of income trusts, which became effective on January 1, 2011, and believe that the Fund remaining a trust is in the best interest of Unitholders and the business. The Trustees will continue to examine all available alternatives for the structure of the Fund and can choose to convert to a new structure on a tax-deferred basis until December 31, 2012. 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 BPI, the Fund, the Trust, the Partnership, Holdings LP, Boston Pizza Holdings GP Inc., BPGP, Boston Pizza Restaurants, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking information. When used in this Management's Discussion and Analysis, forward-looking 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.

Forward-looking information in this Management's Discussion and Analysis includes, but is not limited to, such things as:

- the Fund retaining its current income trust structure beyond January 1, 2011;
- the characterization of the Fund's distributions as eligible dividends commencing January 1, 2011, and the ability of qualifying Unitholders to claim dividend tax credits in respect of such distributions;
- the future expansion of Boston Pizza Restaurants;
- Boston Pizza will continue to strengthen its position as the number one casual dining brand in Canada; and
- 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:

- absence of changes in law;
- protection of BP Rights;
- pace of commercial real estate development;
- franchisees' access to financing;
- franchisees' duly paying franchise fees and other amounts;
- there will be no closures of Boston Pizza Restaurants that materially affect the amount of Royalty paid by BPI to the Fund;
- speed of permitting;
- future results being similar to historical results; and
- expectations related to future general economic conditions.

This forward-looking information involves a number of risks, uncertainties and 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;
- cash distributions are not guaranteed;
- accounting policies and practices;
- the impact of new or increased or harmonization of sales taxes upon gross sales; 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.

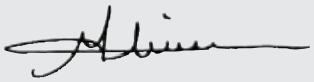
## Management's Statement of Responsibilities

The accompanying consolidated financial statements are the responsibility of management and have been reviewed and approved by the Board of Directors of Boston Pizza GP Inc. and the Trustees of Boston Pizza Royalties Income Fund (the "Fund"). The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and, where appropriate, reflect management's best estimates and judgments.

Management maintains appropriate systems of internal control, policies and procedures, which provide reasonable assurance that the Fund's assets are safeguarded and the financial records are relevant, reliable, and provide a proper basis for the preparation of the consolidated financial statements and other financial information.

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

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



**George C. Melville**
Chief Executive Officer, Boston Pizza GP Inc.
on behalf of the Board of Directors

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

February 9, 2011

## Independent Auditors' Report

To the Unitholders of Boston Pizza Royalties Income Fund:

We have audited the accompanying consolidated financial statements of Boston Pizza Royalties Income Fund ("the Fund"), which comprise the balance sheets as at December 31, 2010 and December 31, 2009 and the statements of earnings comprehensive income, statements of accumulated deficit, and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Boston Pizza Royalties Income Fund as at December 31, 2010 and December 31, 2009, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

February 9, 2011
Vancouver, Canada

## Consolidated Balance Sheets

December 31, 2010 and 2009

| (in thousands of Canadian dollars) | 2010 | 2009 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash | $ 4 | $ 3 |
| Interest receivable on note receivable from Boston Pizza International Inc. (note 7) | 150 | 150 |
| Distributions and other receivables from Boston Pizza Royalties Limited Partnership | 1,526 | 1,697 |
| | 1,680 | 1,850 |
| Note receivable from Boston Pizza International Inc. (note 7) | 24,000 | 24,000 |
| Investment in Boston Pizza Royalties Limited Partnership (note 8) | 151,772 | 145,196 |
| | $ 177,452 | $ 171,046 |
| **LIABILITIES AND UNITHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Distributions payable to Fund unitholders | $ 1,676 | $ 1,619 |
| Accounts payable | — | 228 |
| | 1,676 | 1,847 |
| Future income taxes (note 13) | 3,850 | 3,310 |
| Unitholders' equity: | | |
| Fund units (note 10) | 172,419 | 166,202 |
| Contributed surplus (note 10) | 4,267 | 4,616 |
| Accumulated deficit | (4,760) | (4,929) |
| | 171,926 | 165,889 |
| Organization and nature of operations (note 1) | | |
| Subsequent events (note 14) | | |
| | $ 177,452 | $ 171,046 |

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, 2010 and 2009

| (in thousands of Canadian dollars except unit and per unit amounts) | 2010 | 2009 |
|---|---|---|
| Revenue (note 6): | | |
| Equity income related to BPI royalties | $ 18,676 | $ 17,688 |
| Net interest income | 1,790 | 1,783 |
| Earnings before undernoted | 20,466 | 19,471 |
| Dilution gain (loss) (note 6 (c)) | 319 | (326) |
| Future income taxes (note 13) | (540) | (1) |
| Net earnings and comprehensive income | $ 20,245 | $ 19,144 |
| Weighted average units outstanding (note 10(b)) | 14,489,534 | 14,451,286 |
| Basic and diluted earnings per Fund unit | $ 1.40 | $ 1.32 |

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Accumulated Deficit

Years ended December 31, 2010 and 2009

| (in thousands of Canadian dollars) | 2010 | 2009 |
|---|---|---|
| Accumulated deficit, beginning of year | $ (4,929) | $ (4,318) |
| Net earnings for the period | 20,245 | 19,144 |
| Distributions declared to Fund unitholders | (20,076) | (19,755) |
| Accumulated deficit, end of year | $ (4,760) | $ (4,929) |

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Cash Flows

Years ended December 31, 2010 and 2009

| (in thousands of Canadian dollars) | 2010 | 2009 |
|---|---|---|
| Cash provided by (used in): | | |
| Operations: | | |
| Net earnings | $ 20,245 | $ 19,144 |
| Items not affecting cash: | | |
| Equity income | (18,676) | (17,688) |
| Future income taxes | 540 | 1 |
| Dilution (gain) loss | (319) | 326 |
| Distributions and other amounts received from Boston Pizza Royalties Limited Partnership | 18,447 | 18,126 |
| Change in non-cash working capital | (228) | (40) |
| | 20,009 | 19,869 |
| Investing: | | |
| Return of Capital from Boston Pizza Royalties Limited Partnership (note 9) | 10,503 | 10,659 |
| Financing: | | |
| Distributions paid to Fund unitholders | (20,019) | (19,886) |
| Purchase of Fund units | (10,492) | (10,640) |
| | (30,511) | (30,526) |
| Increase in cash | 1 | 2 |
| Cash, beginning of year | 3 | 1 |
| Cash, end of year | $ 4 | $ 3 |

Supplemental cash flow information (note 12)

See accompanying notes to consolidated financial statements.

## Note to Consolidated Financial Statements

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

Years ended December 31, 2010 and 2009

### 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, September 22, 2008, and December 7, 2010, 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 commencing January 1, 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, 2010 $20.0 million (2009 – $19.9 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 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, future income taxes, and provisions for contingencies. Actual results could differ from those estimates.

(h) 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. It has been determined that under IFRS, the Fund will consolidate the accounts of the Partnership rather than account for the Fund's investment in the Partnership using the equity method. The Partnership's significant assets include cash, royalties receivable from BPI, and the BP Rights while its significant liabilities include long-term debt. See note 8 for a summarized balance sheet of the Partnership. The Fund's consolidated statements of earnings and comprehensive income will no longer include equity income from the Partnership but rather the actual income and expenses of the Partnership, adjusted for any minority interest in the Partnership's earnings. The Partnership's earnings are largely comprised of royalty revenue earned from the BP Rights less administrative and interest expenses. It has also been determined that the Fund's units will be classified as a financial liability (and all distributions classified as interest expense) under IFRS due to a requirement in the Fund's declaration of trust to pay out all of its taxable income and net realized capital gains in each year. The declaration of trust was amended on December 7, 2010 (the "Amendment") to remove this requirement. As a result, the Fund's units and distributions will be classified as equity as of December 7, 2010 onward, however, financial statements for periods before the Amendment will present Fund units and distributions as a financial liability, and interest expense, respectively.

## 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 $30.0 million at December 31, 2010 (2009 – $19.5 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, 2010 was 1.18:1 (2009 – 0.79:1) 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 classifies 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, 2010, 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, 2010, 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 (the "Operating Line"), the Partnership's $5 million term loan (the "Term Loan"), and the Partnership's $20 million and $5 million term loans related to the Fund's 2008 and 2009 Normal Course Issuer Bids (the "NCIB Credit Facility", and "Supplemental NCIB Credit Facility", or together, the "NCIB Credit Facilities"). The Operating Line bears interest at the bank's prime rate, the Term Loan and NCIB Credit Facility bear interest at bankers' acceptance rates plus 2.0%, and the Supplemental NCIB Credit Facility bears interest at bankers' acceptance rates plus 3.0%, or other variable interest rates as selected by the Partnership. The Fund's capital resources also include cash flows from operating activities.

The Partnership's NCIB Credit Facilities are secured by a first charge over the assets of the Partnership, mature September 22, 2012, and have no scheduled repayment terms. As at December 31, 2010, $20.0 million (2009 – $14.5 million) has been drawn from the NCIB Credit Facility, and $5.0 million had been drawn on the Supplemental NCIB Credit Facilities (2009 – nil).

The Fund is subject to certain guarantor covenants and reporting requirements arising from the Partnership's Operating Line, Term Loan, and its NCIB Credit Facilities.

### 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 relatedparty, and is due in July 2042, the Fund does not perform interest rate risk management to minimize the the overall financial interest rate risk. The Fund is also exposed to interest rate risk as the Fund includes the Partnership's Operating Line, Term Loan, and NCIB Credit Facilities as capital resources. The Partnership has entered into an International Swap Dealers Association Master Agreement (the "ISDA Agreement") which provides the Partnership with the ability to enter into interest rate swaps and establishes the legal framework that will govern any such swaps. Under the ISDA agreement, the Partnership can enter into swap transactions to effectively convert variable interest rate debt to fixed interest rate debt or vice versa. The Partnership monitors the interest rate environment regularly and selects interest rate arrangements it determines are most beneficial. As at December 31, 2010, the Partnership had not entered into any swap transactions under the ISDA Agreement. As at December 31, 2010, the Partnership had $30.0 million in variable interest rate debt. The annual impact for every 1% increase in the prime rate would be an additional $0.3 million in interest expense to the Partnership.

## 6. Operations:

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

| | 2010 | 2009 |
|---|---|---|
| Restaurants in the Royalty Pool | 334 | 322 |
| Franchise sales reported by restaurants in the Royalty Pool | $ 663,758 | $ 644,091 |
| Royalty income – 4% of Franchise sales | $ 26,550 | $ 25,764 |
| Administrative and interest expenses | (2,039) | (1,449) |
| Partnership earnings for the period before undernoted | 24,511 | 24,315 |
| BPI's interest in the earnings of the Partnership | (5,835) | (6,627) |
| Equity income related to BPI royalties earned by Fund | 18,676 | 17,688 |
| Net interest income | 1,790 | 1,783 |
| Earnings before dilution gain (loss) and income taxes | $ 20,466 | $ 19,471 |

(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, 2010, 18 (2009 – 25) new Boston Pizza restaurants that opened during the period from January 1, 2009 to December 31, 2009 (2009 – January 1, 2008 to December 31, 2008) 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 were initially estimated at $24.2 million. The total number of restaurants in the Royalty Pool was increased to 340. There were 334 restaurants in the Royalty Pool at December 31, 2010. 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 648,259 (2009 – 1,175,106) Fund units. BPI received 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 (see note 14).

(b) 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 received its pro rata portion of the remaining Additional Entitlement, 15,728 Fund units (2009 – 248,629).

(c) The Fund recognized a dilution gain of $0.3 million during the period (2009 – loss of $0.3 million). 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.

(d) On March 17, 2010, BPI exchanged Class B Partnership Units for 1,350,000 Fund units and then sold the Fund units to a syndicate of underwriters completing the bought deal. As a result of this exchange and sale of Fund units, the Fund's investment in the Partnership and unitholders' equity increased by $16.1 million which is based on the gross proceeds received by BPI on completion of the bought deal. As at December 31, 2010, BPI held exchangeable Partnership Units equivalent to 2,513,441 Fund units, or 14.7% of the issued and outstanding Fund units on a fully diluted basis.

## 7. Note receivable from Boston Pizza International Inc.:

| | 2010 | 2009 |
|---|---|---|
| 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, 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 |
| Issue of Fund units | 16,133 |
| Equity income | 18,676 |
| Distributions from the Partnership | (18,277) |
| Return of capital (note 9) | (10,275) |
| Dilution gain (note 6(c)) | 319 |
| Balance as at December 31, 2010 | $ 151,772 |

Summarized balance sheet of the Partnership is as follows:

| | 2010 | 2009 |
|---|---|---|
| Current assets | $ 8,694 | $ 8,551 |
| Long-term assets, consisting of the BP Rights | 230,847 | 224,826 |
| Total assets | $ 239,541 | $ 233,377 |
| Current liabilities | $ 7,719 | $ 8,387 |
| Long-term liabilities | 30,000 | 19,509 |
| Partners' surplus | 201,822 | 205,481 |
| Total liabilities and surplus | $ 239,541 | $ 233,377 |

## 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 2010 the Partnership advanced $10.5 million (2009 – $10.7 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 Facilities plus 0.1%. As at December 31, 2010, the amount payable from the Fund to the Partnership under the Note was nil (December 31, 2009 – nil).

The Partnership has entered into an agreement with a Canadian Chartered Bank whereby the bank provided the Partnership with the NCIB Credit Facilities available in loans at variable and fixed interest rates as selected by the Partnership to fund purchases under the NCIB.

As at December 31, 2010 the Partnership had drawn $20.0 million on the NCIB Credit Facility (2009 – $14.5 million) and $5.0 million on the Supplemental NCIB Credit Facility (2009 – nil).

## 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 (the "TSX") approved the Fund's notice of intention to make an NCIB (the "2008 NCIB") and on September 21, 2009 the TSX approved the Fund's notice of intention to renew its NCIB (the "2009 NCIB"). The 2009 NCIB permitted the Fund to acquire up to 1,201,783 Fund units (2008 NCIB – 1,336,154) through the facilities of the TSX from October 1, 2009 to no later than September 30, 2010 (2008 NCIB – October 1, 2008 to no later than September 30, 2009). 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 was permitted to purchase a maximum of 6,333 Fund units on a daily basis subject to a block purchase exemption. Under the 2008 NCIB from October 1, 2008 to September 30, 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 $0.2 million of professional fees. Under the 2009 NCIB from October 1, 2009 to September 30, 2010, the Fund acquired a total of 1,139,370 Fund units at an average cost of $11.93

per unit for a total cost of $13.6 million. All Fund units acquired under the NCIB Program were cancelled. During the year ended December 31, 2010, the Fund acquired 839,900 units (2009 – 1,160,424 units) at an average cost of $12.22 per unit (2009 – $9.37) for a total cost of $10.3 million (2009 – $10.9 million). The excess of the cost of acquisition of the cancelled Fund units over the carrying value of $0.3 million has been debited to contributed surplus (2009 – excess of the carrying value of the cancelled units over the cost of acquisition of $2.9 million was credited to contributed surplus).

(b) Fund units outstanding:

| | Number of Fund units | Amount |
|---|---|---|
| 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 |
| Exchange of Class B Units for Fund units | 1,350,000 | 16,133 |
| Acquisition and cancellation of Fund units | (839,900) | (9,916) |
| Balance as at December 31, 2010 | 14,570,644 | $ 172,419 |

| | 2010 | 2009 |
|---|---|---|
| Weighted average Fund units outstanding | 14,489,534 | 14,451,286 |

(c) Exchangeable units of the Partnership:

| | 2010 | 2009 |
|---|---|---|
| Units (underlying the Class B Units) | 2,513,441 | 3,329,106 |

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, 2010, Class B Units of the Partnership received Additional Entitlement equivalent to 648,259 Fund units (2009 – 1,175,106 units), upon adding new stores to the Royalty Pool.

## 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:

| | 2010 | 2009 |
|---|---|---|
| Supplemental cash flow information: | | |
| Net interest received | $ 1,790 | $ 1,783 |
| Non-cash financing and investing activities: | | |
| Acquisition of additional Partnership units by issuing Fund units | 16,133 | — |

## 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 26.5% for 2011 and 25% for 2012 and onwards. As a transition period applies to publicly traded trusts that existed prior to November 1, 2006, the new tax applies to the Fund beginning 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 $540 (2009 – $1) resulting in a corresponding increase to the future income tax liability to $3,850 (2009 – $3,310). 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:

| | 2010 |
|---|---|
| Earnings before dilution loss and income taxes | $ 20,466 |
| Combined Canadian federal and provincial rate | 28.5% |
| Computed expected tax expense | 5,833 |
| Decreased by: | |
| Current year's earnings not taxable | (5,833) |
| Increased by: | |
| Change in the tax base of the BP Rights | 540 |
| Total tax expense per statement of earnings | $ 540 |

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

| | 2010 |
|---|---|
| Future tax liabilities: | |
| Investment in the Boston Pizza Royalties Limited Partnership | $ 3,850 |
| Net future tax liability | $ 3,850 |

## 14. Subsequent events:

(a) On January 1, 2011, adjustments to royalty payments and Additional Entitlement were made based on the actual performance of 17 net new restaurants added to the Royalty Pool on January 1, 2010. Based on these adjustments, BPI will receive its pro rata portion of the remaining Additional Entitlement, 164,033 Fund units.

(b) On January 1, 2011, 6 new Boston Pizza restaurants that opened during the period from January 1, 2010 to December 31, 2010 were added to the Royalty Pool while 6 restaurants that closed during the period were removed. The Franchise Sales of these zero net new restaurants has been estimated at $2.2 million. The total number of restaurants in the Royalty Pool has remained at 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 57,984 (2009 – 648,259) Fund units. BPI will also receive a proportionate increase in monthly distributions from the Partnership. Of the Additional Entitlement, 20% (2011 – 11,597 units; 2010 – 129,652 units), remain unissued and are not eligible for conversion to Fund units until January 1, 2012 (2010 units – January 1, 2011) based on the actual performance of the new stores.

# Management's Discussion & Analysis

For the Period and Year ended December 31, 2010

## 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, 2010 to Dec 31, 2010** | Jan 1, 2009 to Dec 31, 2009 | Jan 1, 2008 to Dec 31, 2008 |
|---|---|---|---|
| Restaurant System Franchise Sales[1] | 667,905 | 660,634 | 658,727 |
| Income Statement Data | | | |
| Total Revenue | 68,509 | 70,189 | 70,333 |
| Non-controlling interest related to royalty expense | 18,676 | 17,956 | 19,036 |
| Earnings before loss on sale of units and income taxes [2] | 5,869 | 4,882 | 5,895 |
| Net earnings and comprehensive income | 2,717 | 2,344 | (8,088) |

| | **Dec 31, 2010** | Dec 31, 2009 | Dec 31, 2008 |
|---|---|---|---|
| Total assets | 112,040 | 95,958 | 88,843 |
| Total long-term liabilities | 58,136 | 48,947 | 39,369 |
| Deferred gain | 143,413 | 128,203 | 129,566 |

| | **Q4 2010** | **Q3 2010** | **Q2 2010** | **Q1 2010** |
|---|---|---|---|---|
| Restaurant System Franchise Sales[1] | 168,151 | 172,688 | 167,049 | 160,017 |
| Income Statement Data | | | | |
| Total revenue | 16,908 | 17,490 | 17,121 | 16,990 |
| Non-controlling interest related to royalty expense | 4,598 | 4,937 | 4,802 | 4,339 |
| Earnings before loss on sale of units and income taxes[2] | 1,118 | 1,989 | 1,323 | 1,439 |
| Net earnings (loss) and comprehensive income (loss) | 849 | 1,459 | 650 | (241) |

| | Q4 2009 | Q3 2009 | Q2 2009 | Q1 2009 |
|---|---|---|---|---|
| Restaurant System Franchise Sales[1] | 162,427 | 168,535 | 167,333 | 162,339 |
| Income Statement Data | | | | |
| 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) |
| Net earnings (loss) and comprehensive income loss | (632) | 1,740 | 1,797 | (561) |

[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. 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.

[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, 2010 for reconciliation from this non-GAAP financial measure to the most directly comparable GAAP measure.

## OVERVIEW

This Management's Discussion and Analysis covers the three month period from October 1, 2010 to December 31, 2010 (the "**Period**") and the twelve month period from January 1, 2010 to December 31, 2010 ("**Year**") and is dated February 9, 2011.

BPI is a privately controlled company and is the franchisor of the Boston Pizza (defined below) 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 340 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 full-service Boston Pizza restaurants open in Canada and a 5% royalty fee on Franchise Sales for all Boston Pizza Quick Express restaurants that are open in Canada (collectively, the "**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, 2011 there are 340 Boston Pizza Restaurants in the Royalty Pool.

On January 1 of each year ("**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 net additional royalty revenue, BPI receives the right to indirectly acquire additional units of the Fund (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 for Adjustment Dates occurring on or before January 1, 2011 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 (see Subsequent Events – "Amendment to Roll-in Mechanism" for details on how Additional Entitlements are calculated for Adjustment Dates occurring after January 1, 2011). 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 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. 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.

[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).

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**").

## 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 positive 1.3% for the Period and negative 1.3% for the Year, compared to negative 4.4% SSSG reported in the fourth quarter of 2009 and negative 4.0% for 2009. SSSG is based on gross sales, including approved national promotions and discounts, of Boston Pizza Restaurants that have been open 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 positive 2.6% (Q4 2009 – negative 5.8%) and negative 0.7% for the Year (2009 – negative 5.4%). SSSG results for the Period were positively impacted by Boston Pizza's new "Finger Cooking" media campaign, which was well received by Boston Pizza guests and contributed to strong take out and delivery sales offsetting weaker sales in British Columbia as a result of the new Harmonized Sales Tax in that province which increased the amount of tax on restaurant meals from 5% to 12% effective July 1, 2010. Over the past decade, ended December 31, 2010, annual SSSG has averaged positive 4.3%, a figure that compares favourably against the Canadian restaurant industry as a whole.

### New Store Openings, Renovations and Relocations

During the Period, two new Boston Pizza Restaurants opened and one Boston Pizza Restaurant permanently closed. A total of six new Boston Pizza Restaurants have opened during the Year and six Boston Pizza Restaurants have closed during the Year. Historically, Boston Pizza has a very low closure rate and has permanently closed only ten restaurants since the inception of the Fund in 2002. The number of permanent closures experienced in 2010 is higher than in recent years due to the weaker general economic conditions. As well during the Period, five Boston Pizza Restaurants were renovated, bringing the total to 15 completed renovations for the Year. Restaurants typically close for two to three weeks to complete the renovation and experience an incremental sales increase in the year following the re-opening. The total number of restaurants opened as of February 9, 2011 is 340.

### 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 frames.

### Revenues

BPI's revenue is mainly derived from royalty income from franchised Boston Pizza Restaurants, sales in corporately owned restaurants, initial franchise fees, supplier rebates and franchise renewal fees. BPI's revenues were $16.9 million during the Period compared to $16.9 million during the same period in 2009. During the Year revenues were $68.5 million compared to $70.2 million for 2009. The decrease in revenue was mainly due to sponsorship funding for the bi-annual franchisee conference received in the prior year, a decline in initial franchise fees resulting from fewer Boston Pizza Restaurants openings and a decline in sales at corporately owned restaurants due to the decrease in SSSG.

### Expenses

Administrative expenses and restaurant operating costs during the Period were $10.2 million compared to $10.9 million for the same period in 2009. During the Year, administrative expenses and restaurant operating costs were $40.0 million compared to $43.6 million for 2009. 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 decrease in expenses during the Year is mainly due to costs associated with the bi-annual franchisee conference included in the prior year, lower management fees paid to companies under common control and lower costs to operate the corporately owned restaurants.

During the Period, non-controlling interest related to royalty expense was $4.6 million compared to $4.5 million for the same period in 2009. During the Year, non-controlling interest related to royalty expense was $18.7 million compared to $18.0 million for 2009. 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.

**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, loss on the sale of units of the Fund ("Units") and income tax, BPI had earnings[2] of $2.1 million during the Period and $9.8 million for the Year. Using the same basis, earnings[2] for the fourth quarter of 2009 were $1.4 million and $8.7 million for 2009. The increase in earnings[2] during the Year is primarily due to costs associated with BPI's bi-annual franchisee conference having been incurred in 2009 and there being no corresponding expense during the Year.

Depreciation and amortization was $0.3 million for the Period and $1.3 million for the Year compared to $0.3 million for the fourth quarter of 2009 and $1.4 million for 2009.

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 $0.5 million during the Period (Q42009 – $0.5 million) and $1.8 million for the Year (2009 – $1.8 million).

The amortization of the deferred gain resulting from the Fund's IPO and the Additional Entitlements received from new restaurants added to the Royalty Pool annually was $0.4 million during the Period and $1.6 million for the Year compared to $0.4 million for the fourth quarter of 2009 and $1.5 million for 2009. 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, 2010 was $143.4 million (2009 – $128.2 million).

The amortization of intangible assets and deferred charges was $0.3 million for the Period and $1.1 million for the Year compared to $0.3 million for the same period in 2009 and $0.9 million for 2009.

Given the combined effects of the above-noted factors, BPI had earnings before income taxes[2] of $1.1 million for the Period compared to $0.4 million for the same period in 2009. During the Year, BPI had earnings before loss on sale of Units and income taxes[2] of $5.9 million compared to $4.9 million for the same period in 2009.

On March 17, 2010, BPI sold 1,350,000 Units it had exchanged for Class B general partner units of the Partnership (the "**Class B Units**"). The proceeds from the sale of Units were $15.0 million, net of transaction costs of $1.1 million, and BPI recognized a loss on sale of Units of $1.8 million (2009 – nil). On March 31, 2010, BPI declared dividends of $14.2 million and subsequently, $11.9 million of such dividends was paid in cash to BPI's shareholders. As of February 9, 2011 there were 14,570,644 Units issued, 17,294,505 on a fully diluted basis, and BPI had a 15.7% indirect interest in the Fund.

The after tax income for the Period was $0.8 million compared to the after tax loss of $0.6 million for the same period in 2009. The after tax income for the Year was $2.7 million compared to $2.3 million for 2009.

**New Restaurants Added to the Royalty Pool**

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 while 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 was $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 valued at a 7.5% discount. The estimated 4% royalty revenue the Fund was to receive in 2010 from these additional 17 net new restaurants was $1.0 million. The royalty revenue for the purposes of calculating the Additional Entitlements, therefore, was $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 as of January 1, 2010. 129,652 Units, 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 2010 was known. BPI received an increase in monthly distributions based on 100% of the Additional Entitlements, subject to a reconciliation of the distributions paid to BPI in respect of these Additional Entitlements that occurred once the actual performance of these new Royalty Pool restaurants for 2010 was known. See "Subsequent Events".

In January 2010, an audit of the royalty revenues of the 23 net new 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 new 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 new restaurants. BPI received the right to acquire only 80% of the Additional Entitlements at the Adjustment Date for 2009. Following the audit, BPI received the right to acquire 15,728 Additional Entitlements.

## Subsequent Events

BOSTON PIZZA RESTAURANTS ADDED TO ROYALTY POOL ON JANUARY 1, 2011

On January 1, 2011, six new Boston Pizza Restaurants that opened across Canada between January 1, 2010 and December 31, 2010 were added to the Royalty Pool and the six restaurants that permanently closed during 2010 were removed from the Royalty Pool. The estimated annual gross franchise revenue for the six new Boston Pizza Restaurants that opened across Canada between January 1, 2010 and December 31, 2010 less the revenue from the six permanent closures that occurred during 2010 is $2.2 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 valued at a 7.5% discount. The estimated 4% royalty revenue the Fund will receive in 2011 from these additional six new restaurants, less revenue from the six permanent closures, is $0.1 million. The royalty revenue for the purposes of calculating the Additional Entitlements, therefore, is $0.1 million or 92.5% of $0.1 million. In return for adding the royalty revenue from these six new restaurants, less revenue from the six permanent closures, to the Royalty Pool, BPI received the right to acquire an additional 46,387 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 46,387 Additional Entitlements represented 0.3% of the total outstanding Units on a fully diluted basis on January 1, 2011. 11,597 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 2011 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 2011 is known.

AUDIT OF BOSTON PIZZA RESTAURANTS ADDED TO ROYALTY POOL ON JANUARY 1, 2010

In January 2011, an audit of the royalty revenues of the 17 net new restaurants that were added to the Royalty Pool on January 1, 2010 was completed. The purpose of this audit was to compare actual royalty revenue from these 17 net new restaurants to the estimated amount of royalty revenue the Fund expected to receive. The original royalty revenue the Fund expected to receive was $1.0 million and the actual royalty revenue that the Fund received was slightly greater. As a result, the Partnership made a nominal payment to BPI to reconcile distributions payable on the full number of Additional Entitlements. BPI received the right to acquire only 80% of the Additional Entitlements at the Adjustment Date in 2010. Following the audit, BPI received the right to acquire 164,033 Additional Entitlements.

AMENDMENT TO ROLL-IN MECHANISM

On January 2, 2011, the mechanism through which new Boston Pizza Restaurants are added to the Royalty Pool on each Adjustment Date was amended, in the manner described below, to adjust for the impact that the SIFT Tax (defined below) will have on the economics of such mechanism, commencing with the roll-in of new Boston Pizza Restaurants that will occur on January 1, 2012 and on each Adjustment Date thereafter (the "**Amendment**").

(i) Background to Amendment

In 2007, the Federal Government of Canada amended the Income Tax Act (Canada) (the "**Tax Act**") to impose an entity level specified investment flow-through tax (the "**SIFT Tax**") on Canadian publicly listed income trusts effective January 1, 2011. As a result of the SIFT Tax, the Fund will pay tax at a rate approximately equal to the rate applicable to income earned by a Canadian public corporation, and is prevented from deducting trust distributions when calculating taxable income. The SIFT Tax will reduce the amount of cash available for distribution to the Unitholders.

On August 12, 2010, the trustees of the Fund (the "**Trustees**") determined, having considered a number of alternatives to maximize Unitholder value in the face of the imposition of the SIFT Tax on the Fund, that the Fund would retain its current structure following January 1, 2011. Having made that determination, the Trustees of the Fund and BPI then commenced an analysis of the structure of the Fund, its subsidiary entities and material agreements, and determined that the imposition of the SIFT Tax would alter the economics of the roll-in of new Boston Pizza Restaurants to the Royalty Pool for the roll-ins that occur on January 1, 2012 and each Adjustment Date thereafter.

As a result of such analysis, the Fund convened a special general meeting of Unitholders on December 7, 2010 (the "**Special Meeting**") at which the Amendment, among other things, was voted on and approved by Unitholders.

(ii) Details of Amendment

On January 2, 2011, the limited partnership agreement governing the Partnership was amended by altering the basis for determining the Additional Entitlements that BPI receives for adding new Boston Pizza Restaurants to the Royalty Pool of the Partnership to take into account the reduced benefit that additional royalty revenues to the Partnership will have on the Fund and the Unitholders as a result of the SIFT Tax. The percentage reduction is an estimate of the effective entity level tax rate (determined using the total income taxes paid by the Fund during the fiscal year divided by the total cash received by the Fund during that fiscal year) of the Fund for the upcoming year (i.e. for the roll-in of January 1, 2012, there will be an estimate of the effective entity level tax rate of the Fund for the year ended December 31, 2012).

The reduction in Additional Entitlements to BPI adjusted the economics of the roll-in mechanism, following the imposition of the SIFT Tax, to the economics that existed between the parties prior to the imposition of the SIFT Tax. The roll-in mechanism was designed to compensate BPI for the new royalties payable to the Partnership as a result of the addition of the new Boston Pizza Restaurants to the Royalty Pool, but still result in accretion to Unitholders and the Fund. The Amendment adjusts the roll-in mechanism such that the addition of new Boston Pizza Restaurants to the Royalty Pool in the future will continue to be accretive to the Fund and Unitholders.

More detailed particulars of the Amendment are set forth in the notice of meeting and information circular for the Special Meeting, a copy of which was filed on SEDAR on November 5, 2010 and is available at www.sedar.com and www.bpincomefund.com.

## Units Outstanding

The table below sets forth a summary of the outstanding Units. BPI owns 100% of 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. References 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, 2010 | 14,570,644 | 14,570,644 |
| BPI Additional Entitlements – Outstanding as of December 31, 2010 | 2,513,441 | 2,513,441 |
| BPI Additional Entitlements – Holdback as of December 31, 2010 | N/A | 129,652 (1) |
| Number of Fully Diluted Units as of **December 31, 2010** | 17,084,085 | 17,213,737 |
| BPI Total Ownership as of December 31, 2010 | 14.7% | 15.4% |
| Issued and Outstanding Units as of February 9, 2011 | 14,570,644 | 14,570,644 |
| BPI Additional Entitlements – Outstanding as of December 31, 2010 | 2,513,441 | 2,513,441 |
| BPI Additional Entitlements – Issued in respect of 2010 after the audit | 164,033 | 164,033 (2) |
| BPI Additional Entitlements – Issued & Outstanding as of January 1, 2011 (zero net new Restaurants added to Royalty Pool) | 46,387 | 46,387 (3) |
| BPI Additional Entitlements – Holdback as of January 1, 2011 (zero net new Restaurants added to Royalty Pool) | N/A | 11,597 (4) |
| Number of Fully Diluted Units as of February 9, 2011 | 17,294,505 | 17,306,102 |
| BPI Total Ownership as of **February 9, 2011** | 15.7% | 15.8% |

(1) Additional Entitlements from the 17 net new restaurants added to Royalty Pool on January 1, 2010 determined in 2011, prior to the audit of the 17 net new restaurants.
(2) Additional Entitlements from the 17 net new restaurants added to Royalty Pool on January 1, 2010 determined in 2011, once audited results of the 17 net new restaurants were known.
(3) Issued effective January 1, 2011.
(4) Holdback of Additional Entitlements from zero net new restaurants added to Royalty Pool on January 1, 2011. Actual number of Additional Entitlements will be determined in early 2012, effective January 1, 2011, once audited results of the zero 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, 2011, BPI was entitled to 2,723,861 votes, representing 15.7% 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 to in respect of its Special Voting Units is adjusted annually to reflect any additional Boston Pizza Restaurants that were added to the Royalty Pool.

## 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, 2010 that have had or are reasonably likely to have a material effect on BPI's internal controls over financial reporting.

## LIQUIDITY & CAPITAL RESOURCES

The Partnership has a $1.0 million revolving operating line of credit with a Canadian chartered bank (the "**Lender**") that has a 364-day term (the "**Operating Loan**") 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 Operating Loan has been maintained with a nil balance.

BPI is an entirely franchised business except for three corporate restaurants. For 2011, BPI has forecasted capital requirements of approximately $1.8 million which will consist mainly of the development of software applications and the purchase of computer equipment. Given the debt repayment and commitments schedule below, BPI is confident it has sufficient cash to cover expenditures, capital requirements, commitments and repayments for 2011.

BPI has an available line of credit with the Lender in the amount of $7.5 million with a 180 day term to cover BPI's day-to-day operating requirements through normal seasonal variations in the business if needed. The line of credit bears interest at the bank's prime rate and is due upon demand. As at December 31, 2010, 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.

Cash Flows from Operating Activities:

Operating activities generated $1.4 million in cash during the Period and generated $4.4 million in cash for the Year. In 2009, operating activities generated $1.3 million in cash during the fourth quarter and generated $3.5 million in cash for the year. During the Period an income tax payment of $3.4 million was partially offset by an increase in accounts payable. The increase during the Year is primarily due to higher accounts payable partially offset by the payment of net income tax of $1.4 million and the slower than anticipated collection of royalty revenue.

Cash Flows from Financing Activities:

During the Period, financing activities used $1.9 million in cash mainly for the partial repayment by BPI of a promissory note and an increase in other long term receivables. During the Year, financing activities used $6.4 million primarily as a result of BPI using $15.6 million to partially repay a promissory note and generating $10.6 million by drawing from the Partnership's $20.0 million credit facility (the "**NCIB Credit Facility**") and the Partnership's $5.0 million credit facility (the "**Supplementary NCIB Credit Facility**"). In 2009, $2.1 million was generated during the fourth quarter of 2009 and $8.3 million was generated for 2009. Cash generated for 2009 was mainly due to drawing from the NCIB Credit Facility offset by partial repayments by BPI of a promissory note.

Cash Flows from Investing Activities:

During the Period, investing activities used $0.7 million in cash mainly to purchase intangible assets. During the Year, BPI generated $3.2 million in cash as a result of receiving $15.0 million upon the sale of Units and using $10.3 million to return capital to the Fund resulting in a proportionate increase in BPI's ownership share of the Partnership and using $1.5 million to purchase capital and intangible assets. During the fourth quarter of 2009, $3.9 million was used primarily to return capital to the Fund. In 2009, investing activities used $10.6 million to return capital to the Fund which resulted in a proportionate increase in BPI's ownership share of the Partnership, and used $1.4 million to purchase capital and intangible assets.

### Long-Term Debt Obligations

The Partnership has a $5.0 million term loan (the "**Term Loan**"), 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 February 9, 2011, the Term Loan was fully drawn.

The Partnership also has the NCIB Credit Facility at variable and fixed rates as selected by the Partnership to fund purchases under the Fund's normal course issuer bid. The NCIB Credit Facility bears interest at variable rates, comprised of either, or a combination of, the Lender'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. The NCIB Credit Facility

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. As at February 9, 2011, the NCIB Credit Facility was fully drawn (2009 – $14.5 million).

The Partnership also has the Supplementary NCIB Credit Facility at variable and fixed rates as selected by the Partnership to fund purchases under the Fund's normal course issuer bid. The Supplementary NCIB Credit Facility bears interest, at the Partnership's choice, at either: (a) variable rates, comprised of either, or a combination of, the Lender'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. As at February 9, 2011, the Supplementary NCIB Credit Facility was fully drawn.

The Operating Loan, Term Loan, NCIB Credit Facility and Supplementary NCIB Credit Facility 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 these loans are summarized in the Fund's annual information form for the year-ended December 31, 2010.

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.

Principal repayments on BPI's long-term debt and capital lease obligations, excluding the Partnership's Term Loan, NCIB Credit Facility and Supplementary NCIB Credit Facility for the next five years ending December 31 are as follows:

Long-Term Debt:

| (in thousands of dollars) | | |
|---|---|---|
| 2011 | $ | 438 |
| 2012 | | 407 |
| 2013 | | 224 |
| 2014 | | 78 |
| 2015 and thereafter | | — |
| | $ | 1,147 |

**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:

| (in thousands of dollars) | | |
|---|---|---|
| 2011 | $ | 1,974 |
| 2012 | | 1,891 |
| 2013 | | 1,567 |
| 2014 | | 1,514 |
| 2015 | | 1,060 |
| 2016 and thereafter | | 2,871 |
| | $ | 10,877 |

**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 3,540,000 Class B Shares remained outstanding as at December 31, 2010. 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, 2010, 760,000 of the Granted Options vested. During the Period, no additional options to acquire Class B Shares were granted and no Granted Options were surrendered for cancellation. 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 Sept. 30, 2010 | 3,540,000 | $1.00 | 1,416,000 | 2,124,000 |
| 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 | Nil | N/A | N/A | N/A |
| Balance Dec.31, 2010 | 3,540,000 | $1.00 | 1,416,000 | 2,124,000 |

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 3,540,000 Granted Options outstanding as at December 31, 2010 represent, if exercised, 3.4% 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, 2010 for BPI's significant accounting policies.

## Future Accounting Policies

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("**IFRS**")

The Canadian Accounting Standards Board announced in February 2008 that publicly accountable enterprises will be required to adopt IFRS in place of GAAP for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. BPI's transition from GAAP to IFRS will take place in the first quarter of 2011 at which time BPI will report both the current and comparative financial information using IFRS.

BPI's IFRS transition project consists of three phases:

- Preliminary diagnostic review,
- Detailed assessment, and
- Policy design and implementation.

The following summarizes the key activities, milestones and progress to date:

| Key Activity | Milestones | Progress at December 31, 2010 |
|---|---|---|
| Project Management:<br>• Selection and training of internal project team.<br>• Ensure appropriate training for project team members.<br>• Engagement of external consultants.<br>• On-going communication on project status to external stakeholders. | • Project team in place by beginning of fiscal 2009.<br>• Ensure appropriate training to key members is provided on an ongoing basis.<br>• Have external consultants in place during 2009 to assist in the the conversion process.<br>• Communication to external stakeholders on a quarterly basis. | • Project team assembled by end of fiscal 2008.<br>• Key members of team will complete IFRS related training as project develops.<br>• Engaged external consultant during 2009 to assist in the process.<br>• Communication to external stakeholders done quarterly through Management's Discussion and Analysis and quarterly disclosures. |
| Preparation / Accounting Policies:<br>• Identification of differences between GAAP and IFRS accounting policies applicable to BPI.<br>• Selection of BPI's IFRS 1 optional exemptions and IFRS accounting policies.<br>• Quantification of impact of policy choices on 2010 financial statements. | • Identify and summarize significant differences between current GAAP accounting policies and IFRS during 2009.<br>• Selection of accounting policies and preparation of Q1 2010 comparatives by mid 2010. | • During 2009 a preliminary diagnostic review was completed.<br>• Selection of policy choices and quantification is ongoing. |

| Key Activity | Milestones | Progress at December 31, 2010 |
|---|---|---|
| Information Technology:<br>• Ensure that the appropriate system is in place to support the new IFRS accounting policies and the compilation of the related data. | • System should be in place to facilitate parallel process of 2010 accounts by Q4 2010. | • Process is largely in place and will be amended as required. |
| Control Environment:<br>Internal Controls over Financial Reporting ("**ICFR**"):<br>• Identify, assess, and implement changes to the ICFR based on the design and effectiveness implications that the new accounting policies will have. Ensure all changes to systems and processes are fully documented.<br>Disclosure Controls & Procedures ("**DC&P**"):<br>• Identify and assess impact of new accounting policies on DC&P.<br>• Ensure that all investor communications are IFRS compliant. | • Determine impact of new policy selections on ICFR and DC&P by Q4 2010. | • Key accounting policy differences have been identified.<br>• Impact on ICFR and DC&P is currently being investigated. |

**Preliminary Diagnostic Review:**

In 2009, BPI, with the assistance of its external consultant, completed the preliminary diagnostic review, which involved a high level review of the major differences between current GAAP and IFRS. The major differences identified were:

- Basis of consolidation of BPI's interest in the Partnership – under existing GAAP, the Partnership was determined to be a Variable Interest Entity and is currently consolidated with BPI. Under IFRS, the Special Purpose Entities standard of consolidation is based on "control" which is the power to govern the financial and operating policies of an entity to obtain benefits from its activities.
- Stock-Based Compensation – under existing GAAP, BPI accounts for its existing stock options as liability awards. However under IFRS, these options may constitute a "compound instrument". IFRS requires separate accounting of the debt and equity components of such instruments. BPI is reviewing the treatment of the components and whether measurement differences exist in determining the awards.
- Impairment of assets – the BP Rights are classified as intangible assets with an indefinite life and are carried at cost. In addition, the promissory notes to companies owned by the shareholders are currently being carried at their estimated realizable amounts. Under existing GAAP, the carrying value is tested at least annually for impairment by comparing the carrying value to the "fair value" determined using forecast future cash flows. IFRS provides specific guidance on when impairment tests are to be performed, specifically requiring an annual impairment test of intangible assets with an indefinite life. Assets with definite lives do not need to be tested for impairment annually, but rather, are tested for impairment to the extent indicators of impairment are identified. The BP Rights will be tested for impairment on the transition date to comply with these requirements, and then annually thereafter. Under IFRS, impairment losses may be reversed and any impairments reversed or recorded require significant additional disclosure, the testing is done at the level of cash generating Units, which is different from GAAP, and the method of performing the impairment analysis is different than that under existing GAAP.
- Income Taxes – certain future income tax assets and liabilities are required to be accounted for under IFRS but not under GAAP and vice versa. BPI has also segregated the current and non-current portion of future income tax liabilities on its balance sheet but under IFRS the deferred tax liabilities are always classified as non-current. Finally, accounting for income tax uncertainties under IFRS differs from the standards under GAAP as IFRS uses "probable" as its threshold for recognition whereas GAAP uses a "more-likely-than-not" standard. BPI is currently investigating how these differences will impact its future income tax calculations as well as any potential tax uncertainty positions.

- Classification of Expenses – IFRS requires expenses to be classified according to either their nature or function. When expenses are classified according to function, expenses are allocated to cost of sales, distribution, and/or administrative expenses. When expenses are classified by their nature, they are allocated to categories such as purchases of materials, depreciation and amortization, and staff costs. Currently, BPI utilizes a combination of classifications by nature and function. BPI is currently evaluating which method of presentation more appropriately presents the operations.
- Intangible Assets – under existing GAAP, BPI has recorded the proportionate increase in ownership of the Partnership as a result of the recent normal course issuer bids as an intangible asset. This treatment will need to be re-evaluated under IFRS to assess whether this balance will continue to meet the definition of an intangible asset, and if so, performing the required impairment test on the transition date.
- Accounting for the Boston Pizza Structure – under existing GAAP, BPI has determined the appropriate accounting treatment for the following activities which are unique to its structure: accounting for the deferred gain, annual roll-ins of restaurants into the Royalty Pool, the effect of the normal course issuer bids, accounting for exchanging Partnership units for units of the Fund. As there is no direct accounting guidance dealing with these particular topics, BPI is currently evaluating whether IFRS deals with any of these topics, and whether it would result in any different accounting or disclosure requirements pertaining to them.

**Detailed Assessment:**

A detailed assessment is currently underway and involves identifying the impact on financial reporting, information technology and systems, financial reporting expertise, accounting policies, internal controls over financial reporting and disclosure controls and procedures, and developing systems and accounting policies to address identified issues. This phase will also require a detailed analysis of the differences between IFRS and GAAP. Significant increases in disclosure are anticipated and BPI is identifying and assessing these additional disclosure requirements. BPI anticipates completing the detailed assessment during the first quarter of 2011.

The following is a key issue resulting from the detailed analysis:

- Basis of consolidation of BPI's interest in the Partnership – It has been determined that under IFRS, BPI will equity account for its investment in the Partnership rather than consolidating the accounts of the Partnership. BPI's consolidated statements of earnings and comprehensive income under IFRS will no longer include actual income and expense of the Partnership, adjusted for any minority interest in the Partnership earnings but rather will include equity income from the Partnership. The Partnership's significant assets include cash, royalties receivable from BPI, and the BP Rights while its significant liabilities include long-term debt. The Partnership's earnings are largely comprised of royalty revenue earned from the BP Rights less administrative and interest expenses.

**Policy Design and Implementation:**

BPI is currently in the policy design and implementation phase of its transition to IFRS. This phase will result in the selection of policies together with changes to information systems to facilitate collection of the necessary financial information to compile IFRS statements for 2011 interim and annual financial statements.

As the IFRS transition project progresses towards completion, BPI will continue to report on the status of the plan including further information on accounting policy changes and their impacts on the financial statements. The transition to IFRS is not expected to have an impact on BPI's operating results or cash flows and BPI's goal is to make policy changes that are compliant with IFRS but also provide the most meaningful information to Unitholders. BPI must prepare its interim and annual consolidated financial statements in accordance with IFRS for the periods beginning on or after January 1, 2011.

## 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.

The Canadian Restaurant and Foodservices Association has forecast sales growth of 2.8% for the Canadian full-service restaurant sector in 2011. BPI's management agrees with this outlook for modest growth during 2011 and believes that 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 our guests. SSSG is the combined result of changes in guest traffic and changes in average guest cheque. BPI's strategies to drive higher guest traffic include a larger marketing budget versus the previous year along with a revised calendar of national and local store promotions. Increased average cheque levels will be achieved through a combination of menu design and annual re-pricing. In

addition, BPI's franchise agreement requires that each Boston Pizza Restaurant undergo a complete store renovation every seven years and several renovations are already underway in 2011. Restaurants typically close for two to three weeks to complete the renovation and experience an incremental sales increase in the year following the re-opening.

Boston Pizza remains well positioned for future expansion as evidenced by the three new Boston Pizza restaurants that are currently under construction and scheduled to open in the first half of 2011. BPI's management believe that Boston Pizza 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 (defined below) 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 affect Franchise Sales. BPI's success also depends on numerous factors affecting discretionary consumer spending, including economic conditions, disposable consumer income and consumer confidence. Adverse changes in these factors could reduce guest traffic or impose practical limits on pricing, either of which could reduce revenue and operating income, which could adversely affect Franchise Sales, the Royalty and the ability of BPI to pay the Royalty to the Partnership or interest on the BP Loan to the Fund.

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 (the "**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 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 trademarks in Canada can be challenged pursuant to provisions of the Trade-marks Act (Canada) and if any BP Rights are ever successfully challenged, this may have an adverse impact on Franchise Sales and therefore on the Royalty. The Partnership owns the BP Rights in Canada. However it does not own identical or similar trademarks owned by parties not related to BPI or the Partnership in other jurisdictions. Third parties may use such trademarks in jurisdictions other than Canada in a manner that diminishes the value of such trademarks. If this occurs, the value of the BP Rights may suffer and gross revenue by Boston Pizza Restaurants could decline. Similarly, negative publicity or events associated with such trademarks in jurisdictions outside of Canada may negatively affect the image and reputation of Boston Pizza Restaurants in Canada, resulting in a decline in gross revenue by Boston Pizza Restaurants.

### GOVERNMENT REGULATION

BPI 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.

### 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.

### HARMONIZED SALES TAX FOR BRITISH COLUMBIA

Effective July 1, 2010, the British Columbia Ministry of Finance harmonized the federal Goods and Services Tax and the provincial sales tax ("**HST**"). HST imposes a 12% tax on restaurant services in British Columbia. Prior to July 1, 2010, restaurant services in British Columbia were exempt from provincial sales tax and were only subject to the 5% Goods and Services Tax. HST may continue to 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.

### 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, 2010 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 BPI, the Fund, the Trust, the Partnership, Holdings LP, Boston Pizza Holdings GP Inc., BPGP, Boston Pizza Restaurants, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking information. When used in this Management's Discussion and Analysis, forward-looking 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.

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; and
- 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:

- absence of changes in law;
- protection of BP Rights;
- pace of commercial real estate development;
- franchisees' access to financing;
- franchisees' duly paying franchise fees and other amounts;
- there will be no closures of Boston Pizza Restaurants that materially affect the amount of Royalty paid by BPI to the Fund;
- speed of permitting;
- future results being similar to historical results; and
- expectations related to future general economic conditions.

This forward-looking information involves a number of risks, uncertainties and 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;
- cash distributions are not guaranteed;
- accounting policies and practices;
- the impact of new or increased or harmonization of sales taxes upon gross sales; 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.

## Independent Auditors' Report

To the Shareholders:

We have audited the accompanying consolidated financial statements of Boston Pizza International Inc. ("the Entity"), which comprise the balance sheets as at December 31, 2010 and December 31, 2009 and the statements of earnings and comprehensive income, statements of accumulated deficit, and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Boston Pizza International Inc. as at December 31, 2010 and December 31, 2009, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

February 9, 2011
Vancouver, Canada

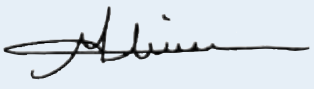
## Consolidated Balance Sheets

December 31, 2010 and 2009

| (in thousands of Canadian dollars) | 2010 | 2009 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 4,087 | $ 2,829 |
| Accounts receivable (note 16) | 9,575 | 9,471 |
| Income tax receivable | — | 299 |
| Prepaid expenses and other current assets | 951 | 944 |
| Advertising fund restricted assets (note 4 (m)) | 13,104 | 11,327 |
| Future income taxes (note 12) | 237 | 331 |
| | 27,954 | 25,201 |
| Long-term receivables (note 6) | 20,255 | 19,466 |
| Long-term investments | 75 | 75 |
| Capital assets (note 7) | 4,623 | 5,481 |
| Intangible assets and deferred charges (note 8) | 28,436 | 18,239 |
| Future income taxes (note 12) | 30,697 | 27,496 |
| | $ 112,040 | $ 95,958 |
| **LIABILITIES AND SHAREHOLDERS' DEFICIENCY** | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | $ 6,913 | $ 6,364 |
| Distributions payable | 1,526 | 1,469 |
| Income tax payable | 678 | — |
| Current portion of deferred revenue | 918 | 1,444 |
| Current portion of long-term debt (note 10) | 438 | 554 |
| Promissory note payable (note 11) | 2,420 | 3,809 |
| Advertising fund restricted liabilities (note 4 (m)) | 13,104 | 11,327 |
| | 25,997 | 24,967 |
| Long-term debt (note 10) | 30,709 | 20,645 |
| Deferred revenue | 2,789 | 3,714 |
| Loan from Boston Pizza Royalties Income Fund (note 11) | 24,000 | 24,000 |
| Other long-term liabilities | 638 | 588 |
| Deferred gain (note 5) | 143,413 | 128,203 |
| Shareholders' deficiency: | | |
| Deficit | (115,506) | (106,159) |
| Commitments (note 14) | | |
| Subsequent events (note 19) | | |
| | $ 112,040 | $ 95,958 |

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:



**George Melville**
Director

**James Treliving,**
Director

## Consolidated Statements of Earnings and Comprehensive Income

Year ended December 31, 2010 and 2009

| (in thousands of Canadian dollars) | 2010 | 2009 |
|---|---|---|
| Franchise, restaurant and other revenues | $ 68,509 | $ 70,189 |
| Administrative expenses and restaurant operating costs (note 16) | 40,010 | 43,571 |
| Non-controlling interest related to royalty expense | 18,676 | 17,956 |
| Earnings before undernoted | 9,823 | 8,662 |
| Depreciation and amortization | 1,283 | 1,397 |
| Management fee (note 16) | 588 | 586 |
| Interest on loan from Boston Pizza Royalties Income Fund (note 16) | 1,800 | 1,800 |
| Interest on long-term debt | 801 | 590 |
| Amortization of deferred gain (note 5) | (1,597) | (1,451) |
| Amortization of intangible assets | 1,079 | 858 |
| Earnings before undernoted items | 5,869 | 4,882 |
| Loss on sale of Fund units (note 5) | 1,767 | — |
| Earnings before income taxes | 4,102 | 4,882 |
| Income tax expense (recovery) (note 12): | | |
| Current | 2,385 | (1,678) |
| Future | (1,000) | 4,216 |
| | 1,385 | 2,538 |
| Net earnings and comprehensive income | $ 2,717 | $ 2,344 |

## Consolidated Statements of Accumulated Deficit

Years ended December 31, 2010 and 2009

| (in thousands of Canadian dollars) | 2010 | 2009 |
|---|---|---|
| Accumulated deficit, beginning of year | $ (106,159) | $ (108,310) |
| Net earnings | 2,717 | 2,344 |
| Dividends declared | (14,170) | — |
| Refundable dividend tax | 2,106 | (193) |
| Accumulated deficit, end of year | $ (115,506) | $ (106,159) |

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Cash Flows

Year ended December 31, 2010 and 2009

| (in thousands of Canadian dollars) | 2010 | 2009 |
|---|---|---|
| Cash and cash equivalents provided by (used in): | | |
| Operating: | | |
| Net earnings | $ 2,717 | $ 2,344 |
| Items not affecting cash: | | |
| Depreciation and amortization | 1,283 | 1,397 |
| Future income taxes | (1,000) | 4,216 |
| Amortization of deferred gain | (1,597) | (1,451) |
| Amortization of intangible assets and deferred charges | 1,079 | 858 |
| Loss on sale of Fund units | 1,767 | — |
| Non-controlling interest related to royalty expense | 18,676 | 17,956 |
| Distributions to non-controlling interest | (18,220) | (18,087) |
| Change in non-cash operating items (note 18(a)) | (279) | (3,750) |
| | 4,426 | 3,483 |
| Financing: | | |
| Repayment of long-term debt | (616) | (570) |
| Proceeds from long-term debt | 10,564 | 10,749 |
| Payment of promissory note | (3,702) | (2,444) |
| Payment of dividends | (11,857) | — |
| Long-term receivables | (789) | 612 |
| | (6,400) | 8,347 |
| Investing: | | |
| Proportionate increase in ownership of Boston Pizza Royalties Limited Partnership | (10,270) | (10,619) |
| Sale of Fund Units, net of transaction costs | 15,039 | — |
| Purchase of capital assets, net | (425) | (282) |
| Purchase of intangible assets | (1,112) | (1,086) |
| | 3,232 | (11,987) |
| Increase (decrease) in cash and cash equivalents | 1,258 | (157) |
| Cash and cash equivalents, beginning of year | 2,829 | 2,986 |
| Cash and cash equivalents, end of year | $ 4,087 | $ 2,829 |

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

See accompanying notes to consolidated financial statements.

## Note to Consolidated Financial Statements

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

Years ended December 31, 2010 and 2009

### 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.

### 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 | 14.7% |

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:

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. The Company continues to evaluate the impact of adopting IFRS on its financial statements.

### 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, income tax receivable, 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, income tax 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:

| | **2010** | 2009 |
|---|---|---|
| Financial assets: | | |
| Cash and cash equivalents | $ 4,087 | $ 2,829 |
| Accounts receivable | 9,575 | 9,471 |
| Income tax receivable | — | 299 |
| Long-term receivables | 20,255 | 19,466 |
| | $ 33,917 | $ 32,065 |
| Financial liabilities: | | |
| Accounts payable and accrued liabilities | $ 6,913 | $ 6,364 |
| Distributions payable | 1,526 | 1,469 |
| Income tax payable | 678 | — |
| Long-term debt | 31,147 | 21,199 |
| Promissory note payable | 2,420 | 3,809 |
| Loan from Boston Pizza Royalties Income Fund | 24,000 | 24,000 |
| | $ 66,684 | $ 56,841 |

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 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 rate environment regularly but as at December 31, 2010, 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 $30.4 million (2009 – $20.2 million) in floating rate debt. The annual impact for every 1% increase in the variable rate would be $0.3 million (2009 – $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 maturities of the Company's financial liabilities are as follows:

| | Value | Maturity |
|---|---|---|
| Accounts payable and accrued liabilities | $ 6,913 | Less than 1 year |
| Current portion of long-term debt | 438 | Less than 1 year |
| Promissory note payable | 2,420 | Less than 1 year |
| Income tax payable | 678 | Less than 1 year |
| Long-term debt | 30,709 | 2012-2015 |
| 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 largely 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 $9.6 million (2009 – $9.5 million), long term accounts receivable $1.3 million (2009 – nil) as well as the value of long-term receivables from companies under common control of $19.0 million (2009 – $19.5 million).

The amount of total accounts receivable outstanding 1 to 30 days is $5.9 million (2009 – $5.1 million), 31 to 60 days is $1.1 million (2009 – $1.2 million), 61 to 90 days is $1.0 million (2009 – $1.0 million), and over 90 days is $2.9 million (2009 – $2.2 million). A provision for impaired accounts receivable of $0.4 million (2009 – $0.8 million) has been recorded.

The Company continues to make every effort to collect all past due amounts, including establishing payment plans with existing franchisees.

(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

| | 2010 | 2009 |
|---|---|---|
| Liquidity: | | |
| Cash and cash equivalents | $ 4,087 | $ 2,829 |
| Undrawn credit facilities | 7,500 | 12,991 |
| Total liquidity | 11,587 | 15,820 |
| Capitalization: | | |
| Unsecured notes | 2,420 | 3,809 |
| Long-term debt | 31,147 | 21,199 |
| Total debt | 33,567 | 25,008 |
| Deferred gain | 143,413 | 128,203 |
| Shareholder's deficiency | (115,506) | (106,159) |
| Net equity position | 27,907 | 22,044 |

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 (see note 9).

(l) Gift cards:

Boston Pizza has a Gift Card program which allows customers to 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.

The purpose of the gift card program is to expand the Boston Pizza brand through increased exposure, as well as to increase Franchise Sales. The restricted cash related to the gift cards as recorded in Advertising Fund restricted assets at December 31, 2010 and 2009 represent the prepaid amounts not yet redeemed by customers. These cash balances, as well as the outstanding customer obligations for these gift cards are recorded as Advertising Fund restricted assets and liabilities on the consolidated 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, and brand protection and to administer the gift card program.

The deficit balance of the advertising fund as at December 31, 2010 was $0.8 million versus a deficit of $1.4 million as at December 31, 2009, which was included in Advertising Fund restricted assets.

(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.

## 5. Deferred gain:

| | 2010 | 2009 |
|---|---|---|
| Balance, beginning of year | $ 128,203 | $ 129,566 |
| Value of fund units received on exchange of Partnership units | 16,807 | — |
| Long-term incentive plan | — | 88 |
| Amortization of deferred gain | (1,597) | (1,451) |
| Balance, end of year | $ 143,413 | $ 128,203 |

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

The Additional Entitlement is calculated as 92.5% of the royalty revenue added to the Royalty Pool, divided by the yield of the Fund Units.

The Company receives 80% of the Additional Entitlement initially, with the balance received when the actual full year performance of the new restaurants is known with certainty. Monthly distributions from the Fund are based on full Additional Entitlement, 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, 2010, 18 (2009 – 25) new Boston Pizza restaurants that opened during the period from January 1, 2009 to December 31, 2009 (2009 – January 1, 2008 to December 31, 2008) were added to the Royalty Pool of the Fund while one (2009 – two) restaurant that closed during the period was removed. The franchise sales of these 17 net new restaurants were initially estimated at $24.2 million. In accordance with the terms of the partnership agreements, the Partnership provided entitlements to the Company to receive distributions on 648,259 (2009 – 1,175,106) Class B general partner units in the Partnership in exchange for the addition of these new restaurants to the Royalty Pool. Of the Additional Entitlement, 20% (2010 – 129,652; 2009 – 235,021 units), remain unissued and are not entitled for conversion to Fund units until January 1, 2011 (2009 units – January 1, 2010) based on the actual performance of the new stores (note 19).

On January 1, 2010, adjustments to royalty payments and Additional Entitlement were made based on the actual performance of the 23 net new restaurants added to the Royalty Pool on January 1, 2009. Based on these adjustments, the Company received its pro rata portion of the remaining Additional Entitlement, 15,728 (2009 – 248,629) Fund units.

On March 17, 2010, the Company exchanged 5,531,778 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 $16.1 million and recognized a loss on sale of $1.8 million before tax and net of transaction costs of $1.1 million. Subsequent to the exchange and sale of Fund units, the Company holds exchangeable Partnership units equivalent to 2,513,441 Fund units, or 14.7% of the issued and outstanding units on a fully diluted basis.

Restaurant locations – Canada:

| | 2010 | 2009 |
|---|---|---|
| Corporately owned restaurants included in the Royalty Pool | 3 | 3 |
| Franchised restaurants included in the Royalty Pool | 337 | 320 |
| | 340 | 323 |
| Closure of franchised restaurant included in Royalty Pool | (6) | (1) |
| Franchised restaurants excluded from the Royalty Pool (note 19(b)) | 6 | 18 |
| | 340 | 340 |

## 6. Long-term receivables:

Long-term receivables consist of the following:

| | 2010 | 2009 |
|---|---|---|
| Advances to companies owned by shareholders of the Company,non-interest bearing, unsecured with no specified terms of repayment | $ 614 | $ 614 |
| Long term receivables from franchisees | $ 1,289 | $ — |
| Promissory notes from companies owned by the shareholders of the Company, bearing interest at 7.6%, unsecured with no specific terms of repayment | 18,352 | 18,852 |
| | $ 20,255 | $ 19,466 |

Although the promissory notes from companies owned by the shareholders of the Company have no specific terms of repayment, the Company has classified them as long-term receivables as repayment is expected over a period longer than 12 months. On December 31, 2008 the Company recorded a provision for impairment of long-term receivables in relation to the 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 receivable from franchisees is classified as long term as payment is expected to take longer than twelve months. The Company continues to make every effort to collect all long-term receivable balances, including establishing payments plans with existing franchisees.

## 7. Capital assets:

| 2010 | Cost | Accumulated amortization | Net book value |
|---|---|---|---|
| Office furniture and equipment | $ 7,136 | $ 5,507 | $ 1,629 |
| Office furniture and equipment under capital lease | 2,351 | 1,916 | 435 |
| Leasehold improvements | 4,852 | 3,327 | 1,525 |
| Building | 1,242 | 208 | 1,034 |
| Auto | 24 | 24 | — |
| | $ 15,605 | $ 10,982 | $ 4,623 |

| 2009 | Cost | Accumulated amortization | Net book value |
|---|---|---|---|
| Office furniture and equipment | $ 6,816 | $ 5,000 | $ 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 |
| | $ 15,180 | $ 9,699 | $ 5,481 |

## 8. Intangible assets and deferred charges:

| 2010 | Cost | Accumulated amortization | Net book value |
|---|---|---|---|
| Intangible assets ("BP Rights") and other | $ 482 | $ 175 | $ 307 |
| Long-term portion of deferred charges | 1,049 | 212 | 837 |
| Proportionate increase in ownership of Boston Pizza Royalties Limited Partnership | 25,182 | 379 | 24,803 |
| Computer software | 5,320 | 2,831 | 2,489 |
| | $ 32,033 | $ 3,597 | $ 28,436 |

| 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 |

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".

Between October 1, 2008 and February 23, 2009, and then again between October 1, 2009 and June 30, 2010, BPI, through a series of transactions, re-acquired a portion of certain rights which were previously granted to the Partnership. In accordance with EIC-154 "Accounting for Pre-Existing Relationships between the Parties of a Business Combination", BPI has recorded these rights as an intangible asset apart from Goodwill. This asset is being amortized over the remaining life of the License and Royalty agreement.

## 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, 2010 and 2009, there were no amounts outstanding under the lines of credit.

## 10. Long-term debt:

Long-term debt consists of

| | 2010 | 2009 |
|---|---|---|
| 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 | 612 | 797 |
| 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 | 399 | 603 |
| The Bank of Montreal revolving credit facility bearing interest at prime plus 0.50% and bankers' acceptance rates plus 2.00% per annum, with a maturity date of September 22, 2012 | 20,000 | 14,509 |
| The Bank of Montreal revolving credit facility bearing interest at prime plus 1.50% and bankers' acceptance rates plus 3.00% per annum, with a maturity date of September 22, 2012 | 5,000 | — |
| Other including capital leases: | 136 | 290 |
| | 31,147 | 21,199 |
| Current portion | 438 | 554 |
| | $ 30,709 | $ 20,645 |

Certain debt agreements contain minimum levels for fixed charge coverage ratios. For the year ended December 31, 2010, the Company was in compliance with this ratio related to $1.0 million in GE Canada Equipment Financing G.P. ("GE") term loans. The covenant is determined annually.

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

In 2008, the Partnership established a $20 million revolving credit facility for the purpose of funding purchases of Units under the Fund's normal course issuer bids. This credit facility bears interest at prime plus 0.50% per annum and has a maturity date of September 22, 2012. As at December 31, 2010, this credit facility was fully drawn (2009 – $14.5 million).

During the year, the Partnership established an additional $5.0 million credit facility (the "Supplementary NCIB Credit Facility"). The Supplementary NCIB Credit Facility bears 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. As at December 31, 2010, the Supplementary NCIB Credit Facility was fully drawn (2009 – nil).

The key covenants under the credit facilities are the same as under the Partnership's current line of credit and term loan. Like the Partnership's current line of credit and term loan, the credit facilities are secured by a first charge over the assets of the Partnership and are guaranteed by the Fund and its other subsidiaries, some of whom have also granted security for their obligations under those guarantees.

The fair market value of the Company's long-term debt is $31.4 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 variable rate would result in a minimal impact on the fair market value.

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

| | |
|---|---|
| Long-term debt: | |
| 2011 | $ 363 |
| 2012 | 30,359 |
| 2013 | 211 |
| 2014 | 78 |
| 2015 and thereafter | — |
| | 31,011 |
| Capital lease obligations: | |
| 2011 | $ 75 |
| 2012 | 48 |
| 2013 | 13 |
| | 136 |
| Total | $ 31,147 |

## 11. Notes payable:

| | 2010 | 2009 |
|---|---|---|
| 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 | 2,420 | 3,809 |
| | 26,420 | 27,809 |
| Current portion | 2,420 | 3,809 |
| | $ 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.

During the year, the Company made payments of $15.6 million (2009 – $2.4 million), of which $3.7 million substantially settled the current portion of the December 31, 2009 outstanding promissory note balance and $11.9 million settled a portion of the $14.2 million (2009 – nil) dividends declared during the year to its parent company, and initially paid through a non-interest bearing, due upon demand, promissory note payable.

## 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:

| | 2010 | 2009 |
|---|---|---|
| Earnings before income taxes | $ 4,102 | $ 4,882 |
| Combined Canadian federal and provincial tax rates | 29.3% | 31.0% |
| | 1,202 | 1,513 |
| Increased (reduced) by: | | |
| Permanent differences | 78 | 295 |
| Difference between statutory rate and refundable rate | 24 | (234) |
| Refundable tax charged to retained earnings | 5 | (193) |
| Change in statutory tax rates | 76 | 1,157 |
| Income tax expense | $ 1,385 | $ 2,538 |

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

| | 2010 | 2009 |
|---|---|---|
| Future income tax assets (liabilities): | | |
| Goodwill and other intangibles | (5,509) | (3,197) |
| Deferred revenue | 512 | 718 |
| Deferred gain | 35,943 | 30,239 |
| Other | (12) | 67 |
| | 30,934 | 27,827 |
| Current future income tax assets | 237 | 331 |
| | $ 30,697 | $ 27,496 |

## 13. Share capital:

Authorized:

Unlimited class A common shares

Unlimited class B common shares

| | 2010 | 2009 |
|---|---|---|
| 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:

| | |
|---|---|
| 2011 | 1,974 |
| 2012 | 1,891 |
| 2013 | 1,567 |
| 2014 | 1,514 |
| 2015 | 1,060 |
| 2016 and thereafter | 2,871 |

## 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 3,540,000 Class B Shares remained outstanding as at December 31, 2010. 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, 2010, 760,000 of the Granted Options vested. During the Year, a total of 312,000 options were surrendered for cancellation, 156,000 of which were vested and 156,000 of which were un-vested. There was no impact to earnings during the Year.

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

| | Number of Options | Weighted Average Exercise Price | Total Number of Vested Options | Total Number Un-Vested Options |
|---|---|---|---|---|
| Balance January 1, 2010 | 3,852,000 | $1.00 | 812,000 | 3,040,000 |
| Vested on January 1, 2010 | Nil | N/A | 760,000 | (760,000) |
| Balance January 1, 2010 after vesting | 3,852,000 | $1.00 | 1,572,000 | 2,280,000 |
| 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 | (312,000) | N/A | (156,000) | (156,000) |
| Balance December 31, 2010 | 3,540,000 | $1.00 | 1,416,000 | 2,124,000 |

## 16. Related party transactions:

The Company earned revenues of $1.8 million (2009 – $0.4 million) from a company under common control.

Included in administrative expenses and restaurant operating costs are management fees of $2.6 million (2009 – $3.2 million) to companies under common control. Additionally, included in management fees is $0.6 million (2009 – $0.6 million) paid to the Company's parent for services rendered.

Included in accounts payable is $0.1 million (2009 – nil) due to the parent company. Included in accounts receivable is $0.7 million (2009 – $0.1 million) due from an associated company.

The Company paid interest on a note payable to the Fund of $1.8 million (2009 – $1.8 million).

As at December 31, 2010 the Company owes $2.4 million (2009 – $3.8 million) in a promissory note payable to the parent company.

## 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:

| | 2010 | 2009 |
|---|---|---|
| Accounts receivable | $ (104) | $ (620) |
| Prepaid expenses and other current assets | (7) | 590 |
| Accounts payable and accrued liabilities | 549 | (1,410) |
| Income taxes payable | 678 | (700) |
| Income taxes receivable | 299 | (299) |
| Deferred revenue | (1,451) | (1,297) |
| Other assets | 106 | 106 |
| Long-term liabilities | (349) | (120) |
| | $ (279) | $ (3,750) |

(b) Supplementary information:

| | 2010 | 2009 |
|---|---|---|
| Interest received | $ 23 | $ 20 |
| Interest paid | 2,735 | 2,390 |
| Income taxes paid | 3,419 | — |
| Income taxes received | 2,011 | 713 |
| Non-cash transactions: | | |
| Increase (decrease) in refundable dividend tax and future income taxes | (2,106) | 193 |
| Settlement of dividends payable through issuance of notes payable | 14,170 | — |

## 19. Subsequent events:

(a) On January 1, 2011, adjustments to royalty payments and Additional Entitlement were made based on the actual performance of 17 net new restaurants added to the Royalty Pool on January 1, 2010. Based on these adjustments, the Company received its pro rata portion of the remaining Additional Entitlement, 164,033 Fund units.

(b) On January 1, 2011, 6 new Boston Pizza restaurants that opened during the period from January 1, 2010 to December 31, 2010 were added to the Royalty Pool while 6 restaurants that closed during the period were removed. The Franchise Sales of these zero net new restaurants has been estimated at $2.2 million. The total number of restaurants in the Royalty Pool has remained at 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 57,984 (2009 – 648,259) Fund units. The Company will also receive a proportionate increase in monthly distributions from the Partnership. Of the Additional Entitlement, 20% (2011 – 11,597 units; 2010 – 129,652 units), remain unissued and are not eligible for conversion to Fund units until January 1, 2012 (2010 units – January 1, 2011) based on the actual performance of the new stores.

## Unitholder Information

### Corporate Office
5500 Parkwood Way
Richmond, BC, V6V 2M4

### Investor Relations
5500 Parkwood Way
Richmond, BC, V6V 2M4
Tel: 604-270-1108
Fax: 604-270-4188
Email: investorrelations@bostonpizza.com
Web: www.bpincomefund.com

### Trustees of the Fund
**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**

### Auditors
KPMG LLP

### Legal Counsel
Borden Ladner Gervais LLP

### Registered and Records Office
#1200-200 Burrard Street
Vancouver, BC V7X 1T2

### 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

**Wes Bews**
Chief Financial Officer (interim)

*Audit Committee and Governance Committee

## Shareholder Information

### Corporate Office
5500 Parkwood Way
Richmond, BC, V6V 2M4

### Eastern Office
Suite 708 – 1 City Centre Drive
Mississauga, ON L5B 1M2

### Québec Office
3030 boulevard Le Carrefour
bureau 802, Laval, PQ, H7P 2P5

### Management Team
**Jim Treliving**
Chairman & Owner

**George C. Melville**
Chairman & Owner

**Mark Pacinda**
President and Chief Operating Officer

**Wes Bews**
Chief Financial Officer (interim)

## Boston Pizza International Inc. Executive Team

Left to right: **Jim Treliving**, Chairman & Owner, **Mark Pacinda**, President & Chief Operating Officer, **George Melville,** Chairman & Owner.

## Boston Pizza Royalties Income Fund Trustees

Left to right: **W. Murray Sadler, John L. Cowperthwaite, William C. Brown**

# Boston Pizza Royalties Income Fund Annual Report 2010

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