



## **BOSTON PIZZA ROYALTIES INCOME FUND**

For the period July 17, 2002 to September 30, 2002

# BOSTON PIZZA ROYALTIES INCOME FUND

## Report to the Unitholders

On July 17, 2002, The Boston Pizza Royalties Income Fund (the "Fund") completed its initial public offering and indirectly, through the Boston Pizza Royalties Limited Partnership (the "Partnership"), acquired 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 tradenames used by BPI or any affiliated entities in its business. The Fund also acquired, directly from a bank, the BPI loan (the "BP Loan") in the principal amount of \$24 million.

The Partnership licenses the BP Rights to BPI and, in return, receives royalties of 4% of franchise revenues from Boston Pizza restaurants in Canada included in the royalty pool. There are currently 154 restaurants in the royalty pool, and eight new stores will be added to the royalty pool on January 1, 2003.

Currently, BPI retains, indirectly, a 20% interest in the Fund and has agreed to maintain at least a 20% interest until there is a minimum of 275 Boston Pizza restaurants included in the royalty pool.

### Results of the period

During the period from July 17, 2002 through September 30, 2002, the Fund received \$2,283,529 in royalty income from BPI and \$375,000 of interest income on the \$24.0 Million loan to BPI.

Distributable cash of the Fund was \$1,730,839 for the period, while the Fund paid out \$963,557 in distributions. Subsequent to September 30, a distribution of \$640,577 (8.33¢ per unit) was declared and paid for the period September 1-30, 2002.

Distributions declared and paid to unitholders during the quarter were as follows:

Period	Payment Date	Amount/unit
July 17-31, 2002	August 30, 2002	4.20¢
August 1-31, 2002	September 30, 2002	8.33¢

This translates into an annualized distribution of \$1.00 per unit.

### Outlook

The Fund pays distributions to unitholders on a monthly basis. We recently announced a distribution of 8.33¢ per unit, payable on November 29, 2002, and will be announcing subsequent distributions on a regular basis.

As well, we will be launching the Fund's website, [www.bpincomefund.ca](http://www.bpincomefund.ca) on or about November 30, 2002. We look forward to utilizing this tool to better assist our unitholders

# BOSTON PIZZA ROYALTIES INCOME FUND

## Report to the Unitholders

with answers to frequently asked questions, links to the Fund's public documents, and other investor information.

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 serve more customers annually than any other casual dining concept in Canada. While the industry has had a slow start to the first half of 2002, Boston Pizza has continued to add new stores and increase same store sales.

On behalf of Boston Pizza Royalties Income Fund, I would like to take this opportunity to thank our unitholders for their support and confidence.

Sincerely,

A handwritten signature in black ink, appearing to read "John Cowperthwaite", written over a horizontal line.

John Cowperthwaite, FCA  
Chairman, Boston Pizza Royalties Income Fund  
On behalf of the Board of Trustees

# BOSTON PIZZA ROYALTIES INCOME FUND

## Management Discussion & Analysis

Period from July 17, 2002 to September 30, 2002

### OVERVIEW

On July 17, 2002 the Boston Pizza Royalties Income Fund ("the Fund") purchased, through the Boston Pizza Royalties Limited Partnership ("BPRLP"), the BP Rights<sup>1</sup> from Boston Pizza International ("BPI"). Concurrent with the transfer of the BP Rights to the BPRLP, BPRLP granted a license to BPI for the use of the BP Rights, for which BPI will pay Royalties to BPRLP on a monthly basis. The initial Royalty is 4% of franchise sales for 154 franchised full-service restaurants that were open throughout Canada at April 30, 2002 (collectively the "Royalty Pool"). The term of this license is 99 years.

Commencing on January 1, 2003 and annually thereafter (each an "Adjustment Date"), an adjustment will be made to the Royalty Pool, to roll-in new Boston Pizza full-service restaurants that have been open at least 60 days prior to that Adjustment Date. At each annual adjustment, the Fund will pay BPI, in securities exchangeable for Units of the Fund, 92.5% of the amount reflecting the value of any increase in the royalty at that time. The adjustment for new franchise revenues rolled into the Royalty Pool is designed to be accretive for unitholders.

Increases in Franchise Revenue are derived from both new Boston Pizza restaurants and same store sales growth. Increased franchise revenue 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 revenue is that BPI's Franchise Agreement requires that each restaurant undergo a complete store renovation every seven years as well as complete any equipment upgrades as required by BPI. Following a complete store renovation, the Franchise revenues for that store have historically increased 10-15%. Franchise revenue is also affected by the permanent closures of Boston Pizza restaurants. A Boston Pizza restaurant is closed when it ceases to be viable or when BPI has agreed with the franchisee to terminate the franchise agreement. In the last five years, only two full-service Boston Pizza restaurants were closed. One closure was due to non-renewal of an expired franchise agreement since the location no longer met the criteria for a Boston Pizza restaurant and one was due to unfavourable business performance.

The principal factors that influence the increase in the number of Boston Pizza restaurants include the availability of high quality sites, competition from other casual dining restaurants for prime locations, the cost of acquiring or leasing specific sites and the availability of committed, qualified individuals as franchisee candidates. Boston Pizza restaurants have a strong market presence in the markets in Canada in which they principally operate. BPI is continuing to develop new Boston Pizza restaurants throughout Canada.

Currently, BPI retains, indirectly, a 20% interest in the Fund and has agreed to maintain at least a 20% interest until there is a minimum of 275 Boston Pizza restaurants included in the royalty pool.

<sup>1</sup> BP Rights are the trademarks that as at July 17, 2002 were registered or the subject of pending applications for registration under the *Trademarks Act (Canada)*, and other trademarks and the trade names which are confusing with the registered or pending trademarks. The BP Rights purchased do not include the rights outside of Canada to any trademarks or trade names used by BPI or any affiliated entities in its business, and in particular do not include the rights outside of Canada to the trademarks registered or pending registration under the *Trademarks Act (Canada)*.

# **BOSTON PIZZA ROYALTIES INCOME FUND**

## **Management Discussion & Analysis**

Period from July 17, 2002 to September 30, 2002

### **OPERATING RESULTS**

#### **Revenues**

For the period of July 17, 2002 to September 30, 2002 Royalty income paid to the Fund was \$2,283,529 and Interest income was \$379,993. The Royalty income was based on the Royalty Pool of 154 franchised full-service Boston Pizza restaurants in Canada reporting franchise sales of \$57,088,228. Interest income for the period was primarily derived from a \$24.0 million loan from the Fund to BPI. Interest is paid monthly by BPI at a rate of 7.5% per annum.

#### **Operating Expenses**

The Fund's consolidated operating expenses were \$156,350: including \$96,605 General and Administrative expense, \$54,745 Interest expense on its \$5.0 million term and its \$1.0 million operating line of credit, and \$5,000 for amortization of deferred financing charges on its credit facilities.

The Fund also paid out \$776,333 to BPI, its non-controlling interest, which amounts represents BPI's ongoing 20% interest in the Fund.

#### **Net Earnings**

Net Earnings of the Fund were \$1,730,839 while the Fund paid out \$963,557 in distributions. Subsequent to September 30, a distribution of \$640,577 (8.33¢ per unit) was declared and paid for the period September 1-30, 2002.

Distributions declared and paid to unitholders during the quarter were as follows:

<b>Period</b>	<b>Payment Date</b>	<b>Amount/unit</b>
July 17-31, 2002	August 30, 2002	4.20¢
August 1-31, 2002	September 30, 2002	8.33¢

This translates into an annualized distribution of \$1.00 per unit.

### **OUTLOOK**

For the period of May 1, 2002 to September 30, 2002, a total of eight new full-service Boston Pizza restaurants were opened throughout Canada.

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 serve more customers annually than any other casual dining concept in

# **BOSTON PIZZA ROYALTIES INCOME FUND**

## **Management Discussion & Analysis**

Period from July 17, 2002 to September 30, 2002

Canada. While the industry has had a slow start to the first half of 2002, Boston Pizza has continued to add new stores and increase same store sales.

For the period ending September 30, 2002, industry figures, as provided by the Canadian Restaurant and Foodservices Association, indicate that sales from full service restaurants, the sector that Boston Pizza competes in, grew by a total of 3.3%. This growth in the industry appears to have come primarily from the addition of new restaurants since there was a decline in same store sales during the period of -0.7%.

For the same period, ending September 30, 2002, Boston Pizza's total sales growth was 15%. This increase was attributable to the addition of eight new stores and same store sales growth of 4.6%. Same store sales growth is the increase in annual gross revenue of a particular Boston Pizza restaurant as compared to sales in the previous year, where the restaurant was open for a full 12 months in each year.

Management expects that Boston Pizza will continue to outperform the industry through to the end of the year.

### **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.



Consolidated Financial Statements of

## **BOSTON PIZZA ROYALTIES INCOME FUND**

For the period July 17, 2002  
to September 30, 2002

(Unaudited)

# BOSTON PIZZA ROYALTIES INCOME FUND

Consolidated Balance Sheet  
(Unaudited)

September 30, 2002

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## Assets

### Current assets:

Cash	\$	412,541
Accounts receivable		12,791
Due from Boston Pizza International Inc. (note 3)		1,040,701
Prepaid expenses		56,750
		<hr/>
		1,522,783

Note receivable from Boston Pizza International Inc. (note 4) 24,000,000

Intangible assets (note 5) 109,348,900

Deferred financing charges, net of accumulated  
amortization of \$5,000 85,000

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\$ 134,956,683

## Liabilities and Unitholders' Equity

### Current liabilities:

Accounts payable and accrued liabilities \$ 750,501

Term loan (note 8) 5,000,000

Non-controlling interest (note 9) 58,052,900

Unitholders' equity 71,153,282

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\$ 134,956,683

Contingency (note 12)

See accompanying notes to consolidated financial statements.

# BOSTON PIZZA ROYALTIES INCOME FUND

Consolidated Statement of Operations  
(Unaudited)

Period from July 17, 2002 to September 30, 2002

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Franchise revenues reported by Boston Pizza outlets (notes 1 and 2(b))	\$ 57,088,228
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Revenue (notes 1 and 2(b)):	
Royalty income	\$ 2,283,529
Interest income	379,993
	<hr/> 2,663,522

Expenses:	
General and administrative (note 11)	96,605
Interest	54,745
Amortization of deferred financing charges	5,000
	<hr/> 156,350

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Earnings before non-controlling interest	2,507,172
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Non-controlling interest (note 9)	776,333
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Net earnings	\$ 1,730,839
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Basic and diluted earnings per fund unit (7,690,000 units)	\$ 0.225
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Consolidated Statement of Unitholders' Equity  
(Unaudited)

Period from July 17, 2002 to September 30, 2002

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Balance, beginning of period	\$ -
Issue of Boston Pizza Royalties Income Fund units (note 10)	70,386,000
Net earnings	1,730,839
Distributions declared	(963,557)
	<hr/> \$ 71,153,282

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See accompanying notes to consolidated financial statements.

# BOSTON PIZZA ROYALTIES INCOME FUND

Consolidated Statement of Cash Flows  
(Unaudited)

Period from July 17, 2002 to September 30, 2002

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Cash provided by (used in):

Operations:

Net earnings	\$ 1,730,839
Items not involving cash:	
Amortization of deferred charges	5,000
Non-controlling interest	776,333
Change in non-cash operating working capital	(670,005)
	<hr/> 1,842,167

Investments:

Acquisition of BP Rights (note 5)	(51,296,000)
Note receivable from Boston Pizza International Inc. (note 4)	(24,000,000)
	<hr/> (75,296,000)

Financing:

Issuance of fund units	76,900,000
Costs of issuance of fund units	(6,514,000)
Proceeds from term loan	5,000,000
Deferred financing charges	(90,000)
Distributions paid to unitholders	(963,557)
Distributions paid to non-controlling interest	(466,069)
	<hr/> 73,866,374

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Increase in cash, being cash, end of period	\$ 412,541
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Supplementary information:

Interest received	\$ 229,993
Interest paid	54,745
Non-cash financing and investing activities:	
Issuance of fund units on acquisition of BP rights	58,052,900

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See accompanying notes to consolidated financial statements.

# BOSTON PIZZA ROYALTIES INCOME FUND

Notes to Consolidated Financial Statements  
(Unaudited)

Period from July 17, 2002 to September 30, 2002

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## 1. Organization and nature of business:

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 dated June 10, 2002 and amended 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 will generally not be liable for income taxes. Income tax obligations related to the distributions by the Fund are obligations of the unitholders.

The Fund was established to indirectly, through the Boston Pizza Royalties Limited Partnership (the "Partnership"), acquire the trademarks and trade names owned by Boston Pizza International Inc. ("BPI") and used in connection with the operation of Boston Pizza restaurants in Canada (collectively, the "BP Rights"). The BP Rights do not include the rights outside of Canada to any trademarks or trade names used by BPI or any affiliated entities in its business, and in particular do not include the rights outside of Canada to the trademarks registered or pending registration under the Trade-marks Act (Canada). The amount recorded for the BP Rights excludes certain restaurant locations in Canada, primarily those locations that were opened subsequent to the formation of the Fund and have not been sold into the Fund.

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

BPI carries on business as a franchisor of casual dining pizza and pasta restaurants and operates only in Canada and, through various affiliated entities, in select markets in the United States and Mexico. The rights to operations outside of Canada 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"), its 80%-owned subsidiary Boston Pizza GP Inc. ("BPGP") and its interest in the Partnership (collectively, the "Companies"). BPGP is the managing general partner and BPI is a general partner of the Partnership. All residual ownership of the Companies is either directly or indirectly controlled by BPI and has been recorded as non-controlling interest.

# BOSTON PIZZA ROYALTIES INCOME FUND

Notes to Consolidated Financial Statements  
(Unaudited)

Period from July 17, 2002 to September 30, 2002

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## 2. Significant accounting policies (continued):

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and are for the period from the date of establishment of the Fund on July 17, 2002 to September 30, 2002.

All significant intercompany transactions have been eliminated.

### (b) Revenue recognition:

Royalty revenue is equal to four percent of Franchise Revenue (as defined) of specific Boston Pizza restaurants in Canada and is recognized monthly on an accrual basis.

Interest revenue is recognized and accrued for when earned.

### (c) Intangible assets:

Intangible assets consisting of trademarks, trade names, operating procedures and systems and other intellectual property used in connection with the operation of the Boston Pizza restaurants are recorded at cost. Management of the Fund reviews the carrying value of the intangible assets at least annually, taking into consideration any events or circumstances which may impair the carrying value. If a permanent decline in the carrying amount is determined, the intangible assets will be written down to their estimated net recoverable amount.

### (d) Deferred financing charges:

Deferred financing charges are related to the term loan and are amortized on a straight-line basis over the three-year term of the loan.

### (e) Distributions to Fund unitholders:

The amount of cash to be distributed to Fund unitholders is determined with reference to distributable cash, which is calculated as net earnings adjusted for amortization, other non-cash charges and repayment of principal and interest on the term loan.

Distributions to Fund unitholders are made monthly for the distribution period commencing July 17, 2002, based upon distributable cash less cash redemptions of Fund units, and are subject to the Fund retaining such reasonable working capital reserves as may be considered appropriate by the trustees of the Fund.

### (f) Earnings per Fund unit:

The earnings per Fund unit are based on the weighted average number of Fund units outstanding during the period. As at September 30, 2002 there is no dilutive effect for

# BOSTON PIZZA ROYALTIES INCOME FUND

Notes to Consolidated Financial Statements  
(Unaudited)

Period from July 17, 2002 to September 30, 2002

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## 2. Significant accounting policies (continued):

potential effects of the minority interest exercising its right to exchange its class A units and class B units of the Partnership into units of the Fund.

### (g) Use of estimates:

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

### (h) Financial instruments:

The Fund's financial instruments consist of cash, accounts and notes receivable, due from Boston Pizza International Inc., accounts payable and accrued liabilities and the term loan. Management estimates that the fair values of these financial instruments approximate their carrying values. It is management's opinion that the Fund is not exposed to significant interest or credit risks from these financial instruments.

## 3. Due from Boston Pizza International Inc.:

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Royalty fee, including GST of \$58,270	\$ 890,701
Interest on note receivable (note 4)	150,000
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	\$ 1,040,701

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# BOSTON PIZZA ROYALTIES INCOME FUND

Notes to Consolidated Financial Statements  
(Unaudited)

Period from July 17, 2002 to September 30, 2002

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

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Note receivable with interest payable monthly at 7.5% per annum, due July 17, 2042	\$ 24,000,000
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The note is secured by a general security agreement and may not be assigned without the prior consent of BPI.

## 5. Acquisition of BP Rights:

On July 17, 2002, the Fund acquired the BP Rights used in the operation of the Boston Pizza restaurants in Canada for \$109,348,900 of which \$51,296,000 was paid in cash, \$58,052,900 by the issuance of 1,605,290 Class A Partnership units, 100,000,000 Class B Partnership units and 2,400,000 Class C Partnership units to BPI.

Concurrent with the acquisition of the BP Rights, the Partnership granted BPI a licence to use the BP Rights for a term of 99 years for which BPI pays the Partnership a royalty of four percent of the gross franchise revenues as reported by BPI for those restaurants included in the royalty pool, as defined in the licence and royalty agreement.

The acquisition comprised:

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BP Rights	\$ 109,348,900
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### Acquisition of Rights by Partnership:

Cash	\$ 51,296,000
1,605,290 Class A Partnership units	16,052,900
100,000,000 Class B Partnership units	18,000,000
2,400,000 Class C Partnership units	24,000,000

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	\$ 109,348,900
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# BOSTON PIZZA ROYALTIES INCOME FUND

Notes to Consolidated Financial Statements  
(Unaudited)

Period from July 17, 2002 to September 30, 2002

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## 6. Distributable cash:

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Earnings for the period	\$	1,730,839
Amortization of deferred financing charges		5,000
Non-controlling interest		776,333
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		2,512,172
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Distributions paid and accrued for distribution to Partnership unitholders		776,333
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Distributable cash available for Fund units	\$	1,735,839
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Distributable cash per Fund unit (7,690,000 units)	\$	0.225

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## 7. Operating line of credit:

The Fund has a demand operating facility of up to \$1,000,000 to fund the Partnership's working capital requirements and for general purposes. The facility bears interest at the prevailing bank prime rate plus 0.75%, is repayable on demand and has a 364-day revolving term. As at September 30, 2002, the full amount of the facility was available. The facility is collateralized as part of the term loan (note 8).

## 8. Term loan:

The Fund has a term loan in the amount of \$5,000,000. The facility bears interest at the prevailing bank prime rate plus 0.75% and matures on July 16, 2005. A general security agreement over the assets of the Partnership is provided as security.

# BOSTON PIZZA ROYALTIES INCOME FUND

Notes to Consolidated Financial Statements  
(Unaudited)

Period from July 17, 2002 to September 30, 2002

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## 9. Non-controlling interest:

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Class A Partnership units	\$ 16,052,900
Class B Partnership units	18,000,000
Class C Partnership units	24,000,000
Non-controlling interest in earnings of the Partnership	776,333
Distributions paid to Partnership unitholders	(466,069)
Distributions owing to Partnership unitholders included in accounts payable and accrued liabilities	(310,264)
	<hr/>
	\$ 58,052,900

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(a) Class A Partnership units:

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

(b) Class B Partnership units:

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

# BOSTON PIZZA ROYALTIES INCOME FUND

Notes to Consolidated Financial Statements  
(Unaudited)

Period from July 17, 2002 to September 30, 2002

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## 9. Non-controlling interest (continued)

(c) Class C Partnership units:

The holders of class C Partnership units will be entitled to receive a monthly cumulative preferential cash distribution equal to \$0.0625 per class C Partnership unit. BPI, as holder of class C Partnership units, will have the right to transfer such class C Partnership units to the Trust in consideration for the assumption by the Trust of, and the concurrent release of BPI of its obligations with respect to, an amount of the indebtedness under the BP loan equal to \$10.00 for each class C Partnership unit to be transferred.

## 10. Unitholders' equity:

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

Pursuant to the Declaration of Trust, the holders, other than the Fund or its subsidiaries, of the class A Partnership units and class B Partnership units of the Partnership will be entitled to vote in all votes of Fund unitholders as if they were holders of the number of Fund units they would receive if class A Partnership units and class B Partnership units were exchanged into Fund units as 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 July 17, 2002, the Fund issued 7,690,000 Fund units at \$10 per unit pursuant to a public underwriting. Expenses of the offering amounted to \$6,514,000 and were charged to Fund unitholders' equity.

# BOSTON PIZZA ROYALTIES INCOME FUND

Notes to Consolidated Financial Statements  
(Unaudited)

Period from July 17, 2002 to September 30, 2002

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## 10. Unitholders' equity (continued)

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Issue of Fund units (7,690,000 units)	\$ 76,900,000
Expense of the offering	(6,514,000)
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	\$ 70,386,000

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## 11. Related party transactions:

The Fund has entered into an administration agreement with its subsidiary, the Partnership, whereby the Partnership will provide or arrange for the provision of services required in the administration of the Fund. BPI, as a general partner of the Partnership and pursuant to the Partnership Agreement, is providing certain of these services.

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

Other transactions with BPI are referred to elsewhere in these consolidated financial statements.

## 12. Contingency:

Boston Pizza International Inc. ("BPI") filed various claims against the members of the Boston Market Group in 1995, seeking to cancel the Boston Chicken trademarks and oppose the registration of the Boston Market trademarks. These actions remain ongoing. In addition, BPI has filed a passing off claim against the Boston Market Group alleging trademark infringement. On October 7, 2002, Boston Market Group filed a counterclaim challenging the validity of BPI's trademark registrations.

The Boston Pizza Royalties Limited Partnership, though not directly named in the counterclaim, acquired the BP Rights following the initial public offering. As such, with the approval of the trustees, the Partnership has decided to become a party to this litigation.

Management of BPI and the trustees of the Fund are of the opinion that there is a strong defense against the claim. Accordingly, no provision for losses has been reflected in the accounts of the Fund for this matter.