**For Immediate Release** **The Toronto Stock Exchange: BPF.UN**

# BOSTON PIZZA ROYALTIES INCOME FUND AND BOSTON PIZZA INTERNATIONAL INC. ANNOUNCE RECORD 2007 FULL YEAR AND FOURTH QUARTER SALES RESULTS AND JANUARY DISTRIBUTION TO UNITHOLDERS

***34 new restaurant openings and 5.7% same store sales growth contribute to record system-wide gross sales of $755 million in 2007***

VANCOUVER, BC, (February 11, 2008) - Boston Pizza Royalties Income Fund (the "Fund") and Boston Pizza International Inc. ("BPI") each reported today financial results for the period of January 1, 2007 to December 31, 2007 (the "Year") and the fourth quarter results from October 1, 2007 to December 31, 2007 (the "Period"). A copy of the management's discussion and analysis and financial statements are available at www.sedar.com and www.bpincomefund.com. The Fund will host a conference call to discuss the results on February 11, 2008 at 10:00 a.m. Pacific Time (1:00 p.m. Eastern Time). The call can be accessed by dialling 1-800-319-4610 or 604-638-5340. A replay will be available until February 18, 2008 by dialling 1-800-319-6413 or 604-638-9010 and entering the pin code: 5841 followed by # sign.

Same Store Sales Growth ("SSSG"), the key metric for revenue growth of the Fund, was 3.3% for the Period and 5.7% for the Year. Overall growth in franchise sales of restaurants in the royalty pool, was 20.4% for the Year. This was achieved through a combination of the addition of new restaurants to the royalty pool and SSSG. BPI opened 34 new Boston Pizza restaurants during the Year bringing the current total number of Boston Pizza restaurants open in Canada to 300, all of which are included in the royalty pool. Also during the Period, four restaurants were renovated to the latest design standards. A total of 19 Boston Pizza restaurants completed major renovations in 2007.

"Boston Pizza continued to perform very well in 2007," said Mike Cordoba, Chief Executive Officer. "We achieved a remarkable milestone by opening our 300th location during the fourth quarter. This further strengthens our position as Canada's number one casual dining brand, serving more customers in more locations than any other full service restaurant chain. We also increased same store sales by 5.7% in 2007 compared to 2006, which is a key factor in the profitability of our franchisees and also in our ability to increase monthly distributions to Unitholders. We increased monthly distributions three times in 2007 and, since the Fund's initial public offering in July 2002, monthly distributions have been increased a total of thirteen times for a total increase of 38.0%".

Earnings before income taxes per unit increased by 2.7% during the Period compared to the same period in 2006. Earnings before income taxes of the Fund for the Period were $4.3 million or $0.337 per unit compared to the fourth quarter of 2006 in which net earnings were $3.6 million or $0.328 per unit. Distributions declared for the Period were $0.458 per unit compared to the fourth quarter of 2006 in which distributions declared were $0.436 per unit. Distributions for the Period were funded entirely by cash flow from operations. No debt was incurred at any point during the Period to fund distributions.

The Trustees of the Fund are pleased to announce a monthly cash distribution to Unitholders of 11.5 cents per unit for January 2008. The January distribution will be paid to Unitholders of record at the close of business on February 21, 2008 and will be payable on February 29, 2008. The Fund periodically reviews distribution levels based on its policy of stable and sustainable distribution flow to Unitholders.

The Fund is a limited purpose, open-ended trust established under the laws of British Columbia to acquire indirectly certain trade-marks and trade names used by BPI in its Boston Pizza restaurants in Canada. The trade-marks are licensed to BPI for 99 years for which BPI pays the Fund 4% of franchise revenues of royalty pooled restaurants. Effective January 1, 2008, there are 300 restaurants in the royalty pool.

HIGHLIGHTS

The following table sets out selected historical information and other data from the financial statements of the Fund and the Boston Pizza Royalties Limited Partnership (the "Partnership"), which should be read in conjunction with the attached consolidated financial statements of the Fund.

| | Oct. 1, 2007 to Dec. 31, 2007 | Oct. 1, 2006 to Dec. 31, 2006 | Jan. 1, 2007 to Dec. 31, 2007 | Jan. 1, 2006 to Dec. 31, 2006 |
|---|---|---|---|---|
| | (in thousands of dollars – except restaurants, SSSG and per unit items) | | | |
| System-Wide Gross Sales | $195,819 | $172,875 | $755,497 | $646,195 |
| Number of restaurants in Royalty Pool | 266 | 226 | 266 | 226 |
| Franchise Sales reported by restaurants in Royalty Pool | $143,795 | $122,551 | $583,775 | $484,464 |
| Royalty Income – 4% of Franchise Sales of Royalty Pool Restaurants | $5,752 | $4,901 | $23,351 | $19,387 |
| Partnership administrative and interest expenses | $242 | $297 | $1,101 | $1,062 |
| Partnership earnings for the period before undernoted | $5,510 | $4,604 | $22,250 | $18,325 |
| BPI's interest in the earnings of the Partnership | $1,668 | $1,470 | $7,018 | $6,095 |
| Equity income related to BPI royalties earned by the Fund | $3,842 | $3,134 | $15,232 | $12,230 |
| Interest income | $450 | $450 | $1,800 | $1,800 |
| Earnings before income taxes | $4,292 | 3,584 | $17,032 | $14,030 |
| Future income tax recovery / (expense) | $118 | - | ($2,881) | - |
| Net earnings | $4,410 | $3,584 | $14,151 | $14,030 |
| Basic and Diluted Earnings per Fund unit | $0.343 | $0.328 | $1.131 | $1.298 |
| Distributions declared per Fund unit | $0.458 | $0.436 | $1.354 | $1.278 |
| Same store sales growth (SSSG) | 3.3% | 6.9% | 5.7% | 8.4% |
| Number of restaurants opened during period | 20 | 18 | 34 | 41 |
| Number of restaurants closed during period | 0 | 1 | 0 | 1 |

The Fund also announced today that a true up adjustment has been performed on the additional unit entitlements (the "Additional Entitlements") that BPI received from the 40 net new restaurants rolled into the royalty pool on January 1, 2007. Based on the audit of the 2007 royalties generated on these 40 net new restaurants, BPI received 386,341 Additional Unit Entitlements. These Additional Entitlements are the equivalent of Fund Units and represent 2.2% of the Fund Units on a fully diluted basis. Including the Additional Entitlements described above, BPI has the right to exchange its securities for 5,085,638 Fund Units, representing 28.5% of the Fund Units on a fully diluted basis. (See "Table 1" below).

**Table 1 - Summary of Boston Pizza Royalties Income Fund Units**

| | Issued & Outstanding Units, & Additional Entitlements | Issued & Outstanding Units, Additional Entitlements, & Holdback of Additional Entitlements | |
|---|---|---|---|
| Public Float as of January 1, 2008 | 12,750,922 | 12,750,922 | |
| BPI Additional Entitlements - Outstanding as of January 1, 2008 | 4,699,297 | 4,699,297 | |
| BPI Additional Entitlements - Release of Holdback from 40 net restaurants added to Royalty Pool on January 1, 2007. | 386,341 | 386,341 | (1) |
| BPI Additional Entitlements - Holdback as of January 1, 2008 (34 new Restaurants added to Royalty Pool) | N/A | 377,892 | (2) |
| Number of Fully Diluted Units as of January 1, 2008 | 17,836,560 | 18,214,452 | |
| BPI Total Ownership as of January 1, 2008 | 28.5% | 30.0% | |

(1) Release of Holdback of Additional Entitlements based on audit of sales from 40 net restaurants added to Royalty Pool on January 1, 2007.

(2) Holdback of Additional Entitlements from 34 new restaurants added to Royalty Pool on January 1, 2008. Actual number of Additional Entitlements will be determined in early 2009 once audited results of 34 new restaurants are known.

OUTLOOK

Boston Pizza is well positioned for future growth and should continue to strengthen its position as the number one casual dining brand in Canada. In 2008, BPI management anticipates that approximately 30 to 35 new locations will open across Canada. Management will continue to pursue further development in Western Canada, while the majority of new locations are expected to be in Eastern Canada and Quebec.

SSSG in the year ahead will be driven by a new television advertising campaign, a larger national marketing budget and an updated menu roll-out. In addition, Boston Pizza is continuing to aggressively pursue its renovation program with plans to complete a record 25 to 30 major restaurant renovations during 2008. Renovated restaurants have historically experienced an average sales increase of 10% - 15% in the year following the renovation.

Management of BPI expects that Boston Pizza's SSSG will be challenged in the first quarter of 2008 as a result of the comparatively strong 6.6% SSSG posted in the first quarter of 2007. In addition, a higher than normal number of locations will be closed for renovations in the quarter and the extremely cold weather which some regions of the country have experienced in early 2008 can impact customer traffic. However, BPI management fully expects that these renovations will have a positive impact when the completed restaurants re-open for business. Boston Pizza's operating strategy and execution have consistently delivered annual SSSG above industry averages and the management of BPI expects this performance to continue in 2008.

Certain information in this press release may constitute “forward-looking” information that involves known and unknown risks, uncertainties, future expectations and other factors which may cause the actual results, performance or achievements of the Fund, the Boston Pizza Holdings Trust, the Partnership, BPI, Boston Pizza restaurants, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking information. When used in this press release, such information uses words including “anticipate”, “estimate”, “may”, “will”, “expect”, “believe”, “plan” and other similar terminology. This information reflects current expectations regarding future events and operating performance and speak only as of the date of this press release. Such forward-looking information involves a number of risks, uncertainties and future expectations including, but not limited to the risks and uncertainties set out in the Fund’s management’s discussion and analysis for the year ended December 31, 2007 filed on SEDAR at www.sedar.com. Forward-looking information is made 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.

The trustees of the Fund have approved the contents of this press release.

FOR FURTHER INFORMATION PLEASE CONTACT:

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# BOSTON PIZZA ROYALTIES INCOME FUND

**Consolidated Balance Sheets**

December 31, 2007 and 2006

| | 2007 | 2006 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash | $ 334 | $ 275 |
| Interest receivable on note receivable from Boston Pizza International Inc. (note 4) | 150,000 | 150,000 |
| Distributions receivable from Boston Pizza Royalties Limited Partnership | 1,316,361 | 1,048,645 |
| | 1,466,695 | 1,198,920 |
| Note receivable from Boston Pizza International Inc. (note 4) | 24,000,000 | 24,000,000 |
| Investment in Boston Pizza Royalties Limited Partnership (note 5) | 125,198,453 | 98,854,840 |
| | $ 150,665,148 | $ 124,053,760 |
| **Liabilities and Unitholders' Equity** | | |
| Current liabilities: | | |
| Distributions payable to Fund unitholders | $ 1,466,356 | $ 1,198,640 |
| Future income taxes (note 10) | 2,881,000 | - |
| Unitholders' equity: | | |
| Fund units (note 6(a)) | 149,182,700 | 122,606,237 |
| Retained earnings (deficit) | (2,864,908) | 248,883 |
| | 146,317,792 | 122,855,120 |
| Organization and nature of operations (note 1) | | |
| Contingency (note 8) | | |
| Subsequent events (note 11) | | |
| | $ 150,665,148 | $ 124,053,760 |

See accompanying notes to consolidated financial statements.

Approved by the Trustees:

John Cowperthwaite

William Brown

Robert Phillips

# BOSTON PIZZA ROYALTIES INCOME FUND

**Consolidated Statements of Earnings and Comprehensive Income**

Years ended December 31, 2007 and 2006

| | 2007 | 2006 |
|---|---|---|
| Revenue (note 3(a)): | | |
| Equity income related to BPI royalties | $ 15,231,904 | $ 12,230,056 |
| Interest income | 1,800,059 | 1,800,059 |
| Earnings before income taxes | 17,031,963 | 14,030,115 |
| Future income taxes (note 10) | (2,881,000) | - |
| Net earnings for the period | 14,150,963 | 14,030,115 |
| Other comprehensive income | - | - |
| Comprehensive income | $ 14,150,963 | $ 14,030,115 |
| Weighted average units outstanding (note 6(b)) | 12,515,424 | 10,806,211 |
| Basic and diluted earnings per Fund unit | $ 1.13 | $ 1.30 |

**Consolidated Statements of Retained Earnings (Deficit)**

Years ended December 31, 2007 and 2006

| | 2007 | 2006 |
|---|---|---|
| Retained earnings, beginning of year | $ 248,883 | $ 272,549 |
| Net earnings for the period | 14,150,963 | 14,030,115 |
| Distributions declared to Fund unitholders | (17,264,754) | (14,053,781) |
| Retained earnings (deficit), end of year | $ (2,864,908) | $ 248,883 |

See accompanying notes to consolidated financial statements.

# BOSTON PIZZA ROYALTIES INCOME FUND

**Consolidated Statements of Cash Flows**

Years ended December 31, 2007 and 2006

| | 2007 | 2006 |
|---|---|---|
| Cash provided by (used in): | | |
| Operations: | | |
| Net earnings | $ 14,150,963 | $ 14,030,115 |
| Items not affecting cash: | | |
| Equity income | (15,231,904) | (12,230,056) |
| Future income taxes | 2,881,000 | - |
| Distributions received from Boston Pizza Royalties Limited Partnership | 15,197,033 | 12,032,161 |
| Accounts payable and accrued liabilities | - | (50) |
| | 16,997,092 | 13,832,170 |
| Financing: | | |
| Distributions paid to Fund unitholders | (16,997,033) | (13,833,310) |
| Increase (decrease) in cash | 59 | (1,140) |
| Cash, beginning of year | 275 | 1,415 |
| Cash, end of year | $ 334 | $ 275 |

Supplemental cash flow information (note 9)

See accompanying notes to consolidated financial statements.

**1. Organization and nature of operations:**

(a) Organization:

Boston Pizza Royalties Income Fund (the "Fund") is an unincorporated open-ended limited purpose trust established under the laws of the Province of British Columbia. Pursuant to the Declaration of Trust signed June 10, 2002, and as it was amended and restated on July 17, 2002, an amount equal to all of the income of the Fund together with the non-taxable portion of any net capital gain realized by the Fund will be distributed by the Fund to its unitholders each month. As a result, the Fund is not currently liable for income taxes. Income tax obligations related to the distributions by the Fund are obligations of the unitholders. Income trusts will become taxable starting in 2011 (note 10).

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

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

(a) Basis of presentation (continued):

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

All significant intercompany transactions have been eliminated.

The Partnership is considered to be a Variable Interest Entity. BPI is a 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, 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:

Amendments to CICA Handbook Section 1540, *Cash Flow Statements,* require entities to disclose total cash distributions on financial instruments classified as equity in accordance with a contractual agreement and the extent to which total cash distributions are non-discretionary. This disclosure requirement is effective for interim and annual financial statements relating to fiscal periods ending on or after March 31, 2007. The declaration of distributions from the Fund are at the discretion of the trustees of the Fund. For the year ended December 31, 2007 $17.0 million (2006 - $13.8 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.

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

(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 and provisions for contingencies. Actual results could differ from those estimates.

(h) Accounting changes:

CICA Handbook Section 1506, *Accounting Changes*, revised the standards on changes in accounting policy, estimates or errors to require a change in accounting policy to be applied retrospectively, unless doing so is impracticable, changes in estimates to be recorded prospectively, and prior period errors to be corrected retrospectively. Voluntary changes in accounting policy are allowed only when they result in financial statements that provide reliable and more relevant information. In addition, these revised standards call for enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. These revised standards are effective for interim and annual financial statements relating to fiscal periods ending on or after January 1, 2007.

(i) Financial instruments:

Effective January 1, 2007, the Fund adopted the recommendations of Canadian Institute of Charted Accountants ("CICA") Handbook Section 1530 *Comprehensive Income*, Section 3251 *Equity*, Section 3855 *Financial Instruments - Recognition and Measurement*, and Section 3861 *Financial Instruments - Disclosure and Presentation*. These new sections provide standards for recognition, measurement, disclosure and presentation of financial assets, financial liabilities and non-financial derivatives. Handbook section 1530 also establishes standards for reporting and displaying comprehensive income. Comprehensive income includes unrealized gains and losses on financial assets classified as available for sale, unrealized foreign exchange gains and losses arising from translation of self sustaining foreign operations, and changes in unrealized gains and losses on cash flow hedges.

The Fund has reviewed the impact of these new standards and determined that they do not have an impact on the consolidated financial statements.

Upon adoption of the new standards on January 1, 2007, the Fund classified its financial instruments as follows:

- Interest receivable on note receivable from BPI, distributions receivable 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 as *other financial liabilities*, which are measured at amortized cost.

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

(i) Financial instruments (continued):

- The requirement of the Fund to settle its note receivable from BPI in exchange for Class C general partner units ("Class C Units") 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.

(j) Future changes in accounting policy:

On December 1, 2006, the CICA issued three new accounting standards: Handbook Section 1535, *Capital Disclosures* ("Section 1535"), Handbook Section 3862, *Financial Instruments – Disclosures* ("Section 3862"), and Handbook Section 3863, *Financial Instruments – Presentation* ("Section 3863"). These new standards become effective for the Fund on January 1, 2008.

Section 1535 specifies the disclosure of: (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and, (iv) if it has not complied, the consequences of such non-compliance.

Sections 3862 and 3863 replace Handbook Section 3861, *Financial Instruments – Disclosure and Presentation*, revising and enhancing its disclosure requirements, and carrying forward its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

3. **Operations:**

(a) Franchise sales reported by Boston Pizza Restaurants in the Royalty Pool for the year ended December 31, 2007 were $583,775,183 (2006 - $484,683,589).

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

| | 2007 | 2006 |
|---|---|---|
| (in thousands of dollars, except number of restaurants in the Royalty Pool) | | |
| Restaurants in the Royalty Pool | 266 | 226 |
| Franchise sales reported by restaurants in the Royalty Pool | $ 583,775 | $ 484,684 |
| Royalty income - 4% of Franchise sales | $ 23,351 | $ 19,387 |
| Administrative and interest expenses | (1,101) | (1,062) |
| Partnership earnings for the period before undernoted | 22,250 | 18,325 |
| BPI's interest in the earnings of the Partnership | (7,018) | (6,095) |
| Equity income related to BPI royalties earned by Fund | 15,232 | 12,230 |
| Interest income | 1,800 | 1,800 |
| Net earnings before income taxes | $ 17,032 | $ 14,030 |

**3. Operations (continued):**

(b) 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 year. Effective January 1, 2006, restaurants opened on or before December 31 of the prior year are added to the Royalty Pool. The 2008 additions include all restaurants opened between January 1, 2007 and December 31, 2007 (2006 – January 1, 2006 and December 31, 2006) (note 11(b)). In return for adding this net franchise revenue to the Royalty Pool, BPI receives the right to indirectly acquire additional Fund units (the “Additional Entitlement”). 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, 2007, 41 (2006 - 31) new Boston Pizza restaurants that opened during the period from January 1, 2006 to December 31, 2006 were added to the Royalty Pool. One restaurant that closed during the period was removed from the Royalty Pool. The Franchise sales of these 40 net new restaurants were initially estimated at $74.6 million. The total number of restaurants in the Royalty Pool was increased to 266. 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 2,158,478 (2006 - 1,904,808) Fund units. BPI will also receive a proportionate increase in monthly distributions from the Partnership. Of the Additional Entitlement, 20% (2007 - 431,696 units; 2006 - 380,962 units), remain unissued and are not eligible for conversion to Fund units until January 1, 2008 (2006 units - January 1, 2007) based on the actual performance of the new stores (see note 11(a)).

(c) On January 1, 2007, adjustments to royalty payments and Additional Entitlement were made based on the actual performance of 31 restaurants added to the Royalty Pool on January 1, 2006. Based on these adjustments, BPI received its pro rata portion of the remaining Additional Entitlement, 465,995 Fund units.

(d) On February 19, 2007, BPI exchanged Class B general partner units (“Class B Units”) of the Partnership for 1,754,222 Fund units. BPI then sold these Fund units to the public. As of December 31, 2007, BPI holds exchangeable Partnership units equivalent to 3,187,730 (2006 – 2,749,175) Fund units, or 20% of the issued and outstanding units on a fully diluted basis.

BPI is required to maintain a minimum of 20% indirect interest in the Fund until there are 275 restaurants in the Royalty Pool. The 275$^{th}$ restaurant opened during 2007 and will be added to the Royalty Pool on January 1, 2008 (see note 11(b)).

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

| | 2007 | 2006 |
|---|---|---|
| Note receivable with interest payable monthly at 7.5% per annum, due July 17, 2042 | $ 24,000,000 | $ 24,000,000 |

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

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

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

| | |
|---|---|
| Balance as at December 31, 2005 | $ 77,100,557 |
| Acquisition of additional Partnership units by issuing Fund units | 21,776,860 |
| Equity income | 12,230,056 |
| Distributions from the Partnership | (12,252,633) |
| Balance as at December 31, 2006 | 98,854,840 |
| Acquisition of additional Partnership units by issuing Fund units | 26,576,464 |
| Equity income | 15,231,904 |
| Distributions from the Partnership | (15,464,755) |
| Balance as at December 31, 2007 | $ 125,198,453 |

Summarized balance sheet of the Partnership is as follows:

| | 2007 | 2006 |
|---|---|---|
| Current assets | $ 9,273,162 | $ 8,175,440 |
| Long-term assets, consisting of the BP Rights | 191,191,716 | 160,047,787 |
| Total assets | $ 200,464,878 | $ 168,223,227 |
| Current liabilities | $ 8,112,139 | $ 7,155,972 |
| Long-term liabilities | 5,000,000 | 5,000,000 |
| Partners' surplus | 187,352,739 | 156,067,255 |
| Total liabilities and surplus | $ 200,464,878 | $ 168,223,227 |

## 6. Fund units:

(a) The Declaration of Trust of the Fund provides that an unlimited number of Fund units may be issued. Each Fund unit is transferable and represents an equal undivided beneficial interest in any distributions of the Fund and in the net assets of the Fund. All units have equal rights and privileges. Each Fund unit entitles the holder thereof to participate equally in the allocations and distributions and to one vote at all meetings of Fund unitholders for each whole Fund unit held. The Fund units issued are not subject to future calls or assessments.

Pursuant to the Declaration of Trust, the holders, other than the Fund or its subsidiaries, of the Class A general partner units ("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.

(b) Fund units outstanding:

| | 2007 | 2006 |
|---|---|---|
| December 31 | 12,750,922 | 10,996,700 |
| Weighted average | 12,515,424 | 10,806,211 |

(c) Exchangeable units of the Partnership:

| | | |
|---|---|---|
| Units (underlying the Class B Units) | 3,619,426 | 3,130,137 |

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 3(b), on January 1, 2007, Class B Units of the Partnership received Additional Entitlement equivalent to 2,158,478 units (2006 – 1,904,808 units), upon adding new stores to the Royalty Pool.

**7. Related party transactions:**

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

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

**8. Contingency:**

Since 1995, BPI has been challenging Boston Chicken Inc.'s and Global Restaurant Operations of Ireland Limited's registration of the "Boston Chicken" trademark in Canada. In March 2003, the Federal Court of Appeal unanimously ordered the expungement of the "Boston Chicken" trademark from the trademark registry. The expungement of the "Boston Chicken" trademark was a significant victory because there is now only one owner, the Partnership, of registered trademarks using "Boston" in connection with restaurant foodservices in Canada. Additionally, since 1995, BPI has opposed the registration of the "Boston Market" trademark and related trademarks. As a result, "Boston Market" is not yet a registered trademark. In 2002, BPI and the Partnership commenced legal action against Global Restaurant Operations of Ireland Limited, Boston Market Canada Company, Boston Market Corporation and McDonald's Restaurants of Canada Limited (collectively the "Boston Market Group") for trademark infringement over the Boston Market Group's use of "Boston Market". In the fall of 2002, the Boston Market Group commenced legal actions challenging the validity of the Boston Pizza trademarks owned by the Partnership, some of which have been registered, and in use for over 30 years. BPI management believes that this is a tactical maneuver by the Boston Market Group and is unlikely to succeed.

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

The parties are waiting for trial dates, none of which have been set. BPI management does not expect the infringement trial to commence before 2009. BPI management believes that ultimately, BPI and the Partnership will succeed in its litigation with the Boston Market Group. However, there are no assurances or certainty as to the eventual outcome of these legal proceedings. As a result of published information, BPI understands that one or more of Boston Market Corporation and Boston Market Canada Company have been sold by McDonald's Restaurants of Canada Limited. BPI does not anticipate that this will have any impact on this litigation.

## 9. Supplemental cash flow information:

| | 2007 | 2006 |
|---|---|---|
| Supplemental cash flow information: | | |
| Interest received | $ 1,800,059 | $ 1,800,059 |
| Non-cash financing and investing activities: | | |
| Acquisition of additional Partnership units by issuing Fund units | 26,576,464 | 21,776,860 |

## 10. 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 to 29.5% for 2011 and 28% for 2012 and onwards. As a transition period applies to publicly traded trusts that existed prior to November 1, 2006, the new tax is not expected to apply to the Fund until January 1, 2011.

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

The impact on the Fund's consolidated financial statements was to record a future income tax liability, and a corresponding future income tax expense, of $2,881,000 for the year ended December 31, 2007. 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:

| | 2007 |
|---|---|
| Earnings before income taxes | $ 17,031,963 |
| Combined Canadian federal and provincial rate | 34.46% |
| Computed expected tax expense | 5,869,214 |
| Decreased by: | |
| Current year's earnings not taxable | (5,869,214) |
| Increased by: | |
| Recognition of future tax liability for enacted changes in tax laws and rates | 2,881,000 |
| Total tax expense per statement of earnings | $ 2,881,000 |

**10. Income taxes (continued):**

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

| | | 2007 |
|---|---|---|
| Future tax liabilities: | | |
| Investment in the Boston Pizza Royalties Limited Partnership | $ | 2,881,000 |
| Net future tax liability | $ | 2,881,000 |

**11. Subsequent events:**

(a) On January 1, 2008, adjustments to royalty payments and Additional Entitlement were made based on the actual performance of 40 net new restaurants added to the Royalty Pool on January 1, 2007. Based on these adjustments, BPI will receive its pro rata portion of the remaining Additional Entitlement, 386,341 Fund units.

(b) On January 1, 2008, 34 new Boston Pizza restaurants that opened during the period from January 1, 2007 to December 31, 2007 were added to the Royalty Pool. The Franchise sales of these 34 new restaurants has been estimated at $69.1 million. The total number of restaurants in the Royalty Pool has increased to 300. As a result of the contribution of the additional net sales to the Royalty Pool, and assuming 100% of the Additional Entitlement, BPI's Additional Entitlement is equivalent to 1,889,459 (2006 – 2,158,478) Fund units. BPI will also receive a proportionate increase in monthly distributions from the Partnership. Of the Additional Entitlement, 20% (2008 – 377,892 units; 2007 – 431,696 units), remain unissued and are not eligible for conversion to Fund units until January 1, 2009 (2007 units - January 1, 2008) based on the actual performance of the new stores.