



BOSTON PIZZA INTERNATIONAL INC.

Quarterly Financial Statements
for the period
September 1, 2002 to November 30, 2002

Provided as a supplement to the financial statements of the
Boston Pizza Royalties Income Fund



FINANCIAL HIGHLIGHTS

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

	<u>First Quarter ended November 30, 2002</u>	<u>First Quarter ended November 30, 2001</u>
	(in thousand of dollars)	
<i>Other Data</i>		
Restaurant System Franchise Sales ⁽¹⁾	\$ 68,073	\$ 61,418
<i>Income Statement Data</i>		
Franchise Fee Income	\$ 4,719	\$ 4,067
Sales - company restaurants ⁽²⁾	1,024	1,007
Equity income ⁽³⁾	878	-
Other	374	23
	6,995	5,097
Royalty expense	2,571	-
Administrative expenses and restaurant operating costs	3,314	2,722
Earnings before undernoted	\$ 1,110	\$ 2,374
U.S. territorial development expense	-	924
Depreciation and amortization	182	190
Management fees	361	1,002
Amortization of deferred gain	(145)	-
Interest on loan from Boston Pizza Royalty Income Fund	450	-
Interest on long-term debt	26	56
Earnings before income taxes	236	203

Notes:

- (1) Represents the Franchise Sales of all restaurants owned by BPI and the Franchise Sales reported to BPI by franchised Boston Pizza restaurants without audit where Franchise Sales are Gross Sales after deducting revenue from the sale of liquor, beer, wine and tobacco and revenue from BPI approved national promotions & discounts.
- (2) Includes Gross Sales for all restaurants owned by BPI.
- (3) Represents the equity income from BPI's investment in The Boston Pizza Royalties Limited Partnership and its effective 20% interest in The Boston Pizza Royalties Income Fund, which began on July 17, 2002.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

Boston Pizza International (“BPI” or the “Company”) is the franchisor of the Boston Pizza concept in Canada. The Company competes in the casual-dining sector of the restaurant industry. BPI’s revenue is derived from royalty income from franchised Boston Pizza restaurants, sales in corporately owned restaurants, initial franchise fees, and franchise renewal fees. Revenue is affected by the sales generated by franchised Boston Pizza restaurants, the sales generated by two corporately owned restaurants, and the number of restaurants opened during the year.

Administrative and operating expenses include salary and administrative costs associated with: the services provided to franchised Boston Pizza restaurants, the operation of the two corporately owned restaurants, new franchise sales, and development activities.

OPERATING RESULTS

This past quarter has continued to be a challenge for the food services industry. Yet despite these challenges, Boston Pizza has seen healthy and robust growth, relative to industry performance. Over the past nine years, Boston Pizza has produced annual Franchise Sales growth of approximately 16%. Total Franchise Sales for the 3-month period ending November 30, 2002 were \$68,072,892 compared to \$61,418,348 for the 3-month period ending November 30, 2001, an increase of 11%.

Furthermore, Boston Pizza restaurants showed a same store sales growth (“SSSG”)¹ rate of 5.4% year to date as of November 30, 2002. This can be attributed to a combination of successful marketing programs, increased brand awareness, and an aggressive renovation program to modernize Boston Pizza restaurants.

BPI’s revenues for the 3-month period ending November 30, 2002 were \$6,995,071 compared to \$5,096,754 for the 3-month period ending November 30, 2001, an increase of 37%. This increase is mainly attributable to the increase in royalties from the 14 stores that opened during the previous year and the SSSG that was realized from existing locations.

Operating expenses increased from \$2,722,447 in 2001 to \$3,313,522 for the 3-month period ending November 30, 2002, an increase of 22%.

¹ BPI calculates SSSG based on the rate of increase in Gross Sales of restaurants that have been open for a minimum of 24 months.

For the period, BPI earned income from the Partnership totaling \$877,662 as a result of BPI's indirect interest in the Fund, and incurred a royalty expense of \$2,570,760 for the use of the BP Rights.

After taking into account the Fund royalty expense, equity income, recognition of the deferred gain associated with the sale of the BP Rights, Earnings Before Undernoted decreased from \$2,374,307 for the first quarter in fiscal 2001 to \$1,110,789 for the first quarter in fiscal 2002, a decrease of 53%. This decrease is a result of the royalty expense, net of equity earnings in the Partnership (\$1,693,098) offset by increases from franchised and company restaurant operations.

Until August 31, 2002 BPI owned a 96.5% interest in the Boston Pizza Restaurants, LP (the "LP") The LP is developing *Boston's - the Gourmet Pizza* brand in the United States. BPI's territorial development expense associated with this investment for the first quarter of fiscal 2001 was \$923,809. Effective September 1, 2002 BPI transferred its interest in the LP to an affiliated entity and no longer incurs this expense. The affiliate has been separately capitalized by BPI in the amount of \$14,000,000, to fund the continuing financial requirements of the LP, until the business achieves operational break-even.

Management Bonuses for the 3-month period ending November 30, 2002 were \$360,857 compared to \$1,001,500 for the 3-month period ending August 31, 2001. This is a discretionary expense, which is applicable to certain management who are also shareholders of the Company and is based on several criteria including the profitability of the Company.

Interest on loan from Boston Pizza Royalty Income Fund of \$450,000 is for the \$24,000,000 loan from the Fund and is for this quarter.

Interest on long-term debt declined to \$26,394 in the first quarter of fiscal 2002 from \$55,820 for the first quarter of fiscal 2001. This is due to the fact that BPI paid out a pre-existing lease and paid down debt. BPI does not anticipate additional borrowings.

Given the combined effects of the above-noted factors, BPI produced a net earnings before income taxes of \$236,572 for the 3-month period ending November 30, 2002 compared to a net earnings before income taxes of \$202,934 for the previous 3-month period ending November 30, 2001.

LIQUIDITY

BPI is entirely a franchised business except for the two corporate restaurants. Therefore, capital requirements are limited to the upgrading of these two restaurants and the head office building and equipment requirements. This cost is estimated at \$250,000 for this fiscal year. Currently, available working capital of \$3,115,945 is more than sufficient to meet capital requirements.

OUTLOOK

BPI anticipates it will open 10-15 new locations during the fiscal year and is on track to open 70-80 new restaurants across Canada over the next five years. With no closures for the period, the Boston Pizza concept has continued to outperform the Canadian food-service industry store closure rate. The exceptionally low closure rate provides BPI with excellent revenue stability.

During the first quarter of fiscal 2003, 7 locations were renovated with an average value of \$300,000 - \$350,000. The Boston Pizza franchise agreement requires franchisees to renovate their locations once every seven years. This is a strong strategic positioning advantage of BPI. Renovated Boston Pizza restaurants typically experience strong post-renovation SSSG in the range of 10% to 15% in the year following completion of the renovation

A highlight of the quarter was the very successful "Rib-Rageous" promotion, which successfully increased same store sales growth.

Boston Pizza continues to strengthen its position as the number one casual dining brand in Canada. With 162 restaurants stretching from Victoria to Halifax, Boston Pizza has more locations and serves more customers annually than any other casual dining concept in Canada. Boston Pizza has continued to add new stores and increase same store sales at rates that exceed industry figures. Management believes that Boston Pizza will continue to do so.

FORWARD LOOKING STATEMENTS

Certain statements in this quarterly report may constitute “forward-looking” statements which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this quarterly report such statements are such words as “may”, “will”, “expect”, “believe”, “plan”, and other similar terminology. These statements reflect management’s current expectations regarding future events and operating performance and speak only as of the date of this quarterly report. These forward-looking statements involve a number of risks and uncertainties. The following are some factors that could cause actual results to differ materially from those expressed in or underlying such forward-looking statements: competition; changes in demographic trends; changing consumer preferences and discretionary spending patterns; changes in national and local business and economic conditions; legislation and governmental regulation; accounting policies and practices; and the results of operations and financial condition of BPI. The foregoing list of factors is not exhaustive.

BOSTON PIZZA INTERNATIONAL INC.

Consolidated Balance Sheets

	November 30, 2002	August 31, 2002
	(unaudited)	
Assets		
Current assets:		
Cash	\$ 1,580,214	\$ 7,443,342
Accounts receivable	4,123,527	4,482,658
Prepaid expenses	529,778	433,450
Current portion of long-term receivables	3,255,584	3,254,978
Future income taxes	131,518	131,518
	<u>9,620,621</u>	<u>15,745,946</u>
Long-term receivables and investments	21,589,937	22,300,834
Investment in Boston Pizza Royalties Limited Partnership (note 3)	6,818,128	6,250,729
Capital assets	2,595,105	2,725,553
Future income taxes	12,479,235	12,573,864
Goodwill	129,615	129,615
	<u>\$ 53,232,641</u>	<u>\$ 59,726,541</u>

Liabilities and Shareholders' Deficiency

Current liabilities:		
Accounts payable and accrued liabilities	\$ 5,360,349	\$ 5,519,534
Income taxes payable	-	5,510,686
Current portion of deferred revenue	845,028	1,375,908
Current portion of long-term debt	299,299	299,299
	<u>6,504,676</u>	<u>12,705,427</u>
Long-term debt	1,069,454	1,142,491
Deferred revenue	2,491,967	2,709,436
Loan from the Boston Pizza Royalties Income Fund	24,000,000	24,000,000
Deferred gain on disposition of intangible assets	57,040,283	57,184,869
Future income taxes	31,381	31,381
Shareholders' deficiency:		
Share capital	100	100
Deficit	(37,905,220)	(38,047,163)
	<u>(37,905,120)</u>	<u>(38,047,063)</u>
	<u>\$ 53,232,641</u>	<u>\$ 59,726,541</u>

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board

“George C. Melville”

Director “Michael Cordoba”

Director

BOSTON PIZZA INTERNATIONAL INC.

Consolidated Statements of Operations and Retained Earnings (Deficit)
(Unaudited)

Three month periods ended November 30, 2002 and 2001

	2002	2001
Franchise fee income	\$ 4,718,749	\$ 4,066,727
Sales - company restaurants	1,024,345	1,007,056
Equity income (note 3)	877,662	-
Interest and other	374,315	22,971
	6,995,071	5,096,754
Royalty expense	2,570,760	-
Administrative expenses and restaurant operating costs	3,313,522	2,722,447
Earnings before undernoted	1,110,789	2,374,307
U.S. territorial development expense (note 5)	-	923,809
Depreciation and amortization	181,552	190,244
Management bonus	360,857	1,001,500
Amortization of deferred gain	(144,586)	-
Interest on loan from the Boston Pizza Royalty Income Fund	450,000	-
Interest on long-term debt	26,394	55,820
Earnings before income taxes	236,572	202,934
Income taxes	94,629	14,758
Net earnings	141,943	188,176
Retained earnings (deficit), beginning of period	(38,047,163)	1,369,762
Retained earnings (deficit), end of period	\$ (37,905,220)	\$ 1,557,938

See accompanying notes to consolidated financial statements.

BOSTON PIZZA INTERNATIONAL INC.

Consolidated Statements of Cash Flows
(Unaudited)

Three month periods ended November 30, 2002 and 2001

	2002	2001
Cash provided by (used in):		
Operations:		
Net earnings	\$ 141,943	\$ 188,176
Items not affecting cash:		
Depreciation	176,031	89,051
Future income taxes	94,629	(322,641)
Amortization of deferred charges	5,521	101,193
Amortization of deferred gain on disposition of intangible assets	(144,586)	-
Equity income	(877,662)	-
Distributions by Boston Pizza Royalties Limited Partnership	310,263	-
Changes in non-cash working capital items	(6,155,417)	237,050
	(6,449,278)	292,829
Investments:		
Changes in long-term receivables	704,770	309,340
Purchase of capital assets, net	(45,583)	(34,088)
	659,187	275,252
Financing:		
Bank indebtedness	-	(153,049)
Repayment of long-term debt	(73,037)	(65,560)
	(73,037)	(218,609)
Increase (decrease) in cash	(5,863,128)	349,472
Cash, beginning of period	7,443,342	107,204
Cash, end of period	\$ 1,580,214	\$ 456,676
Supplementary information:		
Cash paid for:		
Net interest paid	\$ 124,324	\$ 53,744
Income taxes	6,025,515	-
Non-cash transactions:		
Transfer of interest in Boston Pizza Restaurants, LP to a related party (note 5)	242,548	-

See accompanying notes to consolidated financial statements.

1. Basis of presentation:

The Company prepares its interim financial statements in accordance with Canadian generally accepted accounting principles on a basis consistent with those used and described in the annual consolidated financial statements. The disclosures contained in these interim consolidated financial statements do not include all requirements of generally accepted accounting principles for annual financial statements.

These interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended August 31, 2002. These financial statements reflect the same significant accounting policies as those described in the notes to the audited consolidated financial statements of Boston Pizza International Inc. (the "Company") for the year ended August 31, 2002, except for the change in accounting policy outlined below in note 2.

2. Adoption of new accounting policy:

Effective September 1, 2002, the Company adopted the new Recommendations of The Canadian Institute of Chartered Accountants Handbook Section 3062, Goodwill and Other Intangible Assets. Under Section 3062, goodwill with an indefinite life will no longer be amortized. Goodwill will be tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. In accordance with Handbook Section 3062, this change in accounting policy is not applied retroactively. Without this change, the Company would have recorded goodwill amortization of \$44,250 for the three months ended November 30, 2002.

3. Investment in Boston Pizza Royalties Limited Partnership:

The Company's investment in the Partnership is comprised of:

1,605,290 class A units of the Partnership	\$ 16,052,900
100,000,000 class B units of the Partnership	18,000,000
2,400,000 class C units of the Partnership	24,000,000
	<hr/> 58,052,900
Equity income during the period from inception to August 31, 2002	506,650
Distributions from the Partnership from inception to August 31, 2002	(466,069)
	<hr/> 58,093,481
Portion of deferred gain relating to the Company's ownership interest in the Partnership	(51,842,752)
	<hr/> 6,250,729
Equity income during the period	877,662
Distributions from the Partnership during the period	(310,263)
	<hr/> \$ 6,818,128

4. Long-term receivables and investments:

Long-term receivables and investments consist of the following:

	November 30, 2002	August 31, 2002
Debentures receivable, bearing interest between prime plus 2% and 11% per annum, receivable in blended monthly payments of approximately \$2,800	\$ 85,233	\$ 91,296
Advances to companies owned by shareholders of the Company, non-interest bearing, unsecured with no specific terms of repayment	7,186,927	7,885,634
Promissory notes to companies owned by the ultimate shareholders of the Company, bearing interest at 7.6%, unsecured with no specific terms of repayment	17,229,834	17,229,834
Investment in BP Limited Partnership Holdings Inc. (note 5)	242,548	242,548
Other	100,979	106,500
	24,845,521	25,555,812
Current portion	3,255,584	3,254,978
	\$ 21,589,937	\$ 22,300,834

5. Investment in BP Limited Partnership Holdings Inc.:

Effective September 1, 2002, the Company transferred its interest in Boston Pizza Restaurants, LP (the "Limited Partnership") to BP Limited Partnership Holdings Inc., a related party. As this transfer represents a related party transaction, it has been measured at the carrying amount on September 1, 2002 of \$242,548.

6. Accounts payable and accrued liabilities:

Included in accounts payable and accrued liabilities is \$310,264 (August 31, 2002 – nil) from Boston Pizza Royalties Limited Partnership.

7. Comparative figures:

Certain comparative figures have been reclassified to conform to the current period's presentation.



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