



ROYALTIES INCOME FUND

Q3
2004

THIRD QUARTER REPORT TO UNITHOLDERS
FOR PERIOD JULY 1, 2004 TO SEPTEMBER 30, 2004



Glossary of Terms

Fund Boston Pizza Royalties Income Fund

Partnership Boston Pizza Royalties Limited Partnership

BPI Boston Pizza International Inc.

Gross Sales / System Sales

Gross revenue generated from Boston Pizza restaurants across Canada

Franchise Sales Gross revenue generated from Boston Pizza restaurants across Canada, less sales generated from alcohol, tobacco and Boston Pizza International Inc. approved national promotions and discounts

Sales Growth The increase in gross revenue generated from Boston Pizza restaurants across Canada over a previous period

SSSG Same store sales growth - refers to the overall increase in gross sales of Boston Pizza restaurants that have been opened for a minimum of 24 months

Full Service Restaurants

Establishments that may sell alcoholic beverages, provide take-out services, operate a bar, or present live entertainment in addition to serving food and non-alcoholic beverages. This industry includes full-service establishments known as fine-dining restaurants, family restaurants and restaurant-bars. Source: Statistics Canada.

Casual Dining \$10-\$20 average cheque, full table service, themed atmosphere, generally little take-out service

CRFA Canadian Restaurant and Foodservices Association

IPO Initial Public Offering – date July 17, 2002

Fiscal Year As it applies to the Fund, for 2002 means July 17 to December 31, after January 1, 2003 it means January 1 to December 31. As it applies to BPI, prior to 2002 it means September 1 to August 31, after September 1, 2002 it means for the remainder of calendar 2002, after January 1, 2003 it means January 1 to December 31.

Royalty Pool In any period, those Boston Pizza restaurants on which royalty equating to 4% of franchise sales/revenue is to be paid to the Fund.

Non-Controlling Interest

BPI's indirect interest in the Fund.

20-day Weighted Average

Unit Price As at any date or for any period, the weighted average price at which the Units have traded on a Stock Exchange during the period of 20 consecutive trading days ending on the fifth trading day before such date or the end of the period. The weighted average price is defined as the amount obtained by dividing the aggregate sale price of all of the Units traded on the relevant Stock Exchange during such period divided by the total number of Units so traded.

BP Rights (a) All rights in Canada to certain registered trademarks and pending applications for trademarks, including "Boston Pizza", "BP & Design", "BP's Lounge", "BP's Bistro", "Boston's The Gourmet Pizza", "Boston Pizza Quick Express", "Boston Pizza Restaurant & Sports Bar". **(b)** All rights in Canada in certain unregistered trademarks and trade names used in the business of BPI; and **(c)** Certain goodwill associated with the items referenced in (a) and (b) above.

Letter from the Chairman of Boston Pizza Royalties Income Fund

On behalf of the Trustees of the Boston Pizza Royalties Income Fund (the "Fund"), I am pleased to present the third Quarterly Report for 2004. The report covers the fiscal period from July 1, 2004 to September 30, 2004 (the "Period") and the year-to-date results from January 1, 2004 to September 30, 2004. Results are also available on the Fund's website at www.bpincomefund.com and we encourage you to visit our website to follow new developments on Fund activities.

Highlights

The third quarter of 2004 was another positive period for the Fund as Boston Pizza restaurants continued to experience positive same store sales growth ("SSSG"). During the Period SSSG was 6.1% and year-to-date SSSG was 7.4%. Boston Pizza restaurants across Canada have continued to post positive SSSG each and every period since the Fund's Initial Public Offering.

Boston Pizza continued to expand its presence across Canada opening five new Boston Pizza restaurants during the Period, with no restaurants being closed. As well, two restaurants were renovated during the Period. The combination of SSSG, new restaurants added to the Royalty Pool in 2004, and Boston Pizza International's ("BPI") unique renovation program contributed to overall franchise sales growth of Fund royalty pool restaurants of 14.7% during the Period compared to the same period in 2003.

For the Period, the Fund received royalty income of \$3,507,698 from BPI and interest income was \$451,821. Expenses, made up primarily of general and administrative and interest expense, amounted to \$179,221.

The Fund's net earnings, after BPI's Non-Controlling Interest were \$2,619,916 or \$0.30 per unit. Net earnings were up 13.2% over the same period in 2003. The Fund declared aggregate distributions of \$2,487,669 or \$0.285 per unit. Distributions declared per unit rose during the Period by 11.8% compared with the third quarter of 2003 in which distributions declared were \$0.255 per unit.

As at November 10, 2004 there were 8,728,674 public units outstanding (10,910,842 on a fully-diluted basis).

As a result of continued positive SSSG in 2004 and subsequent to the Period, I am pleased to report that the Fund declared another increase in monthly distributions; the third increase in 2004. Distributions were raised by 1.8% from \$0.095 per unit to \$0.0967 per unit beginning with the October 2004 distributions (to be paid in November, 2004).

Also subsequent to the Period an additional three restaurants were opened. I am pleased to announce that BPI exceeded its new store opening projection. The forecast for 2004 was 15 new restaurant openings. As of November 10, 2004 BPI has opened 17 new Boston Pizza restaurants in 2004. From November 2, 2003 to November 1, 2004 a total of 18 new restaurants were opened and will be added to the Fund's Royalty Pool on January 1, 2005. As well, from November 2, 2003 to November 1, 2004 BPI did not close any restaurants. BPI does not anticipate that any additional restaurants will open in the remainder of 2004.

BPI continues to produce positive results, reinforcing the strength and stability of the operating company.

Letter from the Chairman of Boston Pizza Royalties Income Fund

Outlook

Going forward BPI management continues to focus on opening new stores and delivering industry-leading SSSG. SSSG, the primary source of revenue growth for individual unitholders, will continue to be achieved through executing effective national and local marketing promotions, superior customer service, and Boston Pizza's unique renovation program, which requires each Boston Pizza location conduct a full renovation every seven years. In the remainder of 2004, one renovation is planned bringing the total number of restaurants renovated across Canada in 2004 to 11. Historically SSSG for renovated locations has been between 10-15% post renovation.

BPI management believes that they will continue to successfully develop the Boston Pizza brand in new markets and strengthen Boston Pizza's position as Canada's number one casual dining brand. With 195 restaurants stretching from Victoria to Halifax, Boston Pizza has more locations and serves more customers annually than any other casual dining destination in Canada.

The Board of Trustees will periodically review distribution levels and our criteria will continue to be to distribute all available cash in order to maximize returns to Unitholders. Any changes to distributions will be implemented, to the extent possible, in a manner that will allow the Fund to maintain the uniformity of distributions while, at the same time, not utilizing the \$1 million credit facility.

In closing, I would like to thank each Unitholder for your continued support and for the confidence you have demonstrated by investing in the Fund.

On behalf of the Board of Trustees,



John Cowperthwaite, FCA
Chairman, Boston Pizza Royalties Income Fund

Management Discussion and Analysis

Boston Pizza Royalties Income Fund

2004-Q3

Financial Highlights

The following table sets out selected historical information and other data of the Boston Pizza Royalties Income Fund (the "Fund" ¹), which should be read in conjunction with the attached consolidated financial statements of the Fund.

	July 1, 2004 to September 30, 2004	July 1, 2003 to September 30, 2003	January 1, 2004 to September 30, 2004	January 1, 2003 to September 30, 2003
(in thousands of dollars –except restaurants and per unit items)				
Number of restaurants in Royalty Pool	177	162	177	162
Franchise Revenues reported by restaurants in Royalty Pool	\$87,692	\$76,467	\$247,352	\$213,496
Royalty & Interest Income	\$3,960	\$3,509	\$11,249	\$9,892
Earnings before Non-Controlling Interest	\$3,780	\$3,311	\$10,722	\$9,241
Non-Controlling Interest	\$1,160	\$997	\$3,478	\$3,134
Net earnings	\$2,620	\$2,315	\$7,244	\$6,107
Earnings per Fund unit	\$0.30	\$0.29	\$0.85	\$0.78
Distributions declared per Fund unit	\$0.29	\$0.26	\$0.73	\$0.67
Same Store Sales Growth	6.1%	5.0%	7.4%	3.1%
Number of restaurants opened during Period	5	5	14	10
Number of restaurants closed during Period	0	0	0	0

	September 30, 2004	December 31, 2003
(in thousands of dollars)		
Total Assets	\$157,778	\$138,700
Total Liabilities	\$75,845	\$64,316

¹ Any further references to the Fund refer to the Fund and its related parties, as the financial results presented in this quarterly report are presented on a consolidated basis.

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	Q3 2004	Q2 2004	Q1 2004	Q4 2003
(in thousands of dollars –except restaurants and per unit items)				
Number of restaurants in Royalty Pool	177	177	177	162
Franchise Revenues reported by restaurants in Royalty Pool	\$87,692	\$82,519	\$77,140	\$72,868
Royalty & Interest Income	\$3,960	\$3,752	\$3,537	\$3,367
Earnings before Non-Controlling Interest	\$3,780	\$3,561	\$3,381	\$3,142
Non-Controlling Interest	\$1,160	\$1,114	\$1,204	\$1,074
Net earnings	\$2,620	\$2,448	\$2,177	\$2,068
Earnings per Fund unit	\$0.30	\$0.28	\$0.26	\$0.26
Distributions declared per Fund unit	\$0.29	\$0.27	\$0.17	\$0.35

	Q3 2003	Q2 2003	Q1 2003	Q4 2002
(in thousands of dollars –except restaurants and per unit items)				
Number of restaurants in Royalty Pool	162	162	162	154
Franchise Revenues reported by restaurants in Royalty Pool	\$76,467	\$71,281	\$65,748	\$67,115
Royalty & Interest Income	\$3,509	\$3,302	\$3,080	\$3,136
Earnings before Non-Controlling Interest	\$3,311	\$3,073	\$2,857	\$2,840
Non-Controlling Interest	\$997	\$1,067	\$1,071	\$931
Net earnings	\$2,315	\$2,006	\$1,786	\$1,909
Earnings per Fund unit	\$0.29	\$0.26	\$0.23	\$0.24
Distributions declared per Fund unit	\$0.26	\$0.25	\$0.17	\$0.33

Management Discussion and Analysis

Boston Pizza Royalties Income Fund

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Overview

This Quarterly Report covers the period of July 1, 2004 to September 30, 2004 (the "Period") and the year-to-date results from January 1, 2004 to September 30, 2004. The Management Discussion and Analysis of the results for this Period is dated November 10, 2004. A copy of this Quarterly Report and additional information about the Fund is available at www.sedar.com or www.bpincomefund.com.

The Fund indirectly owns the Canadian trademarks for Boston Pizza (the "BP Rights"²), Canada's number one casual dining brand. The Fund has licensed the BP Rights back to Boston Pizza International Inc. ("BPI") in return for a 4% royalty of Franchise Sales of those Boston Pizza restaurants included in the specific royalty pool (the "Royalty Pool"). There were 177 restaurants in the Royalty Pool for the Period.

On January 1 of each year ("Adjustment Date"), an adjustment is made to add to the Royalty Pool new Boston Pizza restaurants that have been open at least 60 days prior to that Adjustment Date. In return for adding this additional royalty revenue, BPI receives the right to indirectly acquire additional Fund units (the "Additional Entitlements"). The adjustment for new franchise revenues added to the Royalty Pool is designed to be accretive for Unitholders. The Additional Entitlements are calculated at 92.5% of the royalty revenue added to the Royalty Pool, divided by the yield of the Fund, divided by the Weighted Average Unit Price. BPI receives 80% of the Additional Entitlements initially, with the balance received when the actual full year performance of the new restaurants is known with certainty. BPI receives 100% of distributions from the Additional Entitlements throughout the year. Once these new restaurants have been part of the Royalty Pool for a full year, an audit of the royalty revenues of these restaurants received from BPI will be performed. At such time an adjustment will be made to reconcile distributions paid to BPI and the Additional Entitlements received by BPI.

A key attribute of the Fund structure is the fact that it is a "top-line" fund. Royalty income of the Fund is based on top-line revenue of Royalty Pool restaurants and is not determined by the profitability of either BPI or the Boston Pizza restaurants in the Royalty Pool. Given this structure, the success of the Fund depends primarily on the ability of BPI to maintain and increase Franchise Sales of the Royalty Pool.

Increases in Franchise Sales are derived from both new Boston Pizza restaurants and Same Store Sales Growth ("SSSG"). The key metric for yield growth of the Fund is SSSG. 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 as well as complete any equipment upgrades as required by BPI. Following a complete store renovation, Franchise Sales for renovated locations have historically increased by an average of 10-15%.

² 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).

Management Discussion and Analysis

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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 BPI has agreed with the franchisee to terminate the Franchise Agreement. BPI has a very low store closure rate. In 2004 year-to-date no restaurants have closed and, in fact, only two Boston Pizza restaurants have closed in the last six years, a statistic significantly below the industry average. In the event that a location closes, the Fund has a make-whole provision agreement with BPI whereby BPI will replenish the royalties that would have been paid to the Fund.

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 interim consolidated financial statements are in Canadian dollars and have been prepared in accordance with Canadian Generally Accepted Accounting Principles. *Readers should note that the 2004 results are not directly comparable with the 2003 results due to the fact that there were 177 restaurants in the Royalty Pool for the 2004 Period and 162 restaurants in the Royalty Pool for the 2003 period.*

Operating Results

For the Period Boston Pizza continued to post positive growth. Franchise sales growth of royalty pool restaurants was 14.7% for the Period compared to the same period in 2003 and 15.9% year-to-date compared to year-to-date 2003. This was achieved through SSSG and the addition of 15 new restaurants to the royalty pool on January 1.

SSSG

SSSG, the key source of revenue growth for individual unitholders of the Fund, was 6.1% for the Period and 7.4% year-to-date. SSSG is the combined effect of increased customer traffic and increased average guest check.

New Store Openings and Renovations

During the Period, five new Boston Pizza restaurants opened and no restaurants were closed. In the first nine months of 2004 14 new Boston Pizza restaurants have opened. As well, during the Period two Boston Pizza restaurants were renovated. A total of 10 Boston Pizza restaurants have been renovated in the first nine months of 2004. Typically, locations that renovate are closed for 2-3 weeks. BPI's unique renovation program is a proven sales builder. Historically the average increase in overall sales for renovated sites has been 10% - 15% post renovation.

Management Discussion and Analysis

Boston Pizza Royalties Income Fund

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Third Quarter Operating Results

Revenues

For the Period royalty income received by the Fund was \$3,507,698 and interest income was \$451,821. The royalty income was based on the Royalty Pool of 177 Boston Pizza restaurants in Canada reporting Franchise Sales of \$87,692,452. For the same period in 2003 royalty income received by the Fund was \$3,058,668 and interest income was \$450,796. The 2003 comparative period royalty income was based on the Royalty Pool of 162 Boston Pizza restaurants in Canada reporting Franchise Sales of \$76,466,700. Interest income is primarily derived from a \$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.

Operating Expenses

The Fund's consolidated operating expenses for the Period were \$179,221: \$57,465 of interest expense on its \$5 million term loan, \$8,200 for amortization of deferred financing charges on its credit facilities, and \$113,556 for general and administrative expense. For the same period in 2003 consolidated operating expenses were \$198,277: \$68,904 of interest expense on its \$5 million term loan, \$7,500 for amortization of deferred financing charges on its credit facilities, and \$121,873 for general and administrative expense. The general and administrative expenses are comprised mainly of professional fees, insurance premiums, transfer agent costs, and trustee fees.

The Fund's earnings during the Period were \$3,780,298 and \$1,160,382 represents BPI's indirect interest.

Distributions

Net earnings of the Fund were \$2,619,916 or \$0.30 per unit with the Fund declaring distributions of \$2,487,669 or \$0.29 per unit for the Period. During the 2003 period net earnings were \$2,314,637 or \$0.29 per unit and distributions of \$2,057,444 or \$0.26 per unit were declared. Distributions for the Period were as follows:

Period	Payment Date	Amount/unit
July 1-31, 2004	August 31, 2004	9.50¢
August 1-31, 2004	September 30, 2004	9.50¢
September 1-30, 2004	October 29, 2004*	9.50¢

*Declared and paid subsequent to the Period

As at November 10, 2004 there were 8,728,674 public units outstanding (10,910,842 on a fully-diluted basis).

Management Discussion and Analysis

Boston Pizza Royalties Income Fund

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Year-To-Date Operating Results

Revenues

For the first nine months of 2004 royalty income received by the Fund was \$9,894,072 and interest income was \$1,355,061. The royalty income was based on the Royalty Pool of 177 Boston Pizza restaurants in Canada reporting Franchise Sales of \$247,351,802. For the same period in 2003 royalty income received by the Fund was \$8,539,857 and interest income was \$1,351,702. The 2003 comparative period royalty income was based on the Royalty Pool of 162 Boston Pizza restaurants in Canada reporting Franchise Sales of \$213,496,413. Interest income is primarily derived from a \$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.

Operating Expenses

The Fund's consolidated operating expenses for the first nine months of 2004 were \$527,009: \$176,027 of interest expense on its \$5 million term loan, \$23,200 for amortization of deferred financing charges on its credit facilities, and \$327,782 for general and administrative expense. For the same period in 2003 consolidated operating expenses were \$650,344: \$205,719 of interest expense on its \$5 million term loan, \$22,500 for amortization of deferred financing charges on its credit facilities, and \$422,125 for general and administrative expense. The general and administrative expenses are comprised mainly of professional fees, insurance premiums, transfer agent costs, and trustee fees. General and administrative expenses were reduced significantly, by \$94,343, during the first nine months of 2004 primarily due to higher legal fees incurred by the Fund in 2003.

The Fund earnings for the first nine months were \$10,722,124 and \$3,478,022 represents BPI's indirect interest.

Distributions

Net earnings of the Fund were \$7,244,102 or \$0.85 per unit with the Fund declaring distributions of \$6,300,678 or \$0.73 per unit year-to-date. During 2003 year-to-date net earnings were \$6,107,266 or \$0.78 per unit and distributions of \$5,273,431 or \$0.67 per unit were declared. As a result of positive SSSG in 2004, the Fund declared a fourth increase in monthly distributions since inception of the Fund. Distributions have been raised twice in 2004 year-to-date, in April by 3.8% from \$0.0867 to \$0.090 and again in June by 5.6% from \$0.09 per unit to \$0.095. Year-to-date distributions were as follows:

Period	Payment Date	Amount/unit
January 1-31, 2004	February 27, 2004	8.67¢
February 1-29, 2004	March 31, 2004	8.67¢
March 1-31, 2004	April 30, 2004	9.00¢
April 1-30, 2004	May 31, 2004	9.00¢
May 1-31, 2004	June 30, 2004	9.00¢
June 1-30, 2004	July 30, 2004	9.50¢
July 1-31, 2004	August 31, 2004	9.50¢
August 1-31, 2004	September 30, 2004	9.50¢
September 1-30, 2004	October 29, 2004*	9.50¢

*Declared and paid subsequent to the Period

Management Discussion and Analysis

Boston Pizza Royalties Income Fund

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Subsequent Events

Subsequent to September 30, 2004, Boston Pizza opened three new locations bringing the total number of locations open as of November 10, 2004 to 195.

As a result of continued positive SSSG in 2004, the Fund declared another increase in monthly distributions; the third increase in 2004. Distributions were raised by 1.8% from \$0.095 per unit to \$0.0967 per unit beginning with the October 2004 distributions (to be paid in November, 2004).

Liquidity & Capital Resources

The Fund's distribution policy is to distribute all available cash in order to maximize returns to Unitholders. In light of small seasonal variations that are inherent to the restaurant industry, the Fund's policy is to make equal distribution payments to Unitholders on a monthly basis in order to smooth out these fluctuations. Any further increase 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.

The \$5 million non-revolving term loan facility was arranged during the IPO to partially finance the purchase of the BP Rights from BPI, and to provide term debt as part of the capital structure. The Fund must meet certain conditions for the term loan to be in good standing; all of which have been met. In July the Fund arranged for the renewal of the \$5 million non-revolving term loan. The loan was scheduled to mature on July 16, 2005. The new maturity date is July 5, 2007.

The Fund also has a \$1 million operating line of credit to allow for any seasonal variations that could result in mismatches between royalty revenue inflows and distributions to Unitholders of the Fund. The term of this facility is 364-day revolving.

The Fund is well capitalized. As of September 30, 2004 the Fund's \$1 million operating line of credit was 100% available and there was \$1,806,594 of working capital. Subsequent to September 30, 2004 September's distribution of \$0.095 per unit on 11,095,429 units was declared, payable on October 31, 2004.

Changes in Accounting Policies

On January 1, 2004, the Fund adopted new recommendations of the Canadian Institute of Chartered Accountants on what constitutes Canadian generally accepted accounting principles. As a result of this change, Class B Partnership units held by BPI which are entitled to receive full distributions from the Boston Pizza Royalties Limited Partnership and are exchangeable for Fund units were recorded at their fair value at the date of determination of the respective Additional Entitlement. The increase in the value of these Class B Partnership units has been accounted for as an additional cost of the purchase of additional royalties from new Boston Pizza restaurants included in the Royalty Pool and accordingly has been reflected as an increase in the value of intangible assets. The effect of this change on the financial statements was an increase to the value of intangible assets and non-controlling interest by \$19,494,800. There was no impact to net earnings as a result of this change.

Management Discussion and Analysis

Boston Pizza Royalties Income Fund

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Outlook

Boston Pizza is well positioned for future growth and continues to strengthen its position as the number one casual dining brand in Canada. The Company is on track to open 70-80 new restaurants across Canada over the next five years. Opening these new locations will support the continuing enhancement of the Boston Pizza brand. In addition, BPI Management anticipates that the organization can continue to deliver industry-leading SSSG from national and local marketing programs and BPI's unique renovation program that requires each location to renovate every seven years. Management will continue to pursue further development in Western Canada, Ontario, and the Maritimes while aggressively pursuing additional opportunities in Quebec.

As with all forward-looking statements, due care and caution should be employed to ensure that appropriate interpretation is made. Please refer to note 1 at the end of this document for further clarification.

Risks & Uncertainties

The Restaurant Industry

The performance of the Fund is directly dependent upon the royalty and interest payments received from BPI. The amount of royalty received from BPI is dependent on various factors that may affect the casual dining sector of the restaurant industry. The restaurant industry generally, and in particular the casual dining sector, is intensely competitive with respect to price, service, location and food quality. Competitors include national and regional chains, as well as independently owned restaurants. If BPI and the Boston Pizza franchisees are unable to successfully compete in the casual dining sector, Franchise Sales may be adversely affected; the amount of royalty reduced and the ability of BPI to pay the royalty or interest on the 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, and the availability of experienced management and hourly employees may adversely affect the restaurant industry in general and therefore potentially Boston Pizza 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 revenue, the royalty and the ability of BPI to pay the royalty to the Fund or interest on the BP Loan.

Management Discussion and Analysis

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Boston Chicken / Boston Market Litigation

Since 1995, BPI has been challenging Boston Chicken Inc. and Global Restaurant Operations of Ireland Limited registration of the "Boston Chicken" trademark in Canada. In March 2003, the Federal Court of Appeal unanimously ordered the expungement of "Boston Chicken" 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. As a result, "Boston Market" is not yet a registered trademark. BPI and/or the Partnership intend to oppose the registration of this and any other trademark by Boston Market and/or any other parties if the proposed trademark contains, among others, the word "Boston" in connection with food, food products and/or restaurant food services. 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 (the "McDonald's Group") for trademark infringement over the McDonald's Group's use of "Boston Market". BPI management and the Partnership intend to continue to vigorously defend against any infringement or unauthorized use of the Boston Pizza trademarks. In the fall of 2002, the McDonald's 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 manoeuvre by the McDonald's 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 liability to use, the "Boston Pizza" and related trademarks in new areas where BPI and its sub-licensees do not presently operate Boston Pizza restaurants. In July 2003, the Federal Court of Canada, on an application for summary judgment brought by BPI and Boston Pizza Royalties Limited Partnership, dismissed portions of the counterclaim by the McDonald's Group, seeking to expunge the registrations of the Boston Pizza trademarks. The Federal Court dismissed the counterclaim as it relates to registered trademarks BP & Design, BP's Lounge and BP's Bistro. The Court did not dismiss the counterclaim regarding three other trademarks, including "Boston Pizza", primarily on the basis that the counterclaim raises issues that should not be resolved on a summary basis and should instead be decided at trial. The parties are waiting for trial dates, none of which have been set. BPI management does not expect the infringement trial to commence before 2006. BPI management believes that ultimately, BPI and the Partnership will succeed in its litigation with the McDonald's Group. However, there are no assurances or certainty as to the eventual outcome of these legal proceedings.

Other

For a more detailed list of risks and uncertainties please refer to the Fund's Annual Information Form which is available at www.sedar.com.

Management Discussion and Analysis Boston Pizza Royalties Income Fund 2004-Q3

¹ 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 ROYALTIES INCOME FUND
Consolidated Balance Sheets

	September 30, 2004 (unaudited)	December 31, 2003
Assets		
Current assets:		
Cash	\$ 537,229	\$ 273,890
Due from Boston Pizza International Inc. (note 3)	1,294,044	1,186,755
Loan receivable from Boston Pizza International Inc.	2,981,217	3,787,587
Prepaid expenses	84,607	54,938
	<u>4,897,097</u>	<u>5,303,170</u>
Note receivable from Boston Pizza International Inc.	24,000,000	24,000,000
Intangible assets (note 5)	128,843,700	109,348,900
Deferred financing charges, net of accumulated amortization of \$65,700 (December 31, 2003 - \$42,500) (note 7)	36,800	47,500
	<u>\$ 157,777,597</u>	<u>\$ 138,699,570</u>
Liabilities and Unitholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 109,286	\$ 150,960
Distributions payable to Fund unitholders	-	699,496
Distributions payable to Boston Pizza International Inc.	2,981,217	4,097,049
	<u>3,090,503</u>	<u>4,947,505</u>
Term loan (note 7)	5,000,000	5,000,000
Non-controlling interest (note 6)	67,754,026	54,368,641
Unitholders' equity (note 2(c))	81,933,068	74,383,424
	<u>\$ 157,777,597</u>	<u>\$ 138,699,570</u>
Contingency (note 8)		

See accompanying notes to consolidated financial statements.

BOSTON PIZZA ROYALTIES INCOME FUND
Consolidated Statement of Earnings (Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
Franchise revenues reported by Boston Pizza Outlets included in Royalty Pool	\$ 87,692,452	\$ 76,466,700	\$ 247,351,802	\$ 213,496,413
Revenue:				
Royalty income	\$ 3,507,698	\$ 3,058,668	\$ 9,894,072	\$ 8,539,957
Interest income	451,821	450,796	1,355,061	1,351,702
	3,959,519	3,509,464	11,249,133	9,891,559
Expenses:				
General and administrative	113,556	121,873	327,782	422,125
Interest	57,465	68,904	176,027	205,719
Amortization of deferred financing charges	8,200	7,500	23,200	22,500
	179,221	198,277	527,009	650,344
Earnings before non-controlling interest	3,780,298	3,311,187	10,722,124	9,241,215
Non-controlling interest (note 6)	1,160,382	996,550	3,478,022	3,133,949
Net earnings	2,619,916	2,314,637	7,244,102	6,107,266
Weighted average units outstanding	8,728,674	8,010,522	8,564,724	7,798,015
Basic and diluted earnings per Fund unit	\$ 0.30	\$ 0.29	\$ 0.85	\$ 0.78

Consolidated Statement of Unitholders' Equity
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
Balance, beginning of period	\$ 81,800,821	\$ 71,076,401	\$ 74,383,424	\$ 70,499,759
Exchange of class A partnership (non-controlling interest) units for Fund units	-	3,780,520	6,606,220	3,780,520
Net earnings	2,619,916	2,314,637	7,244,102	6,107,266
Distributions declared	(2,487,669)	(2,057,444)	(6,300,678)	(5,273,431)
Balance, end of period	\$ 81,933,068	\$ 75,114,114	\$ 81,933,068	\$ 75,114,114

See accompanying notes to consolidated financial statements.

BOSTON PIZZA ROYALTIES INCOME FUND
Consolidated Statement of Cash Flows (Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
Cash provided by (used in):				
Operations:				
Net earnings	\$ 2,619,916	\$ 2,314,637	\$ 7,244,102	\$ 6,107,266
Items not involving cash:				
Amortization of deferred financing charges	8,200	7,500	23,200	22,500
Non-controlling interest	1,160,382	996,550	3,478,022	3,133,949
Change in non-cash operating working capital (note 9 (a))	(16,159)	(70,275)	(178,632)	(246,940)
	3,772,339	3,248,412	10,566,692	9,016,775
Financing:				
Loan receivable from Boston Pizza International Inc.	(1,124,524)	(992,940)	(2,981,217)	(2,163,289)
Distributions paid to unitholders	(2,487,669)	(2,057,444)	(7,000,174)	(5,914,008)
Distributions paid to non-controlling interest unitholders	-	-	(309,462)	(946,334)
Deferred financing charges	(12,500)	-	(12,500)	-
	(3,624,693)	(3,050,384)	(10,303,353)	(9,023,631)
Increase (decrease) in cash	147,646	198,028	263,339	(6,856)
Cash, beginning of period	389,583	40,386	273,890	245,270
Cash, end of period	\$ 537,229	\$ 238,414	\$ 537,229	\$ 238,414

See note 9(b) for supplementary cash flow information.

See accompanying notes to consolidated financial statements.

BOSTON PIZZA ROYALTIES INCOME FUND

Notes to Consolidated Financial Statements (Unaudited)
Three and nine month period ended September 30, 2004 and 2003

1. Basis of presentation:

These interim consolidated financial statements have been prepared using Canadian generally accepted accounting principles. The interim financial statements include all adjustments consisting solely of normal recurring adjustments, which in management's opinion, are necessary for a fair presentation of the financial results of the interim period presented.

The disclosures in these statements do not include all the disclosure requirements of Canadian generally accepted accounting principles for annual financial statements. These statements should be read in conjunction with the significant accounting policies and other information in the Fund's most recent annual financial statements. These statements follow the same accounting policies and methods of their application as the most recent annual financial statements, except as described in the following paragraph.

Effective January 1, 2004, the Fund prospectively adopted new recommendations of the Canadian Institute of Chartered Accountants on what constitutes Canadian generally accepted accounting principles and its sources. As a result of this change, Class B Partnership units held by Boston Pizza International Inc. ("BPI") which are entitled to receive full distributions from the Partnership and are exchangeable for Fund units are recorded at their fair value at the date of determination of the respective Additional Entitlement. The increase in the value of these Class B Partnership units has been accounted for as an additional cost of the purchase of additional royalties from new Boston Pizza restaurants included in the Royalty Pool and accordingly has been reflected as an increase in the value of intangible assets. The effect of this change on the current period's financial statements is to increase the value of intangible assets and non-controlling interest by \$19,494,800 (notes 5 and 6). There is no impact to net earnings as a result of this change.

BOSTON PIZZA ROYALTIES INCOME FUND

Notes to Consolidated Financial Statements (Unaudited)
Three and nine month period ended September 30, 2004 and 2003

2. Operations:

- (a) On January 1, 2004, 15 (2003 - 8) new Boston Pizza restaurants opened during the period from November 2, 2002 to November 1, 2003 were added to the Royalty Pool. The royalty revenue of these 15 new restaurants has been estimated at \$1,017,716. The total number of restaurants in the Royalty Pool has increased to 177. The yield of the Fund units was determined to be 9.25% calculated using a weighted average unit price of \$11.03. Weighted average unit price is calculated based on the market price of the units traded on the TSX Stock Exchange during the period of twenty consecutive days ending on the fifth trading day before January 1, 2004. As a result of the contribution of the additional franchise sales to the Royalty Pool, and assuming 100% of the Additional Entitlement, BPI's Additional Entitlement is equivalent to 922,932 (2003 - 560,341) Fund units. BPI will also receive a proportionate increase in monthly distributions from the Fund. Of the Additional Entitlement, 20% (2004 - 184,587 units; 2003 - 112,068 units), remain unissued and are not eligible for conversion to Fund units until January 1, 2005 (2003 units - January 1, 2004) based on the actual performance of the new stores.
- (b) On January 1, 2004, adjustments to royalty payments and Additional Entitlement were made based on the actual performance of eight restaurants added to the Royalty Pool on January 1, 2003. Based on these adjustments, BPI received the remainder of its Additional Entitlement, 87,432 Fund units. BPI also repaid an amount of \$25,129 for monthly distributions to the Fund.
- (c) On March 8, 2004, BPI exchanged 660,622 Class A units for an equal amount of Fund units. BPI then sold these Fund units to the public. As of June 30, 2004, there were 8,728,674 Fund units issued and BPI had a 20% indirect interest in the Fund.

BPI has committed to maintain a minimum of 20% indirect interest in the Fund until there are 275 restaurants in the Royalty Pool.

3. Due from Boston Pizza International Inc.:

	September 30, 2004	December 31, 2003
Royalty fee receivable	\$ 1,144,044	\$ 1,036,755
Interest on note receivable	150,000	150,000
	<u>\$ 1,294,044</u>	<u>\$ 1,186,755</u>

BOSTON PIZZA ROYALTIES INCOME FUND

Notes to Consolidated Financial Statements (Unaudited)
 Three and nine month period ended September 30, 2004 and 2003

4. Distributable cash:

	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
Earnings for the period	\$ 2,619,916	\$ 2,314,637	\$ 7,244,102	\$ 6,107,266
Amortization of deferred financing charges	8,200	7,500	23,200	22,500
Non-controlling interest	1,160,382	996,550	3,478,022	3,133,949
	3,788,498	3,318,687	10,745,324	9,263,715
Distributable cash required for non-controlling interest	1,162,024	998,807	3,482,662	3,141,579
Distributable cash available for Fund units	\$ 2,626,474	\$ 2,319,880	\$ 7,262,662	\$ 6,122,136

Distributable cash is not an earnings measure recognized by generally accepted accounting principles ("GAAP") and therefore may not be comparable to similar measures presented by other issuers.

5. Intangible assets:

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. Concurrent with the acquisition of the BP Rights, the Fund granted BPI a license to use the BP Rights for a term of 99 years for which BPI pays the Fund a royalty of 4% of the franchise revenues as reported by BPI for those restaurants in the Royalty Pool, as defined in the License and Royalty Agreement.

In accordance with the terms of the Partnership agreements, the Fund provided BPI an Additional Entitlement to receive distributions on 922,932 (2003 – 560,341) Class B Partnership units in exchange for the addition of royalties from new Boston Pizza restaurants included in the Royalty Pool. The Fund has adopted a policy of accounting for the entitlement of the Class B Partnership units based on the fair value of these Partnership units at the date of determination of the entitlement which results in an increase in intangible assets and non-controlling interest (notes 1 and 6).

Initial consideration	\$ 109,348,900
2002 increase to the Royalty Pool	3,129,074
2003 increase to the Royalty Pool	5,569,790
2004 increase to the Royalty Pool	10,795,936
	\$ 128,843,700

BOSTON PIZZA ROYALTIES INCOME FUND

Notes to Consolidated Financial Statements (Unaudited)
 Three and nine month period ended September 30, 2004 and 2003

6. Non-controlling interest:

Non-controlling interest relates to BPI's interest in the Fund as follows:

	September 30, 2004	December 31, 2003
Boston Pizza Royalties Limited Partnership: 566,616 (December 2003 – 1,227,238)		
Class A units of the Partnership	\$ 5,666,160	\$ 12,272,380
100,000,000 Class B units of the Partnership	37,494,800	18,000,000
2,400,000 Class C units of the Partnership	24,000,000	24,000,000
	<u>67,160,960</u>	<u>54,272,380</u>
Accumulated non-controlling interest (BPI) in earnings of the Partnership	9,393,979	5,915,957
Accumulated distributions paid and payable to Partnership unitholders (BPI)	(8,800,913)	(5,819,696)
	<u>\$ 67,754,026</u>	<u>\$ 54,368,641</u>

As described in notes 1 and 5, non-controlling interest increased by \$19,494,800 due to Additional Entitlement on Class B Partnership units.

7. Term loan:

On July 5, 2004, the \$5,000,000 term loan was renewed with a new maturity date of July 5, 2007. A fee of \$12,500 was paid on renewal and is being amortized over 3 years.

BOSTON PIZZA ROYALTIES INCOME FUND

Notes to Consolidated Financial Statements (Unaudited)
Three and nine month period ended September 30, 2004 and 2003

8. Contingency:

BPI and the Fund are involved in trademark litigation with entities affiliated with McDonald's Restaurant of Canada (the "McDonalds' Group"), opposing the registration by the McDonald's Group in Canada of the Boston Market trademark. Management of BPI believes that there is a likelihood that the trademark will not be registered. Additionally, BPI and the Fund have commenced an action against the McDonald's Group to prevent them from infringing BPI's and the Fund's respective interests in the trademarks by operating Boston Market in Canada. The McDonald's Group has filed a counterclaim and a separate action challenging the validity of the registered trademark "Boston Pizza" and related trademarks under the *Trade-Marks Act* (Canada). Management does not believe that this action will succeed. However, in the event that the challenge to the Boston Pizza trademarks is successful, the Fund 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 Fund 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.

BOSTON PIZZA ROYALTIES INCOME FUND

Notes to Consolidated Financial Statements (Unaudited)
 Three and nine month period ended September 30, 2004 and 2003

9. Supplementary cash flow information:

	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
(a) Change in non-cash working capital:				
Accounts receivable	\$ 50,694	\$ 29,318	\$ (107,289)	\$ 22,990
Prepaid expenses	(69,242)	(56,312)	(29,669)	(27,228)
Accounts payable and accrued liabilities	2,389	(43,281)	(41,674)	(242,702)
	\$ (16,159)	\$ (70,275)	\$ (178,632)	\$ (246,940)
(b) Supplementary information:				
Interest received	\$ 451,820	\$ 450,796	\$ 1,355,061	\$ 1,351,702
Interest paid	56,712	71,918	179,075	185,081
Non-cash financing and investing activities:				
Distributions payable to non-controlling interest	1,124,524	992,940	2,981,217	2,783,816
Settlement of loan receivable from BPI against distributions payable to BPI	-	-	3,787,587	-
Exchange of Class A Partnership (non-controlling interest) units for Fund units	-	3,780,520	6,606,220	3,780,520
Increase in intangible assets and non-controlling interest (BPI) on addition of new restaurants to Royalty Pool	-	-	19,494,800	-

10. Comparative figures:

Certain comparative figures have been reclassified to conform with the basis of presentation adopted for the current period.

Management Discussion and Analysis

Boston Pizza International Inc.

2004-Q3

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 third quarter consolidated financial statements of BPI.

	July 1, 2004 to September 30, 2004	July 1, 2003 to September 30, 2003	January 1, 2004 to September 30, 2004	January 1, 2003 to September 30, 2003
	(in thousands of dollars)			
Restaurant System Franchise Sales ⁽¹⁾	\$95,409	\$80,075	\$260,529	\$220,976
Income Statement Data				
Total Revenue	\$10,825	\$9,301	\$30,189	\$26,260
Royalty expense	\$3,508	\$3,059	\$9,894	\$8,540
Earnings	\$1,680	\$1,456	\$3,658	\$3,013

Notes:

¹ Represents the Franchise Sales of the two restaurants owned by BPI and the Franchise Sales reported to BPI by franchised Boston Pizza restaurants without audit. 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.

	September 30, 2004	December 31, 2003
	(in thousands of dollars)	
Total Assets	\$103,198	\$88,096
Total Long-term Liabilities	\$133,799	\$116,750

Management Discussion and Analysis
Boston Pizza International Inc.
2004-Q3

	Q3 2004	Q2 2004	Q1 2004	Q4 2003
	(in thousands of dollars) Unaudited			
Restaurant System Franchise Sales ⁽¹⁾	\$95,409	\$86,335	\$78,752	\$79,537
Income Statement Data				
Total Revenue	\$10,825	\$9,835	\$9,529	\$9,278
Royalty expense	\$3,508	\$3,301	\$3,086	\$2,915
Earnings	\$1,680	\$515	\$1,464	\$1,357

	Q3 2003	Q2 2003	Q1 2003	Q4 2002 ⁽²⁾
	(in thousands of dollars) Unaudited			
Restaurant System Franchise Sales ⁽¹⁾	\$80,075	\$74,057	\$66,844	N/A
Income Statement Data				
Total Revenue	\$9,149	\$8,719	\$8,240	N/A
Royalty expense	\$3,059	\$2,851	\$2,630	N/A
Earnings	\$1,455	\$1,042	\$515	N/A

Notes:

¹ Represents the Franchise Sales of the two restaurants owned by BPI and the Franchise Sales reported to BPI by franchised Boston Pizza restaurants without audit. 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 In 2002 BPI made the decision to change its fiscal year-end from August 31 to December 31 to correspond with the Fund's reporting period. 2002 fourth quarter results are not available.

Management Discussion and Analysis

Boston Pizza International Inc.

2004-Q3

Overview

This Quarterly Report covers the period of July 1, 2004 to September 30, 2004 (the "Period") and the year-to-date results from January 1, 2004 to September 30, 2004. The Management Discussion and Analysis of the results of this Period is dated November 10, 2004. A copy of this Quarterly Report and additional information on BPI is available at www.sedar.com or www.bpincomefund.com.

Boston Pizza International Inc. ("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 and is the number one casual dining brand in Canada. With 195 restaurants stretching from Victoria to Halifax, Boston Pizza has more locations and serves more customers annually than any other casual dining concept in Canada.

The Company charges a 7% royalty fee on Franchise Sales for all full-service Boston Pizza restaurants open in Canada and a 5% royalty fee on Franchise Sales for the three Boston Pizza Quick Express restaurants that are open in Canada. BPI pays the Boston Pizza Royalties Income Fund (the "Fund") a royalty fee of 4% of Franchise Sales of the specific royalty pool for the use of the Boston Pizza trademarks (the "BP Rights"³). There were 177 restaurants in the royalty pool (the "Royalty Pool") for this Period.

On January 1 of each year ("Adjustment Date"), an adjustment is made to add to the Royalty Pool new Boston Pizza restaurants that have been open at least 60 days prior to that Adjustment Date. In return for adding this additional royalty revenue, BPI receives the right to indirectly acquire additional Fund units (the "Additional Entitlements"). The adjustment for new franchise revenues added to the Royalty Pool is designed to be accretive for Fund Unitholders. The Additional Entitlements are calculated at 92.5% of the royalty revenue added to the Royalty Pool, divided by the yield of the Fund, divided by the Weighted Average Unit Price. BPI receives 80% of the Additional Entitlements initially, with the balance received when the actual full year performance of the new restaurants is known with certainty. BPI receives 100% of distributions from the Additional Entitlements throughout the year. Once these new restaurants have been part of the Royalty Pool for a full year, an audit of the royalty revenues of these restaurants received from BPI will be performed. At such time an adjustment will be made to reconcile distributions paid to BPI and the Additional Entitlements received by BPI.

³ 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).

Management Discussion and Analysis

Boston Pizza International Inc.

2004-Q3

Business Strategy

The success of Boston Pizza can be attributed to three simple underlying principles that are the foundation for all 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

The Company realizes that its franchisees have to be profitable to succeed. If they are successful, then Boston Pizza will be successful. 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. Both Boston Pizza franchisees and the corporate support staff continuously find new ways to improve the customer’s 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 to develop new markets and continue to strengthen Boston Pizza’s position as Canada’s number one casual dining brand.

The following information provides additional analysis of the operations and financial position of the Company 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.

Operating Results

For the Period Boston Pizza continued to post positive growth. BPI’s earnings increased by 15.5% during the Period compared to the same period in 2003. BPI’s overall system-wide franchise sales growth for the Period was 19.1% and 17.9% year-to-date. Overall sales growth is achieved through new store openings and same store sales growth (“SSSG”).

SSSG

SSSG was 6.1% for the Period and 7.4% year-to-date. SSSG is the combined effect of increased customer traffic and increased average guest check.

New Store Openings and Renovations

During the Period, five new Boston Pizza restaurants opened and no restaurants were closed. As well during the Period two Boston Pizza restaurants were renovated. Typically, locations that renovate are closed for 2-3 weeks. BPI’s unique renovation program is a proven sales builder. Historically the average increase in overall sales for renovated sites has been 10% - 15% post renovation.

Management Discussion and Analysis

Boston Pizza International Inc.

2004-Q3

Third Quarter Operating Results

Revenues

BPI's revenues for the Period were \$10,825,092 and \$9,301,288 for the same period in 2003. The increase in revenues is primarily attributed to royalties from new store openings and positive SSSG. BPI's revenue is mainly derived from royalty income from franchised Boston Pizza restaurants, sales in corporately owned restaurants, initial franchise fees, franchise renewal fees, and equity income from its interest in the Fund.

BPI earned \$1,160,382 from its indirect interest in the Fund for the Period compared to \$1,201,899 for the same period in 2003.

Expenses

For the Period, the royalty expense for the use of the BP Rights was \$3,507,698 and \$3,058,668 for the same period in 2003.

Operating expenses for the Period were \$5,451,977 and \$4,786,838 for the same period in 2003. Administrative expenses and restaurant operating costs 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 in established territories. Operating expenses increased during the Period primarily due to additional employees hired to support and facilitate expansion plans.

In 2004 BPI opened an office in Quebec to support and facilitate the expansion of Boston Pizza into the Quebec market. Since opening the Quebec office, BPI has received deposits for franchises and is actively looking for real estate in Quebec. During the Period the development and administrative expenses for Quebec were \$185,580.

Other Expenses

Before taking into account depreciation and amortization, management bonus, amortization of deferred gain associated with the sale of the BP Rights, interest on the loan from the Fund, interest on long-term debt, and gain on the sale of Partnership units, earnings were \$1,679,837 for the Period and \$1,455,782 for the same period in 2003.

Depreciation and amortization for the Period was \$119,756 and \$98,059 for the same period in 2003.

Management bonuses for the Period were \$312,071 and \$486,800 for the same period in 2003. This is a discretionary expense 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 the \$24 million loan acquired by the Fund at the time of IPO was \$450,000 for the Period and \$450,000 for the same period in 2003.

Management Discussion and Analysis

Boston Pizza International Inc.

2004-Q3

Interest on long-term debt for the Period was \$9,040 and \$21,341 for the same period in 2003.

The amortization of the deferred gain from the IPO was \$178,817 for the Period and \$144,585 for the same period in 2003. 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 September 30, 2004 was \$105,360,964.

Given the combined effects of the above-noted factors, BPI produced earnings before income taxes of \$967,787 for the Period and after tax earnings of \$644,148. Earnings before tax was \$544,167 for the same Period in 2003 and after tax earnings was \$346,762.

Year-To-Date Operating Results

Revenues

BPI's revenues for the first nine months of 2004 were \$30,189,054 and \$26,259,620 for the same period in 2003. The increase in revenues is primarily attributed to royalties from new store openings and positive SSSG. BPI's revenue is mainly derived from royalty income from franchised Boston Pizza restaurants, sales in corporately owned restaurants, initial franchise fees, franchise renewal fees, and income from its interest in the Fund.

BPI earned \$3,478,022 from its indirect interest in the Fund for the Period compared to \$3,133,949 for the same period in 2003.

Expenses

For the nine months of 2004, the royalty expense for the use of the BP Rights was \$9,894,072 and \$8,539,857 for the same period in 2003.

Year-to-date operating expenses were \$16,104,247 and \$14,707,070 for the same period in 2003. Administrative expenses and restaurant operating costs 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 in established territories.

Development and administrative expenses for Quebec were \$532,248 year-to-date.

Other Expenses

Before taking into account depreciation and amortization, management bonus, amortization of deferred gain associated with the sale of the BP Rights, interest on the loan from the Fund, interest on long-term debt, and gain on the sale of Partnership units, earnings were \$3,658,487 year-to-date and \$3,012,693 for the same period in 2003.

Depreciation and amortization year-to-date was \$334,694 and \$312,770 for the same period in 2003.

Management Discussion and Analysis

Boston Pizza International Inc.

2004-Q3

Management bonuses year-to-date were \$869,580 and \$978,527 for the same period in 2003. This is a discretionary expense 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 the \$24 million loan acquired by the Fund at the time of IPO was \$1,350,000 for the Period and \$1,350,000 for the same period in 2003.

Interest on long-term debt year-to-date was \$32,173 and \$70,189 for the same period in 2003.

The amortization of the deferred gain from the IPO was \$536,455 year-to-date and \$433,755 for the same period in 2003. 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 September 30, 2004 was \$105,360,964.

On March 8, 2004, BPI exchanged 660,622 Class A Partnership units for an equal amount of Fund units. Following this exchange, BPI sold their units of the Fund at \$12 per unit to the public for total proceeds of \$7,927,464. Gain on sale of units was \$1,156,089, net of transaction cost of \$165,155. This resulted in a reduction of Class A units from 1,227,238 units to 566,616.

Given the combined effects of the above-noted factors, BPI produced year-to-date earnings before income taxes of \$2,764,584 and \$734,962 for the same period in 2003. After tax year-to-date earnings were \$2,156,268 and \$462,971 for the same period in 2003.

Subsequent Events

Subsequent to September 30, 2004, Boston Pizza opened three new locations bringing the total number of locations open as of November 10, 2004 to 195.

Liquidity & Capital Resources

BPI is entirely a franchised business except for two corporate restaurants. Therefore, current year capital requirements are limited to the upgrading of these two restaurants and the corporate office building and equipment requirements. To further the Quebec expansion and development, BPI has opened a corporate office and will begin securing a site for a corporate restaurant in Montreal this year. As at September 30, 2004 working capital was \$415,438.

Management Discussion and Analysis

Boston Pizza International Inc.

2004-Q3

Long-Term Debt Obligations

BPI has minimal long-term debt obligations. The obligations are equipment finance arrangements that are secured by specific assets of the Company. The term loans are secured by a general assignment of book debts and certain guarantees from the Company, shareholders and related companies. Principal repayments on long-term debt and capital lease obligations for the next five years ending December 31 are as follows:

2004	\$298,653
2005	177,320
2006	139,805
2007	-
2008 and thereafter	-
	<hr/>
	\$615,778

Other Long-Term Commitments

BPI 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:

2004	\$1,301,036
2005	1,115,069
2006	944,654
2007	733,023
2008	733,023

Changes in Accounting Policies

On January 1, 2004, the Company prospectively adopted new recommendations of the Canadian Institute of Chartered Accountants on what constitutes Canadian generally accepted accounting principles. As a result of this change, Class B Partnership units held by the Company, which are entitled to receive full distributions from the Partnership and are exchangeable for Fund units, are recorded at their fair value at the date of determination of the respective Additional Entitlement. The effect of this change on the current Period's financial statements is to increase the long-term investments and deferred gain on disposition of intangible assets by \$19,494,800 less value initially recognized of \$1,115,975.

Management Discussion and Analysis

Boston Pizza International Inc.

2004-Q3

Outlook

Boston Pizza is well positioned for future growth and continues to strengthen its position as the number one casual dining brand in Canada. The Company is on track to open 70-80 new restaurants across Canada over the next five years. Opening these new locations will support the continuing enhancement of the Boston Pizza brand. In addition, BPI Management anticipates that the organization can continue to deliver industry-leading SSSG from national and local marketing programs and BPI's unique renovation program that requires each location to renovate every seven years. Management will continue to pursue further development in Western Canada, Ontario, and the Maritimes while aggressively pursuing additional opportunities in Quebec.

As with all forward-looking statements, due care and caution should be employed to ensure that appropriate interpretation is made. Please refer to note¹ at the end of this document for further clarification.

Risks & Uncertainties

The Restaurant Industry

The performance of BPI is dependent upon the royalty received from the Boston Pizza restaurants open in Canada. The amount of royalty received by 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 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, and the availability of experienced management and hourly employees may adversely affect the restaurant industry in general and therefore potentially Boston Pizza 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 revenue, the royalty and the ability of BPI to pay the royalty to the Fund or interest on the BP Loan.

Management Discussion and Analysis

Boston Pizza International Inc.

2004-Q3

Boston Chicken / Boston Market Litigation

Since 1995, BPI has been challenging Boston Chicken Inc. and Global Restaurant Operations of Ireland Limited registration of the "Boston Chicken" trademark in Canada. In March 2003, the Federal Court of Appeal unanimously ordered the expungement of "Boston Chicken" 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. As a result, "Boston Market" is not yet a registered trademark. BPI and/or the Partnership intend to oppose the registration of this and any other trademark by Boston Market and/or any other parties if the proposed trademark contains, among others, the word "Boston" in connection with food, food products and/or restaurant food services. 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 (the "McDonald's Group") for trademark infringement over the McDonald's Group's use of "Boston Market". BPI management and the Partnership intend to continue to vigorously defend against any infringement or unauthorized use of the Boston Pizza trademarks. In the fall of 2002, the McDonald's 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 manoeuvre by the McDonald's 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 liability to use, the "Boston Pizza" and related trademarks in new areas where BPI and its sub-licensees do not presently operate Boston Pizza restaurants. In July 2003, the Federal Court of Canada, on an application for summary judgment brought by BPI and Boston Pizza Royalties Limited Partnership, dismissed portions of the counterclaim by the McDonald's Group, seeking to expunge the registrations of the Boston Pizza trademarks. The Federal Court dismissed the counterclaim as it relates to registered trademarks BP & Design, BP's Lounge and BP's Bistro. The Court did not dismiss the counterclaim regarding three other trademarks, including "Boston Pizza", primarily on the basis that the counterclaim raises issues that should not be resolved on a summary basis and should instead be decided at trial. The parties are waiting for trial dates, none of which have been set. BPI management does not expect the infringement trial to commence before 2006. BPI management believes that ultimately, BPI and the Partnership will succeed in its litigation with the McDonald's Group. However, there are no assurances or certainty as to the eventual outcome of these legal proceedings.

Other

For a more detailed list of risks and uncertainties please refer to the Fund's Annual Information Form which is available at www.sedar.com.

Management Discussion and Analysis
Boston Pizza International Inc.
2004-Q3

¹Certain 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

	September 30, 2004	December 31, 2003
	(unaudited)	
Assets		
Current assets:		
Cash	\$ 3,704,213	\$ 9,178,657
Accounts receivable	4,146,509	4,877,508
Prepaid expenses	657,200	612,002
Current portion of long-term receivables	513,218	28,550
Due from Boston Pizza Royalties Limited Partnership	2,981,217	4,097,048
Future income taxes	84,679	67,662
	12,087,036	18,861,427
Long-term receivables (note 7)	24,310,334	16,876,102
Long-term investments (note 2)	50,332,236	38,062,826
Capital assets	2,236,935	1,909,113
Deferred charges	90,748	99,748
Future income taxes	14,140,798	12,286,461
	\$ 103,198,087	\$ 88,095,677
Liabilities and Shareholders' Deficiency		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 5,067,555	\$ 4,635,615
Income taxes payable	1,929,898	63,060
Loan payable to Boston Pizza Royalties Limited Partnership	2,981,217	3,787,587
Current portion of deferred revenue	1,496,243	1,104,745
Current portion of long-term debt	196,685	298,653
	11,671,598	9,889,660
Long-term debt	184,539	317,125
Deferred revenue	3,060,932	2,143,520
Loan from the Boston Pizza Royalties Income Fund	24,000,000	24,000,000
Long-term payables (note 3(a))	1,192,755	203,263
Deferred gain on disposition of intangible assets (note 3)	105,360,964	90,086,080
Shareholders' deficiency:		
Share capital	100	100
Deficit	(42,272,801)	(38,544,071)
	(42,272,701)	(38,543,971)
	\$ 103,198,087	\$ 88,095,677

Contingency (note 4)

See accompanying notes to consolidated financial statements.

BOSTON PIZZA INTERNATIONAL INC.
Consolidated Statement of Earnings (Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
Franchise, restaurant and other revenue - established territories (notes 1 & 7)	\$ 9,664,710	\$ 8,099,389	\$ 26,711,032	\$ 23,125,671
Equity income	1,160,382	1,201,899	3,478,022	3,133,949
	10,825,092	9,301,288	30,189,054	26,259,620
Royalty expense	3,507,698	3,058,668	9,894,072	8,539,857
Administrative expenses established territories and restaurant operating costs	5,451,977	4,786,838	16,104,247	14,707,070
Development and administrative expenses - Quebec	185,580	-	532,248	-
Earnings before undernoted	1,679,837	1,455,782	3,658,487	3,012,693
Depreciation and amortization	119,756	98,059	334,694	312,770
Management bonus	312,071	486,800	869,580	978,527
Interest on loan from the Boston Pizza Royalties Income Fund	450,000	450,000	1,350,000	1,350,000
Interest on long-term debt	9,040	21,341	32,173	70,189
Amortization of deferred gain	(178,817)	(144,585)	(536,455)	(433,755)
Gain on sale of Partnership units	-	-	(1,156,089)	-
Earnings (loss) before income taxes	967,787	544,167	2,764,584	734,962
Current income tax expense (recovery)	223,424	(247,392)	1,499,724	(294,184)
Future income tax expense (recovery)	100,215	444,797	(891,408)	566,175
Net earnings (loss)	644,148	346,762	2,156,268	462,971
Dividends declared	-	(2,000,000)	(6,500,000)	(2,000,000)
Deficit, beginning of period	(42,893,095)	(37,769,043)	(38,544,071)	(37,846,706)
Refundable dividend tax	(23,854)	(19,274)	615,002	(57,820)
Deficit, end of period	\$(42,272,801)	\$(39,441,555)	\$(42,272,801)	\$(39,441,555)

See accompanying notes to consolidated financial statements.

BOSTON PIZZA INTERNATIONAL INC.
Consolidated Statement of Cash Flows (Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
Cash provided by (used in):				
Operations:				
Net earnings (loss)	\$ 644,148	\$ 346,762	\$ 2,156,268	\$ 462,971
Items not affecting cash:				
Depreciation and amortization	119,756	98,059	334,694	312,770
Future income taxes	100,215	444,797	(891,408)	566,175
Amortization of deferred gain on disposition of intangible assets	(178,817)	(144,585)	(536,455)	(433,755)
Equity income	(1,160,382)	(1,201,899)	(3,478,022)	(3,133,949)
Distributions by Boston Pizza Royalties				
Limited Partnership	1,124,524	992,940	3,290,678	3,094,080
Gain on sale of units	-	-	(1,156,089)	-
Changes in non-cash working capital items (note 5(a))	1,699,987	586,782	2,350,551	(1,714,963)
	2,349,431	1,122,856	2,070,217	(846,671)
Investments:				
Changes in long-term receivables	(4,799,162)	418,469	(7,918,900)	6,294,525
Distributions from Boston Pizza				
Royalties Income Fund	-	-	-	15,543
Proceeds on sales of a subsidiary, net of Cash disposed of (note 4)	-	342,769	-	342,769
Sale of Fund units, net of transaction costs of \$165,155 (2003 - \$15,122)	-	3,746,495	7,762,309	3,746,495
Purchase of capital assets, net	(193,098)	(134,377)	(653,516)	(229,175)
	(4,992,260)	4,373,356	(810,107)	10,170,157
Financing:				
Payment of dividends	-	(2,000,000)	(6,500,000)	(2,000,000)
Repayment of long-term debt	(84,327)	(74,890)	(234,554)	(224,492)
	(84,327)	(2,074,890)	(6,734,554)	(2,224,492)
Increase (decrease) in cash	(2,727,156)	3,421,322	(5,474,444)	7,098,994
Cash, beginning of period	6,431,369	6,123,657	9,178,657	2,445,985
Cash, end of period	\$ 3,704,213	\$ 9,544,979	\$ 3,704,213	\$ 9,544,979

See note 5(b) for supplementary cash flow information.
See accompanying notes to consolidated financial statements.

BOSTON PIZZA INTERNATIONAL INC.

Notes to the Consolidated Financial Statements (Unaudited)
Three and nine month period ended September 30, 2004 and 2003

1. Basis of presentation:

These interim consolidated financial statements have been prepared using Canadian generally accepted accounting principles. The interim financial statements include all adjustments consisting solely of normal recurring adjustments, which in management's opinion, are necessary for a fair presentation of the financial results of the interim period presented.

The disclosures in these statements do not include all of the disclosure requirements of Canadian generally accepted accounting principles for annual financial statements. These statements should be read in conjunction with the significant accounting policies and other information in the Company's most recent annual financial statements. These statements follow the same accounting policies and methods of their application as the most recent annual financial statements, except as described below:

Effective January 1, 2004, the Company prospectively adopted new recommendations of the Canadian Institute of Chartered Accountants on what constitutes Canadian generally accepted accounting principles and its sources. As a result of this change, Class B Partnership units held by the Company which are entitled to receive full distributions from the Partnership and are exchangeable for Fund units are recorded at their fair value at the date of determination of the respective Additional Entitlement. The effect of this change on the current period's financial statements is to increase the long-term investments and deferred gain on disposition of intangible assets by \$19,494,800 less value initially recognized of \$1,115,975.

Established and developing territories:

The Company develops a territorial business plan, when establishing new markets, but initially requires an infrastructure that will identify appropriate locations, attract franchise candidates and develop operating procedures applicable to the new territory.

As part of the business plan, the Company estimates the minimum number of franchise locations required to be opened that would generate sufficient franchise revenues to meet the incremental costs of operating the new territory. The costs of developing territories are separately presented in the financial statements until the minimum number of franchise locations have been opened, at which time the costs of operating the territory are included in administrative expenses – established territories.

BOSTON PIZZA INTERNATIONAL INC.

Notes to the Consolidated Financial Statements (Unaudited)

Three and nine month period ended September 30, 2004 and 2003

2. Long-term investments:

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

	September 30, 2004	December 31, 2003
Boston Pizza Royalties Limited Partnership:		
566,616 (December 2003 - 1,227,238) Class A units of the Partnership	\$ 5,666,160	\$ 12,272,380
100,000,000 Class B units of the Partnership	37,494,800	18,000,000
2,400,000 Class C units of the Partnership	24,000,000	24,000,000
Equity income to date	9,393,979	5,915,957
Distributions from the Partnership to date	(8,800,913)	(5,819,696)
	67,754,026	54,368,641
Portion of deferred gain relating to Class B Partnership units received for future restaurants	(17,664,358)	(16,548,383)
Net investment in Partnership	50,089,668	37,820,258
Investment in BP Limited Partnership Holding Inc.	242,548	242,548
Investment in BP GP	20	20
	\$ 50,332,236	\$ 38,062,826

- (a) On January 1, 2004, 15 new Boston Pizza restaurants (2003 - 8) opened during the period from November 2, 2002 to November 1, 2003 were added to the Royalty Pool of the Fund. In accordance with the terms of the Partnership agreements, the Fund provided entitlements to the Company to receive distributions on 922,932 (2003 - 560,341) Class B Partnership units in exchange for the addition of these new restaurants to the Royalty Pool. 20% of the Additional Entitlement, 184,587 units (2003 - 112,068) remain unissued and are not entitled for conversion to Fund units until January 1, 2005 (2003 units - January 1, 2004) based on the actual performance of the new stores. As described in note 1, the Company has adopted the policy of accounting for the Additional Entitlement of the Class B Partnership units based on the estimated fair value of these Partnership units at the time of entitlement which results in an increase in long-term investments and deferred gain on disposition of intangible assets.

BOSTON PIZZA INTERNATIONAL INC.

Notes to the Consolidated Financial Statements (Unaudited)
 Three and nine month period ended September 30, 2004 and 2003

- (b) On January 1, 2004, adjustments to royalty payments and Additional Entitlement were made based on the full year performance of eight restaurants added to the Royalty Pool on January 1, 2003. Based on these adjustments, the Company received its pro rata portion of the remaining Additional Entitlement, 87,432 Fund units. The Company also repaid an amount of \$25,129 for monthly distributions to the Fund.
- (c) On March 8, 2004, the Company exchanged 660,622 Class A Partnership units for an equal amount of Fund units. Following this exchange, the Company sold their units of the Fund at \$12 per unit to the public for total proceeds of \$7,927,464. Gain on sale of units was \$1,156,089, net of transaction cost of \$165,155. This resulted in a reduction of Class A units from 1,227,238 units to 566,616.

3. Deferred gain on disposition of intangible assets:

	September 30, 2004	December 31, 2003
Initial cash received on sale	\$ 51,296,000	\$ 51,296,000
1,605,290 Class A units of the Partnership	16,052,900	16,052,900
2,400,000 Class C units of the Partnership	24,000,000	24,000,000
	91,348,900	91,348,900
100,000,000 class B units of the Partnership	37,494,800	18,000,000
Less: Class B units received for future stores	(17,664,358)	(16,548,383)
	111,179,342	92,800,517
Less:		
Book value of intangible assets and disposition costs (250,001)		(250,001)
Long-term incentive plan cost (a)	(4,177,906)	(1,610,420)
Accumulated amortization of deferred gain	(1,390,471)	(854,016)
	\$ 105,360,964	\$ 90,086,080

As described in notes 1 and 2, deferred gain increased due to Additional Entitlement on Class B Partnership units.

- (a) During the three month period ended September 30, 2004, the Company accrued \$2,567,486 for long-term incentive plan ("LTIP") for its employees of which \$1,038,711 is included in long-term payables. The incentive pool is determined based on the number of restaurants added to the Royalty Pool of the Fund. Adjustments are made to the incentive pool based on certain performance criteria. The awards to executive employees are paid over a three year period and awards to other employees are paid as awards are declared.

BOSTON PIZZA INTERNATIONAL INC.

Notes to the Consolidated Financial Statements (Unaudited)
Three and nine month period ended September 30, 2004 and 2003

4. Contingency:

The Company and the Fund are involved in trademark litigation with entities affiliated with McDonald's Restaurant of Canada (the "McDonalds' Group"), opposing the registration by the McDonald's Group in Canada of the Boston Market trademark. Management of BPI believes that there is likelihood that the trademark will not be registered. Additionally, BPI and the Fund have commenced an action against the McDonald's Group to prevent them from infringing BPI's and the Fund's respective interests in the trademarks by operating Boston Market in Canada. The McDonald's Group has filed a counterclaim and a separate action challenging the validity of the registered trademark "Boston Pizza" and related trademarks under the Trade-Marks Act (Canada). Management does not believe that this action will succeed. However, in the event that the challenge to the Boston Pizza trademarks is successful, the Fund 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 Fund 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

BOSTON PIZZA INTERNATIONAL INC.Notes to the Consolidated Financial Statements (Unaudited)
Three and nine month period ended September 30, 2004 and 2003**5. Supplementary cash flow information:**

	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
(a) Change in non-cash working capital:				
Accounts receivable	\$ 1,812,202	\$ 768,459	\$ 730,999	\$ (303,596)
Income tax receivable	-	216,801	-	80,042
Income tax payable	223,424	-	1,501,894	-
Deferred revenue	(12,230)	219,333	1,308,910	224,247
Prepaid expenses	(78,166)	77,560	(45,198)	47,613
Accounts payable and accrued liabilities	(245,243)	(669,772)	(1,146,054)	(1,737,670)
Long-term payable	-	(25,599)	-	(25,599)
	\$ 1,699,987	\$ 586,782	\$ 2,350,551	\$(1,714,963)
(b)Supplementary information:				
Interest received	\$ 14,270	\$ 54,927	\$ 67,646	\$ 409,762
Interest paid	459,042	471,619	1,369,802	1,424,866
Non-cash financing and investing activities:				
Increase in investments and deferred gain due to transfer of 15 (2003 – 8) new restaurants to the Partnership (note 2)	-	1,440,000	18,378,825	1,440,000
Long-term incentive plan payment included in accounts payable and long-term payable	2,567,486	-	2,567,486	-
Settlement of loan from the Partnership with distributions receivable from the Partnership	-	-	3,787,587	620,527
Increase (decrease) in refundable dividend tax and future income taxes	-	-	615,002	-
Increase in future income taxes and taxes payable related to refundable dividend taxes	-	-	364,944	-

BOSTON PIZZA INTERNATIONAL INC.

Notes to the Consolidated Financial Statements (Unaudited)
Three and nine month period ended September 30, 2004 and 2003

6. Comparative figures:

During the quarter ended March 31, 2004, the Company adopted recommendations, on a retroactive basis, of the Canadian Institute of Chartered Accountants concerning the presentation of revenues related to area development arrangements, sales from franchises and other franchise related revenues which were previously recorded as an offset against the related expenditure. The Company now records these amounts in franchise and restaurant revenue. There was no effect on current or prior period earnings as a result of this change in presentation.

Certain comparative figures have been reclassified to conform with the basis of presentation in the current period.

7. Related party transactions:

For the nine-month period ended September 30, 2004, the Company earned \$868,557 of interest and management fees (2003 - \$782,558) from companies under common control. Interest and management fees are included in franchise, restaurant and other revenue. All long-term receivables are due from related parties. Included in accounts payable and long-term payable is an amount of \$766,202, due to a related party for services received.

Unitholder Information

Boston Pizza Royalties Income Fund

Corporate Office

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Trustees of the Fund

JOHN L. COWPERTHWAITA
Retired Partner Ernst & Young LLP

WILLIAM C. BROWN
Corporate Director

ROBERT L. PHILLIPS
*President & Chief Executive Officer
BCR Group of Companies*

Transfer Agent

COMPUTERSHARE TRUST COMPANY OF CANADA

Stock Exchange Listing

TORONTO STOCK EXCHANGE: BPF:UN

Auditors

KPMG LLP

Corporate Counsel

BLG LLP

Registered and Records Office

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Retired Partner Ernst & Young LLP

WILLIAM C. BROWN - DIRECTOR*
Corporate Director

ROBERT L. PHILLIPS - DIRECTOR*
*President & Chief Executive Officer
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MIKE CORDOBA - DIRECTOR
*Chief Executive Officer
Boston Pizza International Inc.*

MARK POWELL - DIRECTOR
*Chief Financial Officer
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Management Team

JIM TRELIVING
Chairman & Owner

GEORGE MELVILLE
Chairman & Owner

MIKE CORDOBA
Chief Executive Officer

MARK POWELL
Chief Financial Officer

MARK PACINDA
President

AL CAVE
Executive Vice-President Corporate Services

DOUG MACDONALD
Executive Vice-President - Western Canada

WAYNE SHANAHAN
Executive Vice-President - Quebec



The Boston Pizza International Inc. Corporate Mission Statement

**TO BE A WORLD CLASS FRANCHISOR THROUGH SELECTING
AND TRAINING PEOPLE TO PROFITABLY MANAGE AN
OUTSTANDING FOODSERVICE BUSINESS.**

TO ACHIEVE THIS GOAL WE ARE INNOVATIVE AND RESPONSIVE IN OUR
APPROACH IN BUSINESS. WE WORK AS A TEAM PROVIDING ATTENTION TO
DETAIL BUT NEVER LOSING SIGHT OF THE LARGER PICTURE. WE RECOGNIZE
THE NEED TO PROVIDE LEADERSHIP IN ALL AREAS OF THE OPERATIONS,
MARKETING AND RESTAURANT DEVELOPMENT.



ROYALTIES INCOME FUND

www.bpincomefund.com

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